Financial Statements

ISA Capital do Brasil S.A.

December 31, 2015
with Independent Auditor's Report

ISA Capital do Brasil S.A.
Management Report - Fiscal Year 2015

Dear Shareholders,

In compliance with the provisions of applicable laws and bylaws, the Management of ISA Capital do Brasil S.A. ("ISA Capital" or "Company") submits to your consideration its Management Report and individual and consolidated financial statements for the year ended December 31, 2015, together with the Independent Auditors' Report.

1. Company profile

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

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

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

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

At present, ISA Capital holds a total of 59,971,408 shares, 57,714,208 common shares and 2,257,200 preferred shares, equivalent to 89.50% of CTEEP voting capital and 37.19% of CTEEP total capital, respectively.

2. Debt in foreign currency - Bonds

At present, the Company has a foreign currency-denominated debt (bonds) in the amount of US$31.6 million, equivalent to R$128.0 million, which matures in 2017. This is the remaining balance after the restructuring process in March 2010, when ISA Capital repurchased US$522.4 million, equivalent to R$935.6 million and 94.3% of the total bonds outstanding.

3. Commitments assumed

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

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

Additionally, the Company has been fulfilling all of the commitments defined in the Shareholders' Agreement as a result of the issuance of redeemable preferred shares, especially with regard to fixed cumulative dividends on such preferred shares that in 2015 received an amount equivalent to R$119.0 million (2014 - R$97.3 million), as well as shares redeemed in 2015 totaling R$50.0 (2014 - R$142.3).

4. Proceeds from subsidiary

In 2015, ISA Capital recorded R$188.3 million (2014 - R$144.1 million) in equity pickup, and received proceeds amounting to R$136.0 million (2014 - R$108.6 million), in dividends.

5. Economic and financial performance - Consolidated

The revenue of ISA Capital is directly associated with the equity interest held in subsidiary CTEEP, which amounts to R$188.3 million in 2015. Operating revenue of subsidiary CTEEP derives mainly from rendering electric power transmission services and equity interests held in subsidiaries and jointly controlled subsidiaries.

In 2015, consolidated **Gross Operating Revenue** of subsidiary CTEEP was R$1,442.1 million, up 16.8% from the R$1,234.3 million reported for the same period in 2014.

- Consolidated **Construction Revenue** totaled R$278.7 million in 2015, up 5.1% from the R$265.1 million reported for 2014. This refers mainly to an increase in projects for reinforcement and implementation of new substation infrastructure facilities, reconstruction of transmission lines and autotransformer bank implementation in the Company.
- In 2015, consolidated **Operation and Maintenance Revenue** totaled R$829.6 million, a 12.0% increase over the R$740.6 million reported in 2014.

This increase is explained, principally, by the increase in IPCA (8.47%) and IGP-M (4.11%) on the O&M revenue amount, which adjusted the Annual Revenue Allowed (RAP) for 2014/2015 over 2015/2016, concession agreements of subsidiary CTEEP (95.9% adjusted by the IPCA and 4.1% adjusted by the IGP-M), and, as from July 2015, the inclusion of the Annual Cost of Movable and Immovable Facilities (CAIMI), in addition to deployment of new reinforcement projects and a higher system surplus.

- Consolidated **Financial Income on Concession Assets** amounted to R$311.6 million in 2015, a 50.2% increase over the same period in 2014, when it reached R$207.5 million, mainly reflecting the financial asset growth expected due to the realization of construction projects, in addition to monetary restatement for the period.
- **Other Revenue** refers to rentals to a fixed-line telephone company and services rendered to third parties in connection with maintenance and technical analyses. In 2015, other revenue totaled R$22.2 million, a 4.7% increase over the same period in 2014, when the amount recorded was R$21.2 million. The change substantially reflects a 6% growth in services rendered to third parties in connection with transmission line maintenance and technical analyses, owing to monetary adjustment to the agreements.

Deductions from Operating Revenue were R$154.9 million in 2015, a 17.7% increase compared to the R$131.6 million in 2014. The change substantially reflects the increase in income taxes, in line with the change in operating revenue, offset by the PIS and COFINS rate (3.65%) applicable to subsidiaries that compute taxable profit as a percentage of gross sales (the so-called deemed profit regime, or *"lucro presumido"*).

Consolidated **Net Operating Revenue** amounted to R$1,287.1 million in 2015, a 16.7% increase over 2014, which reported R$1,102.8 million.

Other Operating Income (Expenses) reported expenses amounting to R$36.2 million in 2015, as compared to the R$39.4 million in 2014, i.e., an 8.8% decrease. This change is mainly due to (i) recognition, in 2014, of projects prior to the concession renewal that have no further income, generating an expense in the amount of R$19.2 million; (ii) loss on disposal of unserviceable assets, amounting to R$8.2 million; combined with (iii) recognition of previously unused PIS and COFINS credits totaling R$21.4 million. In 2015, other operating income (expenses) refer substantially to amortization of goodwill by ISA Capital, in the amount of R$29.9 million.

Equity Pickup for 2015 was represented by earnings in the amount of R$161.3 million, up 77.4% from the R$90.9 million earnings posted in 2014. This was due especially due to earnings from jointly controlled subsidiary IE Madeira, subject to the RAP adjustment for 2015/2016, amounting to R$110.8 million.

Consolidated **Financial Income (Expenses)** totaled a R$41.0 million expense in 2015, as compared to the R$6.5 million income posted in 2014, due to the following: (i) decrease in average balance of accounts receivable from concession assets (New Investments - NI) in 2015, impacting monetary gains and interest receivable; and (ii) decrease in the balance of short-term investments.

The total for **Corporate Income Tax (IRPJ) and Social Contribution Tax (CSLL)** had an increase to R$92.4 million recorded as expenses in 2015 from R$81.3 million recorded as expenses in 2014. The effective IRPJ and CSLL interest rate was 16.0% in 2015, i.e., below the statutory rate, mainly because the effect arising from equity pickup is excluded from the IRPJ and CSLL taxable base, and subsidiaries now compute taxable profit as a percentage of gross sales.

Net Income for 2015 totaled R$484.6 million compared to the R$369.8 million reported for 2014.

At December 31, 2015, consolidated **Gross Debt** totaled R$1,224.7 million, down 4.2% from 2014, when the total was R$1,279.0 million. The change results substantially from: (i) payment, in June 2015, of the first interest rate installment on the 3rd Issue of Debentures, amounting to R$101.6 million; and (ii) interest and principal payment, in December 2015, referring to the 1st issue of Debentures, 2nd series, totaling R$29.3 million, and interest payment referring to the 3rd Issue of Simple Debentures, amounting to R$39.9 million.

Consolidated **Cash and Cash Equivalents** totaled R$473.7 million at December 31, 2015, down 6.2% from the R$504.8 million reported at December 31, 2014. As such, consolidated **Net Debt** totaled R$751.0 million, a 3.0% decrease over the prior year.

EBITDA of subsidiary CTEEP, pursuant to CVM Ruling No. 527/12, was R$655.0 million in 2015, up R$167.0 million from the R$488.0 million EBITDA recorded in 2014. EBITDA margin was 50.9% in 2015.

6. Independent auditors

With respect to the provision of independent audit services, ISA Capital represents that Ernst & Young Auditores Independentes (“EY”) was engaged in 2015 only to provide Audit services related to the Individual and Consolidated Financial Statements for the fiscal year ended 2015. ISA Capital follows principles that preserve auditors’ independence, which establish that auditors shall not audit their own work, function in the role of management or act as an advocate for a client.

The Management

ISA Capital do Brasil S.A.

Financial Statements

December 31, 2015

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

Independent Auditor's Report

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

Introduction

We have audited the accompanying individual and consolidated financial statements of ISA Capital do Brasil S.A. ("Company"), identified as Company and Consolidated, respectively, which comprise the balance sheet as at December 31, 2015, and the related statements of income, of comprehensive income, of changes in equity and of cash flows for the year then ended, and a summary of significant accounting practices and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Basis for qualified opinion

As a consequence of the debt restructuring process carried out in 2010, the Company recognized the amount relating to the issue of redeemable preferred shares, mentioned in Note 26.a, as an equity instrument, which, in our opinion, should be recognized as a financial liability instrument, according to accounting practices adopted in Brazil and International Financial Reporting Standards (IFRS), specifically CPC 39 (corresponding to IAS 32). In addition, the Company recognized return on the referred to instrument as a fixed cumulative dividend, as defined in its Articles of Incorporation and Shareholders' Agreement, rather than as a financial expense in the form of interest, as we believe it should be. Had the Company recognized the referred to share issue as a debt instrument and had the referred to remuneration been recognized as financial expense rather than dividend, equity as at December 31, 2015 would be reduced by R$791,692 thousand (R$841,692 thousand at December 31, 2014); total liabilities would be increased by the same amount (the same for December 31, 2014); and net income before noncontrolling interests for the year ended December 31, 2015 would be reduced by R$117,090 thousand (R$105,171 thousand for the year ended December 31, 2014).

Qualified opinion

In our opinion, except for the effects of the matter discussed in our "Basis for qualified opinion" paragraph, the individual and consolidated financial statements referred to above present fairly, in all material respects, the individual and consolidated financial position of ISA Capital do Brasil S.A. at December 31, 2015, and its individual and consolidated operating performance and cash flows for the year then ended, in accordance with accounting practices adopted in Brazil and with international financial reporting standards (IFRS) issued by the International Accounting Standards Board (IASB).

Emphasis of a matter

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

As described in Note 8, pursuant to Law No. 12783/13 and Technical Note No. 402/2013 of the National Electric Energy Agency (ANEEL), a new valuation report was prepared, amounting to R$5,186,018 thousand, which corresponds to investments by the New Replacement Cost (VNR) adjusted by accumulated depreciation through December 31, 2012. Said amount is subject to ANEEL's approval. As described in Note 8, on December 21, 2015, ANEEL issued Order No. 4036/2015-SFF/ANEEL with new understanding for the amounts of SE facilities that subsidiary CTEEP would be entitled to receive, in the amount of R$3,896,328 thousand. CTEEP filed for appeal on December 30, 2015, aiming to reverse ANEEL Board's decision. The effects and accounting recognition depend on approval by ANEEL of the final amount, as well as definition of the collection method and terms by the Ministry of Mines and Energy and the Ministry of Finance. While the amount is not approved, the Company maintains recorded, since 2012 at the construction cost of this infrastructure, the amount of R$1,490,996 thousand (historical value, net of depreciation), equivalent to the regulatory property and equipment. The determination of the effective amount of indemnification for these assets, as well as conditions, remuneration method and terms for receipt are pending approval by the Granting Authority. Our conclusion is not modified in respect of this matter.

(ii) Law No. 4819/58

As described in Notes 9 and 36, subsidiary CTEEP has recorded a net balance receivable from São Paulo State in the amount of R$965,920 thousand relating to the impacts of Law No. 4819/1958, which offers that entity's civil servants, while within the control of the São Paulo State government, the same advantages to which other public service employees were already entitled. Management of subsidiary CTEEP has monitored the new events relating to the legal and business aspects of this matter, as well as continuously evaluated any impacts on its financial statements. Our opinion is not modified in respect of this matter.

São Paulo, March 7, 2016.

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

Marcos Antonio Quintanilha
Accountant CRC-1SP132776/O-3

ISA Capital do Brasil S.A.

Balance sheets
December 31, 2015 and 2014
(In thousands of reais - R$)

		Company		Consolidated	
	Notes	2015	2014	2015	2014 (Restated)
Assets					
Current assets					
Cash and cash equivalents	6	**18,914**	20,551	**25,049**	25,247
Short-term investments	7	**8,637**	-	**448,691**	479,601
Accounts receivable (concession assets)	8	**-**	-	**319,961**	729,946
Inventories	-	**-**	-	**40,476**	45,696
Loans receivable	12 and 32	**92,954**	-	**92,954**	-
Accrued dividends receivable	-	**-**	11,778	**-**	-
Taxes and contributions recoverable	10	**3,543**	31,623	**9,306**	66,103
Deferred income and social contribution taxes	31.b	**-**	32,237	**-**	32,237
Pledges and restricted deposits	13	**5,438**	3,699	**5,438**	3,699
Prepaid expenses	-	**-**	-	**6,057**	948
Receivables from subsidiaries	-	**-**	-	**29,200**	37,429
Other	-	**80**	8	**51,260**	82,453
		129,566	99,896	**1,028,392**	1,503,359
Noncurrent assets					
Restricted cash	17	**-**	-	**12,059**	11,689
Accounts receivable (concession assets)	8	**-**	-	**3,526,968**	3,165,656
Loans receivable	12 and 32	**-**	63,229	**-**	63,229
Receivables - State Finance Department (SEFAZ)	9	**-**	-	**965,920**	802,102
Tax benefit - goodwill on merger	11	**-**	-	**586**	30,473
Taxes and contributions recoverable	10	**32,218**	-	**32,218**	-
Deferred income and social contribution taxes	31.b	**32,237**	-	**216,046**	188,556
Pledges and restricted deposits	13	**-**	-	**66,268**	62,353
Inventories	-	**-**	-	**29,675**	37,993
Other	-	**-**	-	**9,249**	12,706
		64,455	63,229	**4,858,989**	4,374,757
Investments	14.b	**2,134,003**	2,109,574	**1,572,640**	1,315,669
Property and equipment	15	**21**	34	**23,215**	24,588
Intangible assets	16	**101**	106	**161,192**	167,710
		2,134,125	2,109,714	**1,757,047**	1,507,967
		2,198,580	2,172,943	**6,616,036**	5,882,724
Total assets		**2,328,146**	2,272,839	**7,644,428**	7,386,083

	Notes	Company		Consolidated	
		2015	**2014**	**2015**	**2014**
					(Restated)
Liabilities and equity					
Current liabilities					
Loans and financing	17	**4,532**	3,083	**75,602**	135,133
Debentures	18	**-**	-	**180,782**	83,846
Trade accounts payable	-	**371**	411	**35,321**	75,880
Taxes and social charges payable	19	**815**	495	**29,232**	27,016
Taxes in installments - Law No. 11941	20	**-**	-	**16,200**	14,950
Regulatory charges payable	22	**-**	-	**21,821**	40,579
Interest on equity and dividends payable	-	**-**	-	**2,156**	21,925
Provisions	23	**-**	-	**29,757**	27,469
Payables - Law No. 4819/58 - State Finance Department (SEFAZ)	5.a	**269,621**	252,726	**269,621**	252,726
Payables - Law No. 4819/58 - OPA	5.b	**169,056**	158,621	**169,056**	158,621
Payables - FUNCESP	24	**-**	-	**6,144**	5,375
Other	-	**-**	-	**31,014**	16,215
		444,395	415,336	**866,706**	859,735
Noncurrent liabilities					
Loans and financing	17	**123,591**	84,071	**608,830**	524,651
Debentures	18	**-**	-	**359,573**	535,399
Taxes in installments - Law No. 11941	20	**-**	-	**126,897**	132,061
Deferred PIS and COFINS	21	**-**	-	**149,022**	117,972
Deferred income and social contribution taxes	31.b	**-**	-	**35,801**	33,956
Regulatory charges payable	22	**-**	-	**31,194**	22,610
Provisions	23	**-**	-	**189,612**	131,592
Special obligations - reversal/amortization	25	**-**	-	**24,053**	24,053
		123,591	84,071	**1,524,982**	1,522,294
Equity					
Capital	26.a	**840,378**	840,378	**840,378**	840,378
Capital reserves	26.d	**791,092**	841,092	**791,092**	841,092
Goodwill on equity transaction	26.e	**(5,679)**	(5,679)	**(5,679)**	(5,679)
Income reserves	26.f	**134,369**	97,641	**134,369**	97,641
Retained earnings	-	**-**	-	**-**	-
		1,760,160	1,773,432	**1,760,160**	1,773,432
Noncontrolling interests		**-**	-	**3,492,580**	3,230,622
Total equity		**1,760,160**	1,773,432	**5,252,740**	5,004,054
Total liabilities and equity		**2,328,146**	2,272,839	**7,644,428**	7,386,083

See accompanying notes.

ISA Capital do Brasil S.A.

Income statements
Years ended December 31, 2015 and 2014
(In thousands of reais - R$, except earnings per share)

		Company		Consolidated	
	Notes	2015	2014	2015	2014
Net operating revenue	27	**-**	-	**1,287,130**	1,102,788
Cost of construction, operation and maintenance services	28	**-**	-	**(575,326)**	(541,618)
Gross profit		**-**	-	**711,804**	561,170
Operating income (expenses)					
General and administrative expenses	28	**(4,131)**	(3,674)	**(226,997)**	(168,077)
Other operating income (expenses), net	30	**-**	-	**(36,190)**	(39,356)
Equity pickup	14.c and 14.1	**188,303**	144,135	**161,306**	90,905
		184,172	140,461	**(101,881)**	(116,528)
Profit (loss) before financial income (expenses) and income taxes		**184,172**	140,461	**609,923**	444,642
Financial income	29	**66,594**	30,888	**205,663**	185,113
Financial expenses	29	**(103,207)**	(36,229)	**(246,748)**	(178,563)
Financial income (expenses)		**(36,613)**	(5,341)	**(41,085)**	6,550
Operating income		**147,559**	135,120	**568,838**	451,192
Nonoperating income, net		**8,179**	-	**8,179**	-
Income before income and social contribution taxes		**155,738**	135,120	**577,017**	451,192
Income and social contribution taxes					
Current	31.a	**-**	(604)	**(85,804)**	(50,958)
Deferred	31.a	**-**	(269)	**(6,592)**	(30,390)
		-	(873)	**(92,396)**	(81,348)
Net income for the year		**155,738**	134,247	**484,621**	369,844
Attributable to:					
Noncontrolling interests		**-**	-	**328,883**	235,597
Net income for the year attributable to controlling shareholders		**155,738**	134,247	**155,738**	134,247
Basic and diluted earnings per share	26.g	**0.12637**	0.10679	**-**	-
Average number of shares in the year	26.g	**1,232,410,108**	1,257,153,628	**-**	-

See accompanying notes.

ISA Capital do Brasil S.A.

Statements of comprehensive income
Years ended December 31, 2015 and 2014
(In thousands of reais - R$)

	Company		Consolidated	
	2015	**2014**	**2015**	**2014**
Net income for the year	**155,738**	134,247	**484,621**	369,844
Other comprehensive income	**-**	-	**-**	-
Comprehensive income for the year	**155,738**	134,247	**484,621**	369,844
Controlling shareholders	**155,738**	134,247	**155,738**	134,247
Noncontrolling interests	**-**	-	**328,883**	235,597

See accompanying notes.

ISA Capital do Brasil S.A.

Statements of changes in equity
Years ended December 31, 2015 and 2014
(In thousands of reais - R$)

	Capital	Capital reserve	Goodwill on equity transaction	Income reserves: Legal reserve	Income reserves: Retained profits	Retained earnings	Total equity	Noncontrolling interests	Total consolidated equity
Balances at December 31, 2013	**840.378**	**983.400**	**(7.468)**	**5.881**	**54.884**	**-**	**1.877.075**	**2.963.289**	**4.840.364**
Net income for the year	-	-	-	-	-	134.247	134.247	235.597	369.844
Redemption of preferred shares	-	(142.308)	-	-	-	-	(142.308)	-	(142.308)
Fixed cumulative dividends paid in the year						(97.371)	(97.371)	-	(97.371)
Recognition of retained profits reserve	-	-	-	-	36.876	(36.876)	-	-	-
Additional proposed dividends - subsidiary	-	-	-	-	-	-	-	(18.613)	(18.613)
Expired dividends - subsidiary	-	-	-	-	-	-	-	1.189	1.189
Expired interest on equity - subsidiary	-	-	-	-	-	-	-	468	468
Interest on equity - subsidiary	-	-	-	-	-	-	-	(18.613)	(18.613)
Interim dividends - subsidiary	-	-	-	-	-	-	-	(102.369)	(102.369)
Accrued dividends - subsidiary	-	-	-	-	-	-	-	(7.473)	(7.473)
Capital increase in subsidiary	-	-	-	-	-	-	-	133.571	133.571
Gain on investment in subsidiary	-	-	1.789	-	-	-	1.789	-	1.789
Acquisition of additional interest in subsidiary from noncontrolling shareholders	-	-	-	-	-	-	-	39.438	39.438
Dilution of noncontrolling interests	-	-	-	-	-	-	-	4.439	4.439
Other events - subsidiary	-	-	-	-	-	-	-	(301)	(301)
Balances at December 31, 2014	**840.378**	**841.092**	**(5.679)**	**5.881**	**91.760**	**-**	**1.733.432**	**3.230.622**	**5.004.054**
Net income for the year	**-**	**-**	**-**	**-**	**-**	**155.738**	**155.738**	**328.883**	**484.621**
Redemption of preferred shares (Note 26.d)	**-**	**(50.000)**	**-**	**-**	**-**	**-**	**(50.000)**	**-**	**(50.000)**
Dividends paid in the year (Note 26.c)	**-**	**-**	**-**	**-**	**-**	**(119.010)**	**(119.010)**	**-**	**(119.010)**
Recognition of retained profits reserve (Note 26.b)	**-**	**-**	**-**	**-**	**36.728**	**(36.728)**	**-**	**-**	**-**
Accrued dividends - subsidiary	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(210.330)**	**(210.330)**
Expired dividends - subsidiary	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**644**	**644**
Expired interest on equity - subsidiary	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**357**	**357**
Noncontrolling interests in exclusive investment funds(*)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**102.473**	**102.473**
Increase in noncontrolling interest percentage	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**39.224**	**39.224**
Other events - subsidiary	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**707**	**707**
Balances at December 31, 2015	**840.378**	**791.092**	**(5.679)**	**5.881**	**128.488**	**-**	**1.760.160**	**3.492.580**	**5.252.740**

(*) Out of the total balance of R$440,054 mentioned in Note 7, as Investment funds, the amount of R$102,473 corresponds to equity interest in jointly controlled entities IE Madeira and IE Garanhuns.

See accompanying notes.

ISA Capital do Brasil S.A.

Statements of cash flows
Years ended December 31, 2015 and 2014
(In thousands of reais - R$)

	Company		Consolidated	
	2015	2014	2015	2014
Cash flow from operating activities				
Net income for the year	**155,738**	134,247	**484,621**	369,844
Adjustments to reconcile net income to cash provided by (used in) operating activities				
Depreciation and amortization (Note 28)	**29**	10	**8,554**	8,870
Deferred income and social contribution taxes	**-**	269	**6,592**	30,390
Deferred PIS and COFINS (Note 21)	**-**	-	**31,050**	112
Provision for contingencies (Note 23.a)	**-**	-	**58,020**	3,694
Net book value of property and equipment written off	**-**	-	**375**	423
Tax benefit - goodwill on merger (Notes 11 and 30)	**-**	-	**29,887**	29,886
Amortization of concession assets on acquisition of subsidiary (Note 30)	**-**	-	**2,491**	2,490
Realization of loss on jointly controlled subsidiary (Note 30)	**-**	-	**(2,340)**	(2,386)
Sale of shares	**(8,136)**	-	**(8,136)**	-
Sale of property and equipment	**3**	-	**3**	-
Equity pickup (Note 14)	**(188,303)**	(144,135)	**(161,306)**	(90,905)
Unrealized income from short-term investments	**-**	-	**-**	-
Interest and monetary and foreign exchange gains (losses) on assets and liabilities	**39,247**	7,392	**174,073**	148,075
	(1,422)	(2,217)	**623,884**	500,493
(Increase) decrease in assets				
Accounts receivable (concession assets)	**-**	-	**51,013**	75,126
Inventories	**-**	-	**13,538**	25,826
Interest on equity and dividends received	**136,074**	147,882	**-**	(159,075)
Receivables - State Finance Department (SEFAZ)	**-**	-	**(163,818)**	-
Taxes and contributions recoverable	**392**	6,796	**29,191**	45,192
Pledges and restricted deposits	**(1,544)**	(437)	**(5,459)**	13,492
Other	**(72)**	(4)	**29,154**	398
	134,850	154,237	**(46,381)**	959
Increase (decrease) in liabilities				
Trade accounts payable	**(40)**	(23)	**(40,560)**	25,091
Taxes and social charges payable	**320**	(6,937)	**2,216**	(547)
Taxes in installments - Law No. 11941	**-**	-	**(15,603)**	(14,463)
Regulatory charges payable	**-**	-	**(12,886)**	(13,099)
Provisions	**-**	(20)	**2,288**	(548)
Payables - FUNCESP	**-**	-	**769**	(716)
Other	**-**	-	**14,798**	(4,114)
	280	(6,980)	**(48,978)**	(8,396)
Net cash provided by operating activities	**133,708**	145,040	**528,525**	493,056

ISA Capital do Brasil S.A.

Statements of cash flows (Continued)
Years ended December 31, 2015 and 2014
(In thousands of reais - R$)

	Company		Consolidated	
	2015	**2014**	**2015**	**2014**
Cash flow from investing activities				
Redemptions (investments), net (Note 7)	**(8,637)**	83,404	**30,910**	199,559
Transaction with noncontrolling interest holders - subsidiary	**-**		**115,229**	63,567
Interest on loans received (Note 12)	**2,858**	1,938	**2,858**	1,938
Proceeds from sale of property and equipment	**1**	-	**1**	-
Property and equipment (Note 15)	**-**	(13)	**(2,184)**	(17,358)
Intangible assets	**(15)**	(106)	**(1,350)**	(18,670)
Sale of CTEEP preferred shares	**47,714**	-	**47,714**	-
Investments	**-**	-	**(103,364)**	(165,700)
Dividends received	**-**	-	**15,945**	-
Net cash provided by investing activities	**41,921**	85,223	**105,759**	63,336
Cash flow from financing activities				
Additions to loans (Note 17)	**-**	-	**103,877**	251,236
Loan repayments (principal) (Notes 17 and 18)	**-**	-	**(141,636)**	(359,578)
Loan repayments (interest) (Notes 17 and 18)	**(8,256)**	(6,504)	**(198,886)**	(75,629)
Redemption of preferred shares (Note 26.d)	**(50,000)**	(142,308)	**(50,000)**	(142,308)
Dividends and interest on equity paid (Note 26.c)	**(119,010)**	(122,372)	**(347,837)**	(398,348)
Capital payment - Company	**-**	-	**-**	127,740
Net cash used in financing activities	**(177,266)**	(271,184)	**(634,482)**	(596,887)
Net increase (decrease) in cash and cash equivalents	**(1,637)**	(40,921)	**(198)**	(40,495)
Cash and cash equivalents at end of year	**18,914**	20,551	**25,049**	25,247
Cash and cash equivalents at beginning of year	**20,551**	61,472	**25,247**	65,742
Changes in cash and cash equivalents	**(1,637)**	(40,921)	**(198)**	(40,495)

See accompanying notes.

1. Operations

1.1. Business purpose

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

The Company is controlled by Interconexión Eléctrica S.A. E.S.P and its business purpose is to own shares in other companies or business ventures as a partner or shareholder, joint venturer, consortium member or any other form of business partnership.

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

In 2015, between January 23 and March 20, the Company sold 1,239,056 preferred shares of CTEEP, for the average price of R$40.61 per share. Accordingly, at December 31, 2015, the Company holds a total of 59,971,408 shares, 57,714,208 common shares and 2,257,200 preferred shares, equivalent to 89.50% of CTEEP voting capital and 37.19% of CTEEP total capital, respectively (57,714,208 common shares and 3,496,456 preferred shares in 2014).

(In thousands of reais, unless otherwise stated)

1. Operations (Continued)

1.2. Concession Arrangements

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

					Periodic tariff review			Annual Revenue Allowed (RAP)	
Concessionaire	Contract	Interest (%)	Term (years)	Maturity (dd/mm/yy)	Valid for	Next	Adjustment index	R$ thousand	Base month
CTEEP	059/2001	100	30	31.12.42	5 years	2018	IPCA	836,611	06/15
IEMG	004/2007	100	30	23.04.37	5 years	2017	IPCA	14,899	06/15
Pinheiros	012/2008	100	30	15.10.38	5 years	2019	IPCA	9,057	06/15
Pinheiros	015/2008	100	30	15.10.38	5 years	2019	IPCA	27,082	06/15
Pinheiros	018/2008	100	30	15.10.38	5 years	2019	IPCA	4,793	06/15
Pinheiros	021/2011	100	30	09.12.41	5 years	2017	IPCA	5,131	06/15
Serra do Japi	026/2009	100	30	18.11.39	5 years	2020	IPCA	34,753	06/15
Serra do Japi (*)	143/2001	100	30	20.12.31	n/a	n/a	IGPM	17,896	06/15
Evrecy	020/2008	100	30	17.07.25	4 years	2017	IGPM	13,126	06/15
IENNE	001/2008	25	30	16.03.38	5 years	2018	IPCA	36,452	06/15
IESul	013/2008	50	30	15.10.38	5 years	2019	IPCA	4,558	06/15
IESul	016/2008	50	30	15.10.38	5 years	2019	IPCA	10,724	06/15
IE Madeira	013/2009	51	30	25.02.39	5 years	2019	IPCA	222,772	06/15
IE Madeira (**)	015/2009	51	30	25.02.39	5 years	2019	IPCA	193,432	06/15
IE Garanhuns	022/2011	51	30	09.12.41	5 years	2017	IPCA	88,296	06/15

(*) On April 30, 2015, subsidiary CTEEP transferred Electric Power Transmission Service Concession Agreement No. 143/2001 to indirect subsidiary Serra do Japi, through a capital increase, as approved by ANEEL Authorizing Resolution No. 5036 of January 20, 2015.

(**) Under concession agreement No. 015/2009 of jointly controlled subsidiary IE Madeira, provisional commercial operations started in May 2014. The assets under that concession agreement were declared free of own pending issues that could configure impediment in August 2014. Due to the existence of pending issues of other agents, which could configure impediment, the RAP thereunder has been released with a 10% reduction.

All service concession arrangements above provide for the indemnification right on concession-related assets upon expiration thereof. Periodic tariff review arrangements provide the right to remuneration on investments in expansion, reinforcement and improvements.

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

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

1. **Operations** (Continued)

1.2. **Concession Arrangements** (Continued)

Law No. 12783/2013 (Continued)

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

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

(i) Interministerial Ruling No. 580, which determined the indemnification for energized facilities as from June 1, 2000 (for New Investment - NI), based on October 2012 prices for electric power transmission concessions, totaling R$2,891,291 for service concession arrangement No. 059/2001 (single arrangement addressed by such MP), pursuant to Annex II to such Ruling.

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

On November 29, 2012, Provisional Executive Order No. 591 (MP No. 591) was published, amending MP No. 579, in order to authorize the payment of amounts related to existing undepreciated assets on May 31, 2000 (SE) by the Grantor, within 30 years. On August 13, 2014, subsidiary CTEEP filed the independent valuation report on those assets and awaits a definition of the final indemnification amount, as described in Note 8.

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

On December 4, 2012, an amendment to service concession arrangement No. 059/2001 was executed, with the option of receiving the indemnification, amounting to R$2,891,291, in connection with the New Investment (NI), under Interministerial Ruling No. 580, as follows:

- 50% in cash, payable within 45 days after the execution of the amendment to the service concession arrangement, adjusted by reference to IPCA. On January 18, 2013, subsidiary CTEEP received the amount of R$1,477,987.

1. **Operations** (Continued)

1.2. **Concession Arrangements** (Continued)

Law No. 12783/2013 (Continued)

- 50% in 31 monthly installments payable, restated by reference to IPCA, plus Weighted Average Cost of Capital (WACC) remuneration of 5.59% p.a., from the first day of the month the amendment to the service concession arrangement was executed.

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

On April 4, 2013, Provisional Executive Order No. 612 was published, which reduced to zero the contribution for PIS/PASEP and COFINS on indemnifications addressed by Law No. 12783/2013.

ANEEL Technical Note No. 032/2015-SRD/ANEEL

At the Board’s Annual Public Meeting held on June 23, 2015, ANEEL approved the opening of public hearing for the period from June 29 to August 31, 2015, in order to collect subsidies and additional information for analysis of the proposed transfer of Other Transmission Facilities (“DIT”) from electric power transmission companies to distribution companies, under the terms of ANEEL Technical Note No. 32/2015 (Administrative Proceeding No. 48500.004452/2014-60). DITs are characterized by operating voltage lower than 230 kV, and according to paragraph 46 of that Technical Note, the proposal includes transfer of part of these facilities, which, if occurring, will give rise to payment of indemnity to the affected transmission companies.

Whereas this is an undefined theme, given that the inputs to such public hearing are under analysis, there is no confirmation whether the transfer will actually occur and, if it will, which facilities would be transferred, therefore, the Company is unable to reasonably estimate the impacts arising from such Technical Note.

In August 2015, subsidiary CTEEP presented its contributions to the Public Hearing, together with legal, technical, economic and financial opinions, challenging the grounds of ANEEL Technical Note No. 32/2015, as well as indicating consequences of the occasional transfer of part of its DITs, defining the criteria to be considered for preserving the economic and financial balance of its concession, including review of the indemnity calculation criterion.

1. **Operations** (Continued)

1.2. **Concession Arrangements** (Continued)

ANEEL Technical Note No. 032/2015-SRD/ANEEL (Continued)

On December 7, 2015, Opinion No. 786/2015/PF-ANEEL/PGF/AGU was issued by the Deputy Attorney General for ANEEL, which addresses aspects related to compulsory transfer of DITs and suggests further analyses should be conducted by the technical areas regarding potential impairment of the economic and financial balance arising from this measure, and its impact on the revenue for transmission concessionaires.

Interest in consortium

i) *Extremoz Transmissora do Nordeste - ETN*

On June 10, 2011, through ANEEL auction No. 001/2011, in a public session held on BM&FBOVESPA, Extremoz consortium, comprising CTEEP (51%) and Companhia Hidro Elétrica do São Francisco - CHESF (49%), bought batch A, comprised of LT Ceará-Mirim - João Câmara II, of 500 kV with 64 km; LT Ceará-Mirim - Campina Grande III, of 500 kV with 201 km; LT Ceará-Mirim - Extremoz II, of 230 kV with 26 km; LT Campina Grande III - Campina Grande II, with 8.5 km; and SE João Câmara II of 500 kV, SE Campina Grande III of 500/230 kV and SE Ceará-Mirim of 500/230 kV. On July 7, 2011, Extremoz Transmissora do Nordeste - ETN S.A. was organized, considering the same equity interest, in order to explore the service granted. This project involves estimated investment of R$622.0 million and RAP of R$31.9 million, as of June 2011. CTEEP's equity interest in the venture is 51%.

On March 20, 2015, Extremoz filed with ANEEL subsidiary CTEEP's intention of withdrawing from the consortium. According to Authorizing Resolution No. 5218 of May 20, 2015, ANEEL consented to the transfer of ownership control, setting a deadline for implementation of the operation within 120 days from the date the resolution was published. On December 10, 2015, approval of the Administrative Council of Economic Defense (CADE), the Brazilian antitrust enforcement agency, was obtained. The process will be resubmitted for ANEEL's final analyses.

2. Presentation of financial statements

2.1. Basis of preparation and presentation

The individual and consolidated financial statements, referred to as "Company" and "Consolidated", respectively, were prepared and are presented in accordance with accounting practices adopted in Brazil, which comprise the provisions contained in the Brazilian Corporation Law, and accounting pronouncements, interpretations and guidance issued by the Brazilian Financial Accounting Standards Board (CPC) and approved by Brazilian Securities and Exchange Commission (CVM), which are in conformity with the IFRS issued by the International Accounting Standards Board (IASB).

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

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

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

The financial statements were approved and authorized for publication by the Board of Directors on March 16, 2016.

2.2. Reclassification of book balances (subsidiary CTEEP)

At December 31, 2014, the balances referring to accounts "Regulatory charges payable" in current liabilities and "Other" in current assets were reclassified as a result of ANEEL Memorandum Circular No. 0003/2015 of
May 18, 2015, relating to Research & Development (R&D) projects, completed by that date. Therefore, the asset and liability balances at December 31, 2014 of subsidiary CTEEP were restated.

Also, the amount of R$11,689 originally stated under "Other" in noncurrent assets was reclassified into the "Restricted cash" account in these financial statements.

2.3. Functional and reporting currency

The financial statements of the Company and of each one of its subsidiaries included in the consolidated financial statements are stated in reais, which is the currency of the primary economic environment in which these entities operate ("functional currency").

2. Presentation of financial statements (Continued)

2.4. Significant accounting judgments, estimates and assumptions

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

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

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

Accounting for concession arrangements (ICPC 01 and OCPC 05)

In accounting for concession arrangements, subsidiary CTEEP and its subsidiaries make analyses involving management's judgment substantially concerning the applicability of the interpretation of concession arrangements, determination and classification of construction, expansion, reinforcement and improvement costs as a financial asset. The accounting treatment for each concession arrangement of subsidiary CTEEP and their characteristics are described in Notes 3.22 and 8.

Timing of recognition of financial assets

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

2. Presentation of financial statements (Continued)

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

Determination of effective interest rate of financial assets

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

Determination of construction revenue

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

Value of indemnification assets

As defined in the concession arrangements, 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 indemnification to the concessionaire, observing the amounts and the dates of their incorporation into the electric power system (Notes 3.7 and 8).

Determination of operation and maintenance revenues

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

(In thousands of reais, unless otherwise stated)

2. Presentation of financial statements (Continued)

2.5. Consolidation procedures

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

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

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

At December 31, 2015 and 2014, interests held in subsidiaries were as follows:

	Financial statement reporting date	Interest %	
		2015	**2014**
Direct			
CTEEP	31.12.2015	**37.19**	37.96
Indirect			
Interligação Elétrica de Minas Gerais S.A. (IEMG)	31.12.2015	**37.19**	37.96
Interligação Elétrica Pinheiros S.A. (Pinheiros)	31.12.2015	**37.19**	37.96
Interligação Elétrica Serra do Japi S.A. (Serra do Japi)	31.12.2015	**37.19**	37.96
Evrecy Participações Ltda. (Evrecy)	31.12.2015	**37.19**	37.96
Fundo de Investimento Referenciado DI Bandeirantes	31.12.2015	**21.94**	31.51
Fundo de Investimento Xavantes Referenciado DI	31.12.2015	**21.94**	34.16

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

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

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

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

(In thousands of reais, unless otherwise stated)

2. Presentation of financial statements (Continued)

2.5. Consolidation procedures (Continued)

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

At December 31, 2015 and 2014, direct and indirect interests held in jointly controlled subsidiaries were as follows:

	Financial statement reporting date	Interest %	
		2015	**2014**
Jointly controlled subsidiaries			
Interligação Elétrica Norte e Nordeste S.A. (IENNE)	12.31.2015	**9.30**	9.49
Interligação Elétrica do Sul S.A. (IESul)	12.31.2015	**18.59**	18.98
Interligação Elétrica do Madeira S.A. (IE Madeira)	12.31.2015	**18.97**	19.36
Interligação Elétrica Garanhuns S.A. (IE Garanhuns)	12.31.2015	**18.97**	19.36

3. Summary of significant accounting practices

3.1. Determination of profit or loss

Profit and loss are recorded on an accrual basis.

3.2. Revenue recognition

Revenue is recognized in accordance with the provisions of ICPC 01 (IFRIC 12 and OCPC 05, see note 3.22). The concessionaires must record and measure revenue from service rendering in accordance with accounting pronouncements CPC 17 (R1) (IAS 11) - Construction Contracts and CPC 30 (R1) (IAS 18) - Revenue (operation and maintenance services), even when services are provided under a single concession contract. Subsidiary CTEEP's revenues comprise:

3. Summary of significant accounting practices (Continued)

3.2. Revenue recognition (Continued)

a) Construction revenue

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

b) Financial income on concession assets

This refers to interest recognized using the straight-line method based on the effective interest rate on the amount receivable from construction revenue and indemnification. 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.

c) Operation and maintenance revenue

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

3.3. Current and deferred income and social contribution taxes

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

3. Summary of significant accounting practices (Continued)

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

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

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

The recovery of the balance of deferred tax assets is reviewed at each year-end and, when future taxable profits are not likely to be available to allow recovering the whole asset or a portion thereof, the asset balance is adjusted for the amount expected to be recovered.

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

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

3.4. Income taxes and regulatory charges

a) <u>Sales taxes</u>

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

3. Summary of significant accounting practices (Continued)

3.4. Income taxes and regulatory charges (Continued)

b) Regulatory charges

Sector charges, as described below, are part of the government's policies for the electric power industry and are all legally defined. The amounts of the charges are established by ANEEL Resolutions or Orders 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)*

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

ii) *Energy Development Account (CDE)*

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

3. Summary of significant accounting practices (Continued)

3.4. Income taxes and regulatory charges (Continued)

b) Regulatory charges (Continued)

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

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

iv) *Global Reversion Reserve (RGR)*

Created by Decree No. 41019, of February 26, 1957, this charge refers to an annual amount established by ANEEL, paid monthly in twelfths by concessionaires, in order to provide resources for compensation and/or expropriation of electricity public services, as well as finance the expansion and improvement of these services. Pursuant to Article 21 of Law No. 12783, beginning January 1, 2013, electric power transmission service concession operators with extended service concession arrangements under such Law are released from paying the annual RGR amount.

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

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

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

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

3. Summary of significant accounting practices (Continued)

3.5. Financial instruments

a) Financial assets

i) *Classification and measurement*

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

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

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

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

- Financial assets at fair value through profit or loss

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

3. Summary of significant accounting practices (Continued)

3.5. Financial instruments (Continued)

a) Financial assets (Continued)

i) *Classification and measurement* (Continued)

- Financial assets at fair value through profit or loss (Continued)

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

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

At December 31, 2015 and 2014, financial assets classified into this category are cash equivalents and short-term investments.

Loans and receivables

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

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

3. Summary of significant accounting practices (Continued)

3.5. Financial instruments (Continued)

a) Financial assets (Continued)

i) *Classification and measurement* (Continued)

- Financial assets at fair value through profit or loss (Continued)

Loans and receivables (Continued)

At December 31, 2015 and 2014, the financial assets of subsidiary CTEEP classified into this category are principally accounts receivable (concession assets) and receivables - Finance Department.

ii) *Impairment of financial assets*

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

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

iii) *Derecognition of financial assets*

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

3. Summary of significant accounting practices (Continued)

3.5. Financial instruments (Continued)

b) Financial liabilities

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

3.6. Cash and cash equivalents

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

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

3.7. Accounts receivable (concession assets)

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

Indemnification assets recorded upon completion of the construction services refers to the estimated amount of investments made and not amortized until the end of the concession and in return for which subsidiary CTEEP will have the right to receive cash or another financial asset upon concession termination. As defined in the concession arrangements, 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 indemnification to the concessionaire, observing the amounts and the dates of their incorporation into the electric power system.

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

3. Summary of significant accounting practices (Continued)

3.7. Accounts receivable (concession assets) (Continued)

For the Existing Service (SE) facilities whose compensation amount was not authorized by the Concession Grantor, subsidiary CTEEP believes that it is entitled to receive the Optimized Replacement Cost (VNR) adjusted for accumulated depreciation, determined on the basis of the independent valuation report filed with ANEEL on August 12, 2014. Subsidiary CTEEP records such infrastructure at construction cost, pursuant to ANEEL Order No. 155, of January 23, 2013, which determines that the cost amount should be maintained until approval is given by the regulatory agency (Note 8).

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

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

3.8. Inventories

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

3.9. Investments

The Company and its subsidiary CTEEP recognize and state their investments in subsidiaries using the equity method.

3.10. Property and equipment

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

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

3. Summary of significant accounting practices (Continued)

3.11. Intangible assets

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

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

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

3.12. Leases

a) <u>The Company and its subsidiaries</u>

Operating leases

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

Finance leases

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

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

3. Summary of significant accounting practices (Continued)

3.13. Other current and noncurrent assets

These are stated at net realizable values.

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

3.14. Current and noncurrent liabilities

Current and noncurrent liabilities are stated at known or estimable amounts plus, where applicable, related charges and monetary and/or foreign exchange gains (losses) incurred through the balance sheet date.

3.15. Provisions

Provisions are recognized for a present obligation (legal or constructive) as a result of a past event, the settlement of which is probable, in an amount that can be measured reliably.

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

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

Provisions are measured at the present value of expected costs to settle the obligation, using an adequate discount rate that reflects the risks specific to the liability. They are adjusted through the balance sheet dates for the estimated probable losses, based on their nature and on the opinion of the legal advisors of the Company and its subsidiaries.

A provision for contingencies is recorded when the Company and its subsidiaries have a present obligation arising from past events, the settlement of which is expected to result in an outflow of economic benefits in an amount that can be estimated reliably.

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

3. Summary of significant accounting practices (Continued)

3.16. Employee benefits

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

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

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

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

At December 31, 2015 and 2014, subsidiary CTEEP did not record actuarial assets or liabilities, as mentioned in Note 23.

3.17. Dividends and interest on equity

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

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

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

The Company’s Articles of Incorporation establish that 1% of net income for the year, adjusted under article 202 of Law No. 6404/76, shall be allocated to redeemable preferred shares up to the amount equivalent to Fixed Cumulative Dividends to which such shares are entitled every year.

3. Summary of significant accounting practices (Continued)

3.18. Operating segment

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

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

3.19. Statement of cash flows

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

3.20. Present value adjustment to assets and liabilities

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

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

3.21. Earnings per share

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

3. Summary of significant accounting practices (Continued)

3.21. Earnings per share (Continued)

Basic earnings per share amounts are calculated by dividing the net profit for the year by the weighted average number of Company-issued shares. Diluted earnings calculation is affected by convertible instruments, as mentioned in Note 26 (g).

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

Beginning January 1, subsidiary CTEEP and its subsidiaries adopted and used the provisions of interpretation ICPC 01 issued by the CPC (equivalent to IFRIC 12 issued by the IASB) for purposes of classification and measurement of concession activities. This Interpretation provides guidance on how concessionaires are to account for public-to-private service concession arrangements.

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

Under the terms of contractual arrangements within the scope of ICPC 01 (IFRIC 12), the operator acts a service provider. The operator constructs, expands, reinforces or improves the infrastructure (construction services) used to provide the public service, in addition to operating and maintaining that infrastructure (operation and maintenance services) during a certain period. The operator must record and measure revenue for the services it performs in accordance with accounting pronouncements CPC 17 - Construction Contracts (equivalent to IAS 11 issued by the IASB) and CPC 30 (R1) - Revenue (equivalent to IAS 18 issued by the IASB). If the operator performs more than one service (e.g., 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 construction services on the concession assets is classified as financial asset, intangible asset or both.

3. Summary of significant accounting practices (Continued)

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

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 subsidiary CTEEP are described below:

Interpretation ICPC 01 (IFRIC 12) was considered applicable to all public-to-private service concession arrangements to which subsidiary CTEEP and its subsidiaries 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 indemnification asset is a financial asset recognized upon completion of the construction services and is included as compensation for such services.

The provisions of ICPC 01 (IFRIC 12) were applied to the concessions of indirect subsidiaries IEMG, Pinheiros, Serra do Japi and Evrecy. As it is impossible to obtain again the historical data in a reliable manner, the prospective application from January 1, 2009 was adopted for the concession arrangements executed by subsidiary CTEEP existing at that date.

As defined in the concession arrangements, 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 indemnification to the concessionaire, observing the amounts and the dates of their incorporation into the electric power system.

3. Summary of significant accounting practices (Continued)

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

Subsidiary CTEEP and its subsidiaries determined the fair value of construction services considering that the projects include sufficient margin to cover construction costs and related charges. The effective interest rate on the financial asset from 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 financial income on concession assets determined monthly is recorded directly in the income statement.

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

4. New and revised standards and interpretations not yet adopted

The Company has adopted all (new or revised) standards and interpretations issued by the Brazilian Financial Accounting Standards Board (CPC), which were effective at December 31, 2015.

New and/or revised standards and interpretations issued by the CPC, CVM and IASB in 2015 are:

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

The adoption of the standards and interpretations listed below, which became effective from January 1, 2014, did not impact the Company's individual and consolidated financial statements as at December 31, 2015:

- Revised CPC 08 - This revision brings changes to the following Accounting Pronouncements CPC 01 (R1), CPC 04 (R1), CPC 06 (R1), CPC 18 (R2), CPC 19 (R2), CPC 20 (R1), CPC 21 (R1), CPC 22, CPC 26 (R1), CPC 27, CPC 28, CPC 29, CPC 31, CPC 33 (R1), CPC 36 (R3), CPC 37 (R1), CPC 40 (R1) and CPC 45 - CVM Rule No. 739, of November 5, 2015.

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

b) Standards and interpretations revised by the IASB but not yet issued by the CPC

- IAS 19 - Defined Benefit Plans: Employee Contributions
- IFRS 2 - Share-based Payment
- IFRS 3 - Business Combinations
- IFRS 8 - Operating Segments
- IAS 16 - Property, Plant and Equipment and IAS 38 - Intangible Assets
- IAS 24 - Related Party Disclosures
- IFRS 13 - Fair Value Measurement
- IAS 40 - Investment Property

As the above standards are still pending a pronouncement from the CPC, the Company did not opt for their early adoption in its individual and consolidated financial statements as at December 31, 2015.

c) New and revised standards and interpretations issued by the IASB but not yet effective

- IFRS 9 - Financial Instruments
- IFRS 14 - Regulatory Deferral Accounts
- IFRS 15 - Revenue from Contracts with Customers
- IFRS 16 - Leases
- IFRS 11 - Accounting for acquisitions of interests in joint operations
- IAS 16 and IAS 38 - Clarification of acceptable methods for depreciation and amortization
- IAS 16 and IFRS 41 - Agriculture: bearer plants
- IAS 27 - Equity Method in Separate Financial Statements
- IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations
- IFRS 7 - Financial Instruments: Disclosures
- IAS 19 - Defined Benefit Plans: Employee Contributions

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

c) New and revised standards and interpretations issued by the IASB but not yet effective (Continued)

- IAS 34 - Interim Financial Reporting
- IAS 1 - Disclosure Initiative
- IFRS 10, IFRS 12 and IAS 28 - Investment Entities: Applying the Consolidation Exception

5. Obligations assumed upon acquisition of subsidiary CTEEP

Pursuant to clause 2 of the Share Purchase and Sale Agreement and clause 1.5 of the Notice of Public Offering (OPA), subject-matter of the CTEEP privatization auction, the Company undertakes to supplement payment for CTEEP share purchase price should CTEEP be discharged from its obligations to pay supplementary retirement and pension plan benefits set forth in State Law No. 4819/58, currently discussed in court.

On May 22, 2015, the State Finance Department (SEFAZ) notified the Company charging the amount equivalent to R$266 million, alleging the occurrence of such “Discharge Event”. However, on May 29, 2015, the Company notified SEFAZ of its position against that collection.

In view of the foregoing, the Company, out of caution and based on the opinion of its legal advisors, decided to maintain the amounts recorded in “Payables - Law No. 4819/58” given that so far there has been no pronouncement from SEFAZ on this matter.

At December 31, 2015, the amount to supplement purchase price, restated up to June 30, 2015, is as follows:

(a) São Paulo State Government: the amount of R$269,621 (R$252,726 at 2014) recorded under “Payables - Law No. 4819/58 - State Finance Department (SEFAZ)” is the total payable to São Paulo State Government due to acquisition of shares through the privatization auction held on June 28, 2006. The matching entry of this obligation, which at the time of acquisition of shares amounted R$188,895, was recorded under “Investments - goodwill on acquisition of equity interest in subsidiary”, and the difference of R$63,831 was recognized in P&L as monetary restatement of the obligation based on the Extended Consumer Price Index (IPCA) as from December 31, 2005, under the terms of the arrangement.

(In thousands of reais, unless otherwise stated)

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

(b) Noncontrolling interests (OPA): the amount of R$169,056 (R$158,621 in 2014) recorded under "Payables - Law No. 4819/58 - OPA) is the total payable to minority interest holders who sold their shares to ISA Capital through the public offering auction (OPA) held on January 9, 2007. The matching entry of this obligation, which at the time of acquisition of shares amounted to R$120,306, was recorded under "Investments - goodwill on acquisition of equity interest in subsidiary", and the difference of R$48,750 was recognized in P&L as monetary restatement of the obligation based on the IPCA as from December 31, 2005 under the terms of the arrangement.

6. Cash and cash equivalents

		Company		Consolidated	
	% of CDI	2015	2014	2015	2014
Cash and banks		**118**	264	**3,916**	1,806
Cash equivalents					
Bank Deposit Certificate (CDB)	92.0% to 101.8%	**18,796**	20,287	**19,933**	21,620
Repurchase agreements (a)	93.0% to 97.0%	**-**	-	**1,194**	1,821
Short-term investment funds (b)	60.0% to 70.0%	**-**	-	**6**	-
		18,914	20,551	**25,049**	25,247

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

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

(a) Repurchase agreements are notes issued by banks, provided that the issuing bank repurchases such note and the customer sells it at predefined rates and periods, backed by corporate bonds or government securities registered with the Brazil's OTC Clearing House (CETIP).

(b) Provision CP FICFI Federal Investment Fund: administered by Banco Itaú-Unibanco, the portfolio of which is comprised of shares of Short-Term FI Federal Investment Fund, with daily liquidity and portfolio linked to government securities.

(In thousands of reais, unless otherwise stated)

7. Short-term investments

		Company		Consolidated	
	% of CDI	**2015**	**2014**	**2015**	**2014**
Bank Deposit Certificate (CDB)	104.7%	**8,637**	-	**8,637**	-
Investment funds (*)	101.66%	**-**	-	**440,054**	479,601
		8,637	-	**448,691**	479,601

(*) Investments funds are consolidated as described in Note 2.5.

Consolidated

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

- Fundo de Investimento Referenciado DI Bandeirantes: a fund established for exclusive investment by subsidiary CTEEP and its subsidiaries, administered by Banco Bradesco, the portfolio of which is comprised of shares of Fundo de Investimento Referenciado DI Coral. Balance in 2015: R$183,803 (R$258,001 in 2014).

- Fundo de Investimento Xavantes Referenciado DI: a fund established for exclusive investment by subsidiary CTEEP and its subsidiaries, administered by Banco Itaú-Unibanco, the portfolio of which is comprised of shares of Fundo de Investimento Special DI (Corp Referenciado DI merged by Special DI). Balance in 2015: R$256,248 (R$221,600 in 2014).

The portfolios of Referenciado DI Coral and Special DI investment funds comprise the following assets: investments in demand deposits, floating CDBs, government securities, debentures, financial bills and repurchase agreements in government securities. They have daily liquidity, irrespective of the assets, as established in the regulation of Bandeirantes and Xavantes Funds.

The analysis of subsidiary CTEEP management as to the exposure of these assets to interest rate risks, among others, is disclosed in Note 33 (c).

(In thousands of reais, unless otherwise stated)

8. Accounts receivable (concession assets)

Accounts receivable are as follows:

	Consolidated	
	2015	**2014**
O&M		
Accounts receivable - O&M services (a)	**158,656**	142,042
	158,656	142,042
Financial assets		
Accounts receivable - construction services (b)	**2,111,192**	1,697,446
Accounts receivable - indemnification (c)	**86,085**	78,268
	2,197,277	1,775,714
Indemnification asset - Law No. 12783/13		
Accounts receivable - Law No. 12783/13 (NI) (d)	**-**	486,850
Accounts receivable - Law No. 12783/13 (SE) (d)	**1,490,996**	1,490,996
	1,490,996	1,977,846
	3,846,929	3,895,602
Current	**319,961**	729,946
Noncurrent	**3,526,968**	3,165,656

(a) O&M - Operation and Maintenance refers to the portion of monthly billing reported by ONS allocated to compensation for operation and maintenance services, receivable within less than 30 days, on average.

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

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

(d) Accounts receivable - Law No. 12783/2013 - these refer to the amount receivable for reversal of investments made and not amortized of service concession arrangement No. 059/2001 subdivided into NI and SE, respectively:

- Return of facilities for NI corresponds to R$2,949,121, including R$2,891,291 of Optimized Replacement Cost (VNR) determined and R$57,830 for remuneration by IPCA + WACC of 5.59% p.a., as defined in Interministerial Ruling No. 580. Fifty per cent (50%) of this amount was received on January 18, 2013 and the remaining 50% was split into 31 monthly installments (Note 1.2).

- Return of the facilities for SE corresponds to the infrastructure construction cost, considering ANEEL Order No. 155 of January 23, 2013, which suggests recording this item at cost until approval by the Concession Grantor. As disclosed in a material news release on August 12, 2014, a new independent valuation report was prepared, amounting to R$5,186,018, which corresponds to estimated investments at the New Replacement Cost (VNR) adjusted for accumulated depreciation through December 31, 2012. At Board's 47th Annual Public Meeting, held on December 15, 2015, ANEEL approved the amount of indemnification at R$3,896,328, set forth in its Order No. 4036/2015, published in the Federal Official Gazette (D.O.U.) on December 21, 2015. CTEEP filed for appeal on December 30, 2015, aiming to reverse ANEEL Board's decision. The accounting effects and recognition depend on approval of the final amount as well as on the collection method and terms, to be defined by the Ministry of Mines and Energy and the Ministry of Finance.

(In thousands of reais, unless otherwise stated)

8. Accounts receivable (concession assets) (Continued)

The aging list of accounts receivable is as follows:

	Consolidated	
	2015	**2014**
Falling due	**3,834,981**	3,709,941
Overdue		
Within 30 days (i)	**167**	51,428
From 31 to 60 days (i)	**147**	103,719
From 61 to 360 days	**2,610**	1,475
Above 361 days (ii)	**9,024**	29,039
	11,948	185,661
	3,846,929	3,895,602

(i) In 2014, these refers mainly to the portions pending receipt of accounts receivable for indemnification of facilities related to NI.

(ii) Certain system members challenged balances billed in connection with the Basic Electric Power Grid. As a result of this dispute, the amounts were deposited in court by such members. Subsidiary CTEEP billed the amounts in line with regulators' authorizations. Therefore, it does not record any provision for losses related to such challenges.

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

Changes in accounts receivable are as follows:

	Consolidated
Balances in 2013	**3,968,342**
Construction revenue (Note 27.1)	265,058
Financial income on concession assets (Note 27.1)	207,457
Operation and maintenance revenue (Note 27.1)	740,613
Restatement of accounts receivable - IPCA/WACC reversal	78,568
Accounts received - NI reversal	(493,445)
Receipts	(870,991)
Balances in 2014	**3,895,602**
Construction revenue (Note 27.1)	278,685
Financial income on concession assets (Note 27.1)	311,647
Operation and maintenance revenue (Note 27.1)	829,551
Restatement of accounts receivable - IPCA/WACC reversal	58,519
Accounts received - NI reversal	(545,369)
Long-term debt - monetary restatement	11,073
Receipts	(992,779)
Balances in 2015	**3,846,929**

(In thousands of reais, unless otherwise stated)

9. Receivables - State Finance Department (SEFAZ)

	Consolidated	
	2015	2014
Payroll processing - Law No. 4819/58 (a)	**1,245,622**	1,087,560
Labor claims - Law No. 4819/58 (b)	**236,553**	230,797
Provision for losses on realization of receivables (c)	**(516,255)**	(516,255)
Family allowance - Law No. 4819/58 (d)	**2,218**	2,218
Provision for losses on realization of receivables - Family allowance (d)	**(2,218)**	(2,218)
	965,920	802,102

(a) These refer to receivables to settle the payroll portion of the supplementary retirement plan governed by State Law No. 4819/58, from January 2005 to December 2014 (Note 36). Increase against the prior year is related to compliance with the decision handed down by the 49th Labor Court, whereby subsidiary CTEEP, in the capacity of party served, monthly pass on the amounts to FUNCESP for retirees payroll processing.

(b) These refer to certain labor claims settled by subsidiary CTEEP, relating to retirees supported by State Law No. 4819/58, which are the responsibility of the São Paulo State Government.

(c) Determining factors for the provision set up were greater expectation regarding the realization of accounts receivable from São Paulo State and court proceedings. CTEEP follows up on how this matter evolves and reviews the provision periodically to determine the need to have it supplemented or reversed according to legal events that may cause its legal advisors' opinion to change. In 2015, no events occurred that would indicate the need to change the provision.

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

10. Taxes and contributions recoverable

	Company		Consolidated	
	2015	2014	2015	2014
IRPJ loss	**918**	954	**918**	954
CSLL loss	**331**	340	**331**	340
Income tax recoverable (i)	**33,985**	30,197	**34,617**	30,318
Social contribution tax recoverable	**527**	132	**580**	185
Withholding Income Tax (IRRF)	**-**	-	**1,690**	5,817
Withholding social contribution (CSRF)	**-**	-	**53**	330
COFINS (ii)	**-**	-	**2,354**	22,996
PIS (ii)	**-**	-	**511**	4,791
Other	**-**	-	**470**	372
	35,761	31,623	**41,524**	66,103
Current	**3,543**	31,623	**9,306**	66,103
Noncurrent	**32,218**	-	**32,218**	-

(i) Balance made up of IRPJ and CSLL recoverable arising from withholdings on redemption of financial investments and interest on equity. The Company annually prepares a study on the recovery of these balances and considers requesting for refund of these amounts. As the study prepared by the Company concluded that only R$3,543 will be used in the short term, the amount difference was reclassified into noncurrent assets.

(ii) In the second quarter of 2014, subsidiary CTEEP recognized PIS and COFINS previously unused credits that totaled R$31,954 (R$36,221 restated), R$21,398 of which refer to projects received for reversal, recognized under "Other operating income (expenses)" and the remained balance of R$10,556 reduces the financial asset under "Accounts receivable from construction services".

(In thousands of reais, unless otherwise stated)

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

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

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

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

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

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

In order to better present the financial position of subsidiary CTEEP in the financial statements, the net amount of R$586 (R$30,473 at December 31, 2014), which essentially represents the merged tax credit, was classified in the balance sheet in noncurrent assets as tax benefit - merged goodwill, based on its expected realization.

(In thousands of reais, unless otherwise stated)

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

Changes for the year ended December 31, 2015 and 2014 are as follows:

	Goodwill	Provision	Net
Balances in 2013	**177,531**	**(117,172)**	**60,359**
Amount realized in the year	(87,903)	58,017	(29,886)
Balances in 2014	**89,628**	**(59,155)**	**30,473**
Amount realized in the year	(87,904)	58,017	(29,887)
Balances in 2015	**1,724**	**(1,138)**	**586**

Amortization is recorded in the income statement under “Other operating income (expenses)” (Note 30).

12. Loans receivable

Breakdown of loans and financing balances at December 31, 2015 is as follows:

			Company	
Foreign currency	**Charges**	**Final maturity**	**2015**	**2014**
Interconexión Elétrica S.A ESP (“ISA”) (a)	LIBOR + 3% p.a.	12.28.2016	**92,954**	63,229
Total in foreign currency			**92,954**	63,229
Current			**92,954**	-
Noncurrent			**-**	63,229

(a) This refers to a loan granted by ISA CAPITAL to its parent company Interconexión Eléctrica S.A. ESP (“ISA”), for the full onlending of the loan obtained by the Company in December 2006, denominated in US dollars, originally amounting to US$23,800, whose maturity in a lump sum was on July 19, 2007 and interest was calculated based on LIBOR, plus 3.00% p.a. The Company used the same assumptions for interest calculation thereon, including semi-annual receipt thereof. By administrative decisions, the agreement was extended for an additional two years, maturing on December 28, 2016.

In 2015, the Company received interest thereon amounting to R$2,858.

(In thousands of reais, unless otherwise stated)

12. Loans receivable (Continued)

Changes in loans receivable are as follows:

	Company
Balances in 2013	**55,764**
Interest received	(1,938)
Interest and monetary and foreign exchange gains (losses)	9,403
Balances in 2014	**63,229**
Interest received	(2,858)
Interest and monetary and foreign exchange gains (losses)	32,583
Balances in 2015	**92,954**

13. Pledges and restricted deposits

	Company		Consolidated	
	2015	**2014**	**2015**	**2014**
Deposit - Bank of New York (guarantee) (a)	**5,438**	3,699	**5,438**	3,699
Judicial deposits				
Labor (Note 23 (b))	**-**	-	**54,711**	51,525
Social security - INSS (Note 23 (b))	**-**	-	**3,261**	1,226
PIS/COFINS (b)	**-**	-	**2,049**	-
Other	**-**	-	**287**	-
Notices of violation - ANEEL (c)	**-**	-	**5,960**	9,602
	5,438	3,699	**71,706**	66,052
Current	**5,438**	3,699	**5,438**	3,699
Noncurrent	**-**	-	**66,268**	62,353

Company

(a) These refer to a deposit in Bank of New York to guarantee interest paid biannually, which is related to bonds remaining after debt restructure, and USD 1,4 million shall be maintained in the account. As provided for in the agreement, the Company has used the funds from that account to make interest payments, in January and July, and after each payment the account balance is pushed back.

The balance of R$5,438 recorded in current assets at December 31, 2015 was used for interest payment in January 2015.

(In thousands of reais, unless otherwise stated)

13. Pledges and restricted deposits (Continued)

Consolidated

(b) In March 2015, with the enactment of Decree No. 8426/15, PIS/COFINS rate resumed at 4.65% on financial income, effective from July 1, 2015. CTEEP sought legal action against such taxation alleging that a tax could only be imposed or increased by a law, as provided for by the Brazilian Federal Constitution, article 150, item I; and that Decree No. 8426/15 would also hurt the principle of non-cumulative taxation provided for in article 194, paragraph 12. Until December 2015, the amounts deposited in court total R$2,049.

(c) These refer to deposits aiming at voiding ANEEL notices which subsidiary CTEEP has been challenging.

14. Investments

a) Information on subsidiary CTEEP

	2015	2014
Number of outstanding shares at the balance sheet date		
Common registered shares	**64,484,433**	64,484,433
Preferred registered shares	**96,775,022**	96,775,022
Total	**161,259,455**	161,259,455
Equity - consolidated		
Capital	**2,215,291**	2,215,291
Capital reserves	**1,190,471**	1,190,471
Special goodwill reserve	**87,551**	87,551
Income reserves	**1,842,892**	1,671,732
Retained earnings	**-**	-
Noncontrolling interests	**178,796**	63,567
Total	**5,515,001**	5,228,612
Net income for the year	**504,430**	378,215

b) Information on Company investment

	2015	2014
Number of common registered shares	**57,714,208**	57,714,208
Number of preferred registered shares	**2,257,400**	3,496,456
CTEEP's equity - consolidated	**5,515,001**	5,228,612
(-) Special goodwill reserve	**(60,361)**	(60,361)
(-) Noncontrolling interests	**(178,796)**	(63,567)
CTEEP's equity (equity pickup base)	**5.275.844**	5,104,684
Percentage of ownership interest in CTEEP	**37.1895%**	37.9579%
Investment	**1,962,060**	1,937,631
Special goodwill reserve	**60,361**	60,361
Equity adjustment - Law No. 4819/58 (i)	**111,582**	111,582
Total investment	**2,134,003**	2,109,574

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

(In thousands of reais, unless otherwise stated)

14. Investments (Continued)

c) Changes in investments for the year ended December 31, 2015

Balance in 2013	**2,060,743**
Realization of special goodwill reserve - paid-in shares	(87,551)
Subscription of shares - special goodwill reserve	87,551
Adjustment to book value on share subscription	1,789
Equity pickup	144,135
Interim dividends and interest on equity received in the year	(85,315)
Accrued dividends receivable	(11,778)
Balance in 2014	**2,109,574**
Equity pickup	188.303
Dividends received from subsidiary CTEEP	(124.296)
Divestiture - disposal of preferred registered shares (i)	(39.578)
Balance 2015	**2,134,003**

(i) This refers to the disposal of 1,239,056 preferred shares issued by subsidiary CTEEP (TRPL4) in the first quarter.

(In thousands of reais, unless otherwise stated)

14. Investments (Continued)

14.1. Investment in subsidiary CTEEP

a) Information on subsidiary CTEEP

INVESTMENTS - SUBSIDIARY CTEEP

	IEMG		Pinheiros		Serra do Japi		Evrecy		IENNE		IESul		IE Madeira		IE Garanhuns	
Reporting date	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Number of common shares held	**83,055,292**	83,055,292	**300,910,000**	283,310,000	**130,857,000**	86,748,000	**21,512,367**	21,512,367	**81,821,000**	81,821,000	**104,128,499**	100,928,499	**717,060,000**	717,060,000	**289,935,000**	168,300,000
Interest in paid-in capital - %	**100.0**	100.0	**100.0**	100.0	**100.0**	100.0	**100.0**	100.0	**25.0**	25.0	**50.0**	50.0	**51.0**	51.0	**51.0**	51.0
Paid-in capital	**83,055**	83,055	**300,910**	283,310	**130,857**	86,748	**21,512**	21,512	**327,284**	327,284	**208,257**	201,857	**1,406,000**	1,406,000	**568,500**	330,000
Equity	**121,310**	108,318	**424,954**	338,656	**234,618**	168,639	**52,658**	47,441	**388,971**	359,435	**225,563**	215,272	**2,003,261**	1,818,153	**668,533**	374,352
Net income (loss)	**12,992**	247	**68,998**	13,099	**28,233**	28,479	**10,537**	10,526	**29,535**	15,662	**3,892**	2,416	**242,306**	131,660	**55,681**	36,539

b) Changes in investments of subsidiary CTEEP for the year ended December 31, 2015

	Consolidated				
	IENNE	**IESul**	**IE Madeira**	**IE Garanhuns**	**Total**
Balances in 2013	**85,943**	**93,728**	**791,903**	**103,435**	**1,075,009**
Capital payment	-	12,700	84,150	68,850	165,700
Dividends receivable	-	-	(15,945)	-	(15,945)
Equity pickup	3,916	1,208	67,146	18,635	90,905
Balances in 2014	**89,859**	**107,636**	**927,254**	**190,920**	**1,315,669**
Capital payment	-	3,200	-	121,635	124,835
Dividends receivable	-	-	(29,170)	-	(29,170)
Equity pickup	7,384	1,946	123,579	28,397	161,306
Balances in 2015	**97,243**	**112,782**	**1,021,663**	**340,952**	**1,572,640**

(In thousands of reais, unless otherwise stated)

15. Property and equipment

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

	Company				
	Annual average depreciation rates	**2015**			**2014**
	%	**Cost**	**Accumulated depreciation**	**Net**	**Net**
In operation					
Machinery and equipment	6%	**26**	**(13)**	**13**	23
Furniture and fixtures	6%	**32**	**(24)**	**8**	11
		58	**(37)**	**21**	34

	Consolidated				
	Annual average depreciation rates	**2015**			**2014**
	%	**Cost**	**Accumulated depreciation**	**Net**	**Net**
In operation					
Land	-	**2,060**	**-**	**2,060**	2,060
Machinery and equipment	6.44%	**5,421**	**(1,926)**	**3,494**	1,211
Furniture and fixtures	6.25%	**7,145**	**(5,224)**	**1,921**	2,131
IT equipment	24.1%(*)	**10,679**	**(7,135)**	**3,544**	4,938
Vehicles	31.5% (**)	**10,379**	**(541)**	**9,838**	10,854
Other	4.0%	**3,293**	**(935)**	**2,358**	3,394
		38,977	**(15,761)**	**23,215**	24,588

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

(**) Including vehicle lease at 25.0% and 33.3%.

Changes in property and equipment for the year ended December 31, 2015 are as follows:

	Company				
	Balances in 2014	**Additions**	**Depreciation**	**Write-off**	**Balances in 2015**
Machinery and equipment	23	-	(6)	(4)	**13**
Furniture and fixtures	11	-	(3)	-	**7**
	34	-	(9)	(4)	**21**

(In thousands of reais, unless otherwise stated)

15. Property and equipment (Continued)

	Consolidated				
	Balances in 2014	**Additions**	**Depreciation**	**Write-offs/ Transfers**	**Balances in 2015**
Land	2,060	-	-	-	**2,060**
Machinery and equipment	1,211	328	(220)	2,175	**3,494**
Furniture and fixtures	2,131	-	(306)	96	**1,921**
IT equipment	4,938	370	(2,121)	357	**3,544**
Vehicles	10,854	-	(528)	(488)	**9,838**
Other	3,394	1,486	(2)	(2,520)	**2,358**
	24,588	2,184	(3,177)	(379)	**23,215**

16. Intangible assets

This refers, substantially:

(a) Expenses incurred by subsidiary CTEEP on ERP-SAP implementation/structuring project and software use rights, which have been amortized on a straight-line basis over 5 years;

(b) Goodwill generated in the acquisition of Evrecy by subsidiary CTEEP; and

(c) Amount resulting from adjustment made in the equity pickup calculation on investment in subsidiary CTEEP in 2013, as mentioned in Note 14.b).

Changes in intangible assets for the year ended December 31, 2015 are as follows:

	Company	
	Software	**Total**
Balance in 2013	**-**	**-**
Additions	106	106
Amortization	-	-
Balance in 2014	**106**	**106**
Additions	15	15
Amortization	(20)	(20)
Balance in 2015	**101**	**101**

	Consolidated		
	Goodwill	**Software**	**Total**
Balance in 2013	**111,582**	**46,069**	**157,651**
Additions	-	18,670	18,670
Amortization	(2,490)	(6,121)	(8,611)
Balance in 2014	**109,092**	**58,618**	**167,710**
Additions	-	1,350	1,350
Amortization	(2,490)	(5,378)	(7,868)
Balance in 2015	**106,602**	**54,590**	**161,192**

(In thousands of reais, unless otherwise stated)

17. Loans and financing

Breakdown of loans and financing is as follows:

	Company			
	Charges	**Final maturity**	**2015**	**2014**
Foreign currency				
Bonds (a)	8.8% p.a.	01.30.2017	**128,123**	87,154
Current			**4,532**	3,083
Noncurrent			**123,591**	84,071

	Consolidated			
	Charges	**Final maturity**	**2015**	**2014**
Foreign currency				
Bonds (a)	8.8% p.a.	01.30.2017	**128,123**	87,154
Total foreign currency			**128,123**	87,154
Brazilian currency				
BNDES (b) (i)	TJLP + 1.8% p.a.	03.15.2029	**246,316**	175,751
BNDES (b) (i)	3.5% p.a.	01.15.2024	**82,538**	64,154
BNDES (b) (ii)	TJLP + 1.8% p.a.	06.15.2015	**-**	28,129
BNDES (b) (iii)	TJLP + 2.3% p.a.	06.15.2015	**-**	46,901
BNDES (b) (iv)	TJLP + 2.1% p.a.	02.15.2028	**6,451**	6,942
BNDES (b) (iv)	3.5% p.a.	04.15.2023	**13,282**	15,072
BNDES (b) (v)	TJLP + 2.6% p.a.	05.15.2026	**37,132**	40,548
BNDES (b) (v)	5.5% p.a.	01.15.2021	**51,092**	60,999
BNDES (b) (vi)	TJLP + 1.9% p.a.	05.15.2026	**38,796**	42,327
BNDES (b) (vi)	TJLP + 1.5% p.a.	05.15.2026	**33,525**	36,575
BNDES (b) (vii)	TJLP + 2.4% p.a.	04.15.2023	**37,425**	42,358
BNDES / Finame PSI	4.0% p.a.	08.15.2018	**204**	281
BNDES / Finame PSI (c)	6.0% p.a.	11.18.2019	**9,029**	10,346
Eletrobras	8.0% p.a.	11.15.2021	**196**	240
Finance leases agreements	-	-	**323**	2,007
Total Brazilian currency			**556,309**	572,630
Total Brazilian and foreign currency			**684,432**	659,784
Current			**75,602**	135,133
Noncurrent			**608,830**	524,651

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

For bonds outstanding in the market, the same conditions agreed on issue were maintained, however without any types of covenants. The final maturity of the principal remains in January 2017 and interest is still paid on a semiannual basis, in January and July, at a rate of 8.8% p.a. In 2015, ISA Capital paid total interest of R$8,256 (R$6,504 in 2014) to bondholders.

There was no change in the nature of loans in relation to December 31, 2014.

17. Loans and financing (Continued)

(b) BNDES

(i) On December 23, 2013, subsidiary CTEEP entered into a loan agreement with BNDES amounting to R$391,307, of which R$284,136 were at the cost of TJLP plus 1.80% p.a.; R$1,940 at the cost of TJLP; and R$105,231 at the cost of 3.50% p.a. This loan is intended for implementation of the Multiannual Investment Plan relating to the period 2012-2015, comprising construction works referring to the modernization of the electric power transmission system, system improvements, new projects reinforcement and implementation, as well as implementation of social investments within the community. The release of funds amounting to R$124,124, R$26,900, R$89,000 million and R$30,000 and R$73,877 million took place on January 29, June 26, December 26, 2014 and April 14 and December 18, 2015, respectively.

Interest will be paid on a quarterly and on a monthly basis from April 2015. The debt principal is repaid in monthly equal and consecutive installments, up to 168 installments, from April 2015. Subsidiary CTEEP offered bank guarantee.

(ii) On November 18, 2008, subsidiary CTEEP entered into a R$329,137 loan agreement with BNDES. Repayment is in 54 monthly installments as from January 2011. Until the beginning of repayment, charges were paid on a quarterly basis. This agreement was settled on June 15, 2015.

(iii) On September 17, 2007, subsidiary CTEEP entered into a loan agreement with BNDES amounting to R$764,215, reduced to R$601,789 in December 2008. This amount accounts for 70% of total investment, which includes system improvements, reinforcements, modernization of the current transmission system and new projects, and is part of the 2006/2008 Multiannual Investment Plan. Repayment is in 78 monthly installments as from January 2009. This agreement was settled on June 15, 2015.

For 2015, the agreements mentioned in items (i), (ii) and (iii) have the following maximum financial indicators, calculated on an annual basis: Net debt/Adjusted EBITDA $\leq$ 5.0 and Net Debt/(Net Debt + Equity) $\leq$ 0.6.

For calculation and proof purposes of said ratios, subsidiary CTEEP consolidates all subsidiaries and jointly controlled subsidiaries (proportionally to the interest held by it), provided that it holds interest equal to or higher than 10%.

17. Loans and financing (Continued)

(b) BNDES (Continued)

(iv) On August 13, 2013, indirect subsidiary Pinheiros entered into a loan agreement amounting to R$23,498 with BNDES. The amount is intended to finance the construction of the transmission lines and substations provided for by service concession arrangement No. 021/2011. Repayment is in 168 monthly installments from March 15, 2014. Indirect subsidiary Pinheiros shall maintain, over repayment and after giving the bank sureties, a Debt Coverage Ratio (ICSD) of at least 1.3%, determined annually. Bank sureties were waived by BNDES on June 23, 2015.

(v) On December 30, 2010, indirect subsidiary Pinheiros entered into a loan agreement amounting to R$119.886 with BNDES. The amount is intended to finance the construction of the transmission lines and substations provided for in service concession arrangements Nos. 012/2008, 015/2008 and 018/2008. Repayment is in 168 monthly installments from September 15, 2011. Indirect subsidiary Pinheiros shall maintain, over repayment and after giving the bank guarantees, a Debt Coverage Ratio (ICSD) of at least 1.3%, determined annually. Bank sureties were waived by BNDES on June 23, 2015.

(vi) On October 28, 2011, indirect subsidiary Serra do Japi entered into a loan agreement amounting to R$93.373 with BNDES. The amount is intended to finance the transmission lines and substations provided for in the service concession arrangement. Repayment is in 168 monthly installments from June 15, 2012. Indirect subsidiary Serra do Japi shall maintain, over repayment, a Debt Coverage Ratio (ICSD) of at least 1.2%, determined annually, and over the entire financing period, the Equity Ratio defined by the Equity-to-Total Assets, equal to or higher than 20% of the project's total investment. Bank sureties were waived by BNDES on September 5, 2014.

(vii) On January 14, 2009, indirect subsidiary IEMG, entered into a R$70.578 loan agreement with BNDES. This amount is aimed at financing approximately 50% of the Transmission Line (LT) between Neves 1 and Mesquita substations. Repayment is in 168 monthly installments from May 15, 2009. The need for bank sureties was dispensed by BNDES on March 15, 2011. Indirect subsidiary IEMG, shall maintain, over repayment, a Debt Coverage Ratio (ICSD) of at least 1.3%, determined annually.

(In thousands of reais, unless otherwise stated)

17. Loans and financing (Continued)

(c) BNDES/Finame PSI

On November 4, 2014, CTEEP entered into 18 loan agreements with Banco Santander totaling R$10,346, subject to interest of 6.0% p.a., using BNDES credit facility Finame PSI (Investment Support Program). This credit facility will finance machinery and equipment. The first payment totaling R$10,096 was disbursed by Santander to suppliers on December 30, 2014. The second payment was disbursed on January 21, 2015 and the last one on January 26, 2015.

The aging list of noncurrent portions is as follows:

	Company		Consolidated	
	2015	**2014**	**2015**	**2014**
2016	**-**	-	**-**	48,850
2017	**123,591**	84,071	**181,228**	132,910
2018	**-**	-	**57,481**	48,675
2019	**-**	-	**57,209**	48,402
2020	**-**	-	**55,091**	46,280
2021 to 2025	**-**	-	**192,976**	143,866
2026 to 2030	**-**	-	**64,845**	55,668
	123,591	84,071	**608,830**	524,651

Changes in loans and financing for the year ended December 31, 2015 are as follows:

	Company	Consolidated
Balances in 2013	**76,865**	**578,702**
Additions	-	251,236
Payment of principal	-	(177,027)
Payment of interest	(6,504)	(46,631)
Interest and monetary and foreign exchange gains (losses)	16,793	53,504
Balances in 2014	**87,154**	**659,784**
Additions	-	103,877
Payment of principal	-	(120,211)
Payment of interest	(8,256)	(49,446)
Interest and monetary and foreign exchange gains (losses)	49,225	90,428
Balances in 2015	**128,123**	**684,432**

(In thousands of reais, unless otherwise stated)

17. Loans and financing (Continued)

(c) BNDES/Finame PSI (Continued)

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

Subsidiary	Interest held in subsidiary	Bank	Type of debt	Debt balance at 12.31.2015	Type of guarantee	Balance guaranteed by CTEEP	Guarantee termination date
IEMG	100%	BNDES	FINEM	37,425	None	37,425	-
Serra do Japi	100%	BNDES	FINEM	72,321	None	72,321	-
Pinheiros	100%	BNDES	FINEM and PSI	88,224	None	88,224	-
Pinheiros	100%	BNDES	FINEM and PSI	19,733	None	19,733	-
IESul	50%	BNDES	FINEM and PSI	12,685	Bank surety	6,343	10.04.2016
IESul	50%	BNDES	FINEM and PSI	18,438	Bank surety	9,219	07.31.2017
IENNE	25%	Banco do Nordeste	FNE	200,466	Bank surety	50,117	05.07.2016
IENNE	25%	Banco do Brasil	Overdraft facilities	15,614	None	3,904	-
IE Madeira	51%	Banco da Amazônia	Bank Credit Bill	308,946	Bank surety	157,562	06.30.2016
IE Madeira	51%	BNDES	FINEM and PSI	1,633,411	Bank surety	833,040	06.30.2016
IE Madeira	51%	Itaú/BES	Infrastructure debentures	469,972	Back bond	239,686	06.30.2016
IE Garanhuns	51%	BNDES	FINEM and PSI	342,919	Bank surety	174,889	12.05.2016

Financing agreements between indirect subsidiaries and BNDES require recognition and maintenance of a reserve for debt services in an amount corresponding to, at least, three to six times the last financing installment fallen due, including principal and interest thereon, classified under "Restricted cash" in the consolidated balance sheet.

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

In 2015, there is no debt acceleration event relating to covenants both for the Company and for any of its subsidiaries.

(In thousands of reais, unless otherwise stated)

18. Debentures

	Maturity	Number	Charges	Consolidated 2015	Consolidated 2014
2nd series (i)	12.15.2017	5,760	IPCA + 8.1% p.a.	**41,608**	58,692
Single series CTEEP (ii)	12.26.2018	50,000	116.0% of CDI p.a.	**498,747**	560,553
				540,355	619,245
Current				**180,782**	83,846
Noncurrent				**359,573**	535,399

(i) In December 2009, subsidiary CTEEP issued 54,860 debentures amounting to R$548.600. The 1st series was settled in December 2014. As for the 2nd series: the first maturity of debentures took place on June 15, 2014, and the other maturities will be as follows: December 15, 2016 and 2017; and remuneration was paid on the following dates: June 15, 2011, 2012, 2013, 2014 and 2015, and next payments will be made on December 15, 2016 and 2017.

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

To date, all requirements and covenants established in the agreements have been duly observed and met by subsidiary CTEEP and its subsidiaries.

(ii) In December 2013, subsidiary CTEEP issued 50,000 single series debentures amounting to R$500,000. Debentures will mature on an annual basis on December 26, 2016, 2017 and 2018; and remuneration is paid on a semiannual basis in June and December each year, the first one maturing on June 26, 2016 and the last one on December 26, 2018.

The aging list of noncurrent portions is as follows:

	2015	2014
2016	**-**	184,715
2017	**193,621**	184,739
2018	**165,952**	165,945
	359,573	535,399

Changes in debentures for the year ended December 31, 2015 are as follows:

Balances in 2013	**737,640**
Payment of principal	(182,551)
Payment of interest	(28,998)
Interest and monetary and foreign exchange gains (losses)	93,154
Balances in 2014	**619,245**
Payment of principal	(21,425)
Payment of interest	(149,440)
Interest and monetary and foreign exchange gains (losses)	91,975
Balances in 2015	**540,355**

(In thousands of reais, unless otherwise stated)

19. Taxes and social charges payable

	Company		Consolidated	
	2015	**2014**	**2015**	**2014**
IRPJ	**-**	-	**2,163**	3,662
CSLL	**-**	-	**2,124**	1,765
COFINS	**99**	-	**8,599**	5,663
PIS	**16**	-	**1,718**	1,229
Social Security Tax (INSS)	**21**	19	**5,128**	5,079
Service Tax (ISS)	**-**	6	**947**	3,031
Unemployment Compensation Fund (FGTS)	**-**	-	**1,536**	1,431
Withholding Income Tax (IRRF)	**677**	469	**3,761**	3,352
Other	**2**	1	**3,256**	1,804
	815	495	**29,232**	27,016

20. Taxes in installments - Law No. 11941/09

In 2009 and 2010, subsidiary CTEEP amended its Federal Tax Debt and Credit Returns (DCTFs) for the years 2004-2007, determining tax debts related to PIS and COFINS. In order to settle its tax debt, subsidiary CTEEP enrolled with the Special Tax Installment Payment Program set forth by Law No. 11941 of May 27, 2009, and opted for the 180-month payment schedule ending in October 2024. Each installment amounts to R$975 and is subject to monetary restatement based on the SELIC rate.

Changes for the years ended December 31, 2015 and 2014 are as follows:

	Consolidated	
	2015	**2014**
Opening balance	**147,011**	150,742
Monetary restatement on debt	**11,689**	10,732
Payments made	**(15,603)**	(14,463)
	143,097	147,011
Current	**16,200**	14,950
Noncurrent	**126,897**	132,061

21. Deferred PIS and COFINS

	Consolidated	
	2015	**2014**
Deferred PIS	**26,570**	21,032
Deferred COFINS	**122,452**	96,940
	149,022	117,972

(In thousands of reais, unless otherwise stated)

21. Deferred PIS and COFINS (Continued)

Deferred PIS and COFINS refer to construction revenue and financial income on concession assets, i.e., on construction financial assets, recorded on the accrual basis. Collection occurs proportionally to effective receipt, as provided for by Law No. 12973/14.

22. Regulatory charges payable

	Consolidated	
	2015	**2014**
Research and development - R&D (i)	**42,356**	51,753
Energy Development Account (CDE)	**1,157**	761
Global Reversion Reserve (RGR) (ii)	**7,730**	9,164
Alternative Electric Power Source Incentive Program (PROINFA)	**1,772**	903
Inspection fee - ANEEL	**-**	608
	53,015	63,189
Current	**21,821**	40,579
Noncurrent	**31,194**	22,610

(i) Subsidiary CTEEP and its subsidiaries recognized liabilities related to amounts billed through tariffs (1% of Operating income, net), but not applied to the Research and Development Program (R&D), which are restated on a monthly basis as from the second month subsequent to their recognition up to the effective realization thereof, based on SELIC rate, according to ANEEL Resolutions No. 300/2008 and No. 316/2008. According to Memorandum Circular No. 0003/2015 of May 18, 2015, the amounts used in R&D are accounted for under assets and upon completion of projects, they are recognized as settlement of the obligation and then submitted to ANEELS's final audit and evaluation. The total amount used in projects not completed until December 31, 2015 amounts to R$11,075 (R$27,450 at December 31, 2014).

(ii) Pursuant to article 21 of Law No. 12783, beginning January 1, 2013, electric power transmission service concessionaires with extended service concession arrangements under such Law are released from paying the annual RGR amount. For subsidiary CTEEP, it is applicable to service concession arrangement No. 059/2001. At December 31, 2015, RGR balance payable refers to additional charge for years 2010 and 2012.

23. Provisions

	Consolidated	
	2015	**2014**
Vacation pay, 13th monthly salary and social charges	**23,365**	19,728
Profit sharing	**6,392**	7,741
Contingencies (a)	**189,612**	131,592
	219,369	159,061
Current	**29,757**	27,469
Noncurrent	**189,612**	131,592

(In thousands of reais, unless otherwise stated)

23. Provisions (Continued)

a) Provision for contingencies

Contingencies are assessed and classified periodically as regards the likelihood of an unfavorable outcome to the Company and its subsidiaries. Provisions are set up for all contingencies referring to judicial proceedings the settlement of which is likely to result in an outflow of economic benefits, and a reliable estimate can be made.

Contingencies whose likelihood of loss is assessed as probable are as follows:

	Consolidated	
	2015	**2014**
Labor (i)	**164,528**	114,446
Civil (ii)	**14,302**	9,656
Tax - Real Estate Tax (IPTU) (iii)	**9,722**	5,501
Social security - INSS (iv)	**1,060**	1,989
	189,612	131,592

(i) Labor

Subsidiary CTEEP is a defendant in certain lawsuits at different courts, mainly arising from labor claims for salary parity, overtime, and health exposure premiums among others. CTEEP has labor-related judicial deposits amounting to R$54,695 (R$51,525 at December 31, 2014), according to Note 13.

(ii) Civil

Subsidiary CTEEP is involved in civil proceedings relating to real estate issues, indemnities, collections, annulment issues and class actions, arising from its ordinary business, i.e., operate and maintain its transmission lines, substations and equipment under the terms of the electric power transmission public service concession arrangement.

(iii) Tax - IPTU

Subsidiary CTEEP recognizes a provision to cover debts with various City Administrations in the State of São Paulo, related to lawsuits for regularization of areas.

(iv) Social security - INSS

On August 10, 2001, the National Institute of Social Security (INSS) served subsidiary CTEEP a notice of violation for nonpayment of social security tax on compensation paid to its employees in the form of meal tickets, morning snack, basket of food staples and transportation voucher from April 1999 to July 2001. Management of subsidiary CTEEP began the defense procedures and the corresponding judicial deposit currently amounts to R$3,261 (Note 13).

(In thousands of reais, unless otherwise stated)

23. Provisions (Continued)

a) Provision for contingencies (Continued)

Changes in provisions for contingences for the years ended December 31, 2015 and 2014 are as follows:

	Consolidated				
	Labor	Civil	Tax - IPTU	Social security - INSS	Total
Balances in 2013	**103,234**	**15,855**	**7,042**	**1,767**	**127,898**
Set up	24,811	682	-	-	25,493
Reversal/payment	(19,001)	(8,019)	(1,933)	-	(28,953)
Restatement	5,402	1,138	392	222	7,154
Balances in 2014	**114,446**	**9,656**	**5,501**	**1,989**	**131,592**
Set up	76,885	6,009	5,584	-	88,478
Reversal/payment	(46,308)	(2,148)	(1,858)	(1,028)	(51,342)
Restatement	19,505	785	495	99	20,884
Balances in 2015	**164,528**	**14,302**	**9,722**	**1,060**	**189,612**

b) Proceedings whose likelihood of loss was assessed as possible

Subsidiary CTEEP and its subsidiaries are parties to tax, labor and civil proceedings assessed by management as involving risk of possible loss, based on the opinion of its legal advisors, for which a provision in the estimated amount of R$483,801 was recorded in 2015 (R$354,661 in 2014), mainly consisting of labor and tax proceedings, which totaled R$471,293.

Classification	Number	Total
Labor	59	12,508
Civil	44	24,470
Civil - Merger of EPTE into CTEEP declared null (i)	1	132,831
Tax - social contribution tax loss (ii)	1	21,367
Tax - goodwill amortization (iii)	3	273,506
Tax - IRPJ and CSLL (iv)	1	17,947
Tax - other	14	1,172
Plan of Law No. 4819/58 (Note 36)	1	-
		483,801

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

Ordinary lawsuit filed by minority interest holders seeking to declare the merger of Empresa Paulista de Transmissão de Energia Elétrica (EPTE) into Companhia de Transmissão de Energia Elétrica Paulista (CTEEP) null and void, or alternatively, to exercise their right of withdrawal and determine the payment of share refund amounts. Currently, this action is at the execution stage, and the challenge filed to determine the grounds for its execution is pending final appreciation. Subsidiary CTEEP filed a motion to set aside judgment and obtained a preliminary injunction subjecting the amounts to be determined by the plaintiffs to the production of adequate guarantees.

23. Provisions (Continued)

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

(ii) Tax - social contribution tax loss

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

(iii) Tax - goodwill amortization

Proceedings arising from delinquency notices drawn from 2013 to 2015 by the Brazilian IRS, referring to goodwill paid by the Company on the acquisition of the ownership control of subsidiary CTEEP (Note 11). This proceeding is pending judgment at CARF.

(iv) Tax - IRPJ and CSLL

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

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

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

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

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

23. Provisions (Continued)

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

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

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

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

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

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

In December 2012, a decision was published dismissing the provision of evidence required by the parties, closing the liquidated claim, determining that Eletropaulo is liable for such payment, and discounting the judicial deposit for payment into court.

Eletropaulo filed an appeal so that the lawsuit returned to the fact-finding phase for performance of expert evidence examination. The conclusion of the expert report presented in September 2015 is in line with CTEEP's view. A term was established so that the parties can express their views on such report.

23. Provisions (Continued)

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

ii) *PIS/COFINS*

Subsidiary CTEEP is a defendant in the proceedings arising from three PIS and COFINS delinquency notices for the years 2007 to 2011, on the understanding that it would be subject to the cumulative taxation regime. CTEEP adopted the cumulative taxation regime until 2003. As the legislation changed, beginning October 2003, non-cumulative taxation became the general rule, except for revenues falling under these 4 requirements: i) from contracts executed before October 2003, ii) effective for more than a year, iii) with a predefined price, and iv) for the acquisition of goods or services. Given that the Existing Service (SE) revenue falls under these requirements, and even to comply with ANEEL's guidance, subsidiary CTEEP filed a motion to offset the tax amounts overpaid in the period when it paid such taxes under the non-cumulative taxation regime, and started to subject the SE revenue to PIS and COFINS cumulative taxation. The proceedings are at administrative level and total R$958.0 million. In the opinion of CTEEP's legal advisors, the likelihood of loss in these cases is remote, considering that Federal Supreme Court of Brazil (STJ) has already ruled favorably on this matter.

24. Payables - FUNCESP

Subsidiary CTEEP sponsors supplementary retirement and death benefit plans maintained with FUNCESP. In 2015, their balance plus administrative costs of the fund amounts to R$6,144 (R$5,375 in 2014) referring to monthly installments payable as contribution to the fund.

a) Supplementary retirement plan (Plan "A")

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

24. Payables - FUNCESP (Continued)

b) PSAP/CTEEP

PSAP/CTEEP includes the following subplans:

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

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

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

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

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

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

(In thousands of reais, unless otherwise stated)

24. Payables - FUNCESP (Continued)

c) Actuarial valuation

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

At December 31, 2015, PSAP/CTEEP posted actuarial surplus totaling R$795,703, which was not accounted for because the National Supplementary Pension Agency (PREVIC), through CGPC Ruling No. 26/2008, establishes that an asset may only be recognized, among other criteria, when the contingency reserve is recognized at its ceiling, which is equivalent to 21% of total mathematical reserves, in order to ensure the plan's asset-liability balance considering the volatile nature of these obligations. Only the surplus amount in excess of that ceiling would represent an economic benefit to subsidiary CTEEP. The actuarial report at December 31, 2015 does not show any actuarial asset or liability.

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

i) *Reconciliation of assets and liabilities*

	2015	**2014**
Fair value of plan assets (ii)	**3,043,161**	2,967,520
Present value of the defined benefit obligation (iii)	**(2,247,458)**	(2,397,911)
Actuarial surplus	**795,703**	569,609
Limit on asset recognition	**(795,703)**	(569,609)
Net asset	**-**	-

ii) *Changes in plan assets*

	2015	**2014**
Fair value of plan assets at beginning of year	**2,967,520**	2,845,070
Employer's contributions	**2,609**	2,850
Employees' contributions	**3,098**	2,702
Return on investments	**239,246**	249,206
Benefits paid	**(169,312)**	(132,308)
Fair value of plan assets at end of year (i)	**3,043,161**	2,967,520

(In thousands of reais, unless otherwise stated)

24. Payables - FUNCESP (Continued)

c) Actuarial valuation (Continued)

iii) *Changes in actuarial liability*

	2015	2014
Present value of net actuarial obligation at beginning of year	**2,397,911**	2,102,790
Cost of current services	**-**	(564)
Interest cost	**261,002**	233,803
Members' contributions	**3,098**	2,702
Actuarial gain/loss	**(245,241)**	191,488
Benefits paid	**(169,312)**	(132,308)
Present value of net actuarial obligation at end of year (i)	**2,247,458**	2,397,911

iv) *Plan members (number of persons)*

	2015	2014
Active members	**1,375**	1,407
Beneficiaries	**144**	154
Inactive members		
Retirees	**2,169**	2,051
Retirees for disability	**43**	42
Pensioners	**140**	130
	2,352	2,223
	3,871	3,784

v) *Actuarial assumptions used*

	2015	2014
Discount rate of present value of actuarial liability (nominal)	**12.61%**	11.51%
Future salary increase rate (nominal)	**7.10%**	7.10%
Adjustment rate for life annuity benefits	**5.00%**	5.00%
General mortality table	**AT-00**	AT-00
Disability table	**Light-Fraca**	Light-Fraca
Disability mortality table	**AT-49**	AT-49

25. Special obligations - reversion/amortization

In 2015, the balance of R$24,053 refers to funds arising from the reversal and amortization reserve and portion held at subsidiary CTEEP of the monthly portions of the Global Reversion Reserve (RGR), related to investments of funds for expansion of the public electric power service and amortization of loans taken out for the same purpose, up to December 31, 1971. According to an order issued by ANEEL, subsidiary CTEEP pays 5% on RGR as interest, on an annual basis. The manner of settlement of these obligations has not been defined by the Granting Authority.

26. Equity

a) Capital

On March 9 and 19, 2010, the Company increased capital twice by issuing redeemable preferred shares at the price of R$2,020731 each, redemption of which began on April 12, 2013 and will end on April 9, 2016, which were fully subscribed and paid in by HSBC Finance (Brasil) S.A. Banco Múltiplo ("HSBC"), as follows:

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

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

(iii) Later, on May 14, 2010, shareholder HSBC Finance (Brasil) S.A. Banco Múltiplo, then holder of 593,844,504 preferred shares issued by the Company, sold 50% thereof to Banco Votorantim S.A.

(In thousands of reais, unless otherwise stated)

26. Equity (Continued)

a) Capital (Continued)

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

Accordingly, at December 31, 2015, the Company's subscribed and paid-in capital amounted to R$840,378 and is represented by 840,625,000 common shares and 391,785,108 preferred shares (416,528,628 preferred shares in 2014). The Company's shareholders structure is as follows:

Shareholder	Number of common shares	Number of preferred shares	Total	%
Interconexión Eléctrica S.A ESP	840,625,000	-	840,625,000	68.22%
HSBC Bank Brasil S.A. - .Banco Múltiplo	-	195,892,554	195,892,554	15.89%
BV Financeira S.A. - Crédito, Financiamento e Investimento	-	195,892,554	195,892,554	15.89%
Total	**840,625,000**	**391,785,108**	**1,232,410,108**	**100.00%**

b) Allocation of profits

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

As from 2004, fixed cumulative dividends have been calculated and paid on a half-yearly basis, pursuant to article 6 of the Articles of Incorporation. Based on the net income for 2015, totaling R$155,738, the Company paid mandatory dividends and cumulative fixed dividends of R$119,010 on redeemable preferred shares.

(In thousands of reais, unless otherwise stated)

26. Equity (Continued)

b) Allocation of profits (Continued)

Also pursuant to that article, an amount equivalent to 100% of the net income remaining after the recognition of the legal reserve, within legal limits, and payments of mandatory dividends and fixed cumulative dividends on preferred shares, shall be transferred to the income reserve until this reserve equals 50% of the amount redeemable related to redeemable preferred shares plus 120% of fixed cumulative dividends and/or amounts related to due and unpaid redemption of preferred shares. Profits are allocated on an annual basis.

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

Allocation of profits

	2015	2014
Net income for the year	**155,738**	134,247
Recognition of legal reserve	**-**	-
Base income for dividend calculation	**155,738**	134,247
Mandatory dividends paid	**(1,557)**	(1,342)
Fixed cumulative dividends paid	**(117,453)**	(96,029)
Total dividends paid out of net income for the year	**(119,010)**	(97,371)
Total dividends paid out	**(119,010)**	(97,371)
Recognition of remaining retained profits reserve	**36,728**	36,876

c) Fixed cumulative dividends

As established in section II of the First Amendment to Shareholders' Agreement executed on February 25, 2014, fixed cumulative dividends which were formerly calculated and paid on a quarterly basis, from that date, are calculated and paid on a semiannual basis, based on 100% of the CDI variation plus 1.5% p.a.

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

Payment date	Amount	Amount per share (R$)	Number of shares	Approval date	Accrual period
06.09.2015	55,703	0.133732	416,528,628	06.09.2015	2015
12.10.2015	63,307	0.156639	404,156,868	12.10.2015	2015
Total	**119,010**				

(In thousands of reais, unless otherwise stated)

26. Equity (Continued)

d) Capital reserve

Due to the capital increases mentioned in item (a), at that time the amount equivalent to R$1,199,400 was recorded in this account. As previously scheduled, this amount has been used for redemption of preferred shares, and as established in the shareholders' agreement and the Brazilian Corporation Law (Law No. 6404/76), may also be used for payment of dividends to which redeemable preferred shares are entitled.

In 2015, the Company approved the redemption of preferred shares as follows:

Redemption date	Classes	Number of redeemed shares	Amount redeemed
06.09.2015	C1 and C2	12,371,760	25,000
10.10.2015	D1 and D2	12,371,760	25,000
Total			**50.000**

These preferred shares have been redeemed and cancelled according to the schedule and the respective amount paid for their redemption is fully charged to the capital reserve account. Accordingly, at the end of 2015, the capital reserve account amounted to R$791,092 (R$841,092 in 2014).

e) Goodwill on equity transaction

After the subscription of CTEEP-issued shares in December 2011 in connection with its capital increase in that year, the Company recorded a gain on the change in the percentage of equity interest held in CTEEP and also a loss on the share value in relation to its book value, resulting in a loss of R$7,488 recorded in this account. Subsequently the amount of R$20 was deducted because of the sale of 920 CTEEP shares in June and July 2012. On September 26, 2014, in view of the new subscription of subsidiary CTEEP-issued shares in the amount of R$87,551, the Company determined a gain on investment amounting to R$1,789. At December 31, 2015, this account balance totals R$5,679 (R$5,679 in 2004).

f) Income reserves

	2015	2014
Legal reserve (i)	**5,881**	5,881
Retained profits reserve (ii)	**128,488**	91,760
	134,369	97,641

(In thousands of reais, unless otherwise stated)

26. Equity (Continued)

f) Income reserves (Continued)

i) *Legal reserve*

The legal reserve is set up at 5% of net income for the year, limited to 20% of capital, before any allocation. In the event legal reserve balance plus capital reserves exceed 30% (thirty percent) of capital, allocation of a part of net income for the year to legal reserve will not be mandatory, as provided for by article 182, first paragraph, of the Brazilian Corporation Law. In 2015, as such limit had already been reached, the Company did not set up a legal reserve.

ii) *Retained profits reserve*

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

g) Earnings per share

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

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

	2015	2014
Basic earnings		
Net income (loss) - R$ thousand	**155,738**	134,247
Weighted average number of shares		
Common shares	**840,625,000**	840,625,000
Preferred shares	**391,785,108**	416,528,628
	1,232,410,108	1,257,153,628
Total basic earnings per share - R$	**0.12637**	0.10679

There is no difference between basic and diluted earnings per share calculated by the Company for the year.

(In thousands of reais, unless otherwise stated)

27. Net operating revenue

27.1. Breakdown of net operating revenue

	Consolidated	
	2015	**2014**
Gross revenue		
Construction (a) (Note 8)	**278,685**	265,058
Operation and maintenance (a) (Note 8)	**829,551**	740,613
Financial income on concession assets (b) (Note 8)	**311,647**	207,457
Rentals	**17,063**	16,385
Service rendering	**5,125**	4,827
Total gross revenue	**1,442,071**	1,234,340
Taxes on revenues		
COFINS	**(97,127)**	(83,329)
PIS	**(21,086)**	(18,090)
ISS	**(428)**	(337)
	(118,641)	(101,756)
Regulatory charges		
Energy Development Account (CDE)	**(11,541)**	(6,555)
Global Reversion Reserve (RGR)	**(3,713)**	(3,334)
Research and Development (R&D)	**(8,438)**	(7,904)
Alternative Electric Power Source Incentive Program (PROINFA)	**(12,608)**	(12,003)
	(36,300)	(29,796)
	1,287,130	1,102,788

(a) Construction, operation and maintenance services

Revenue from construction services for provision of electric energy transmission services under the service concession arrangement is recognized as expenditures are incurred. Revenue from operation and maintenance services, as well as the adjustment portion (PA), are recognized in the period in which the services are provided by subsidiary CTEEP, and when it provides more than one service under a service concession arrangement, the amount received is allocated by reference to the fair values relating to the services delivered.

(b) Financial income on concession assets

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

(In thousands of reais, unless otherwise stated)

27. Net operating revenue (Continued)

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

Under service concession arrangements, through ANEEL, every four and/or five years after the execution date of the arrangements, ANEEL may perform a periodic tariff review of the RAP of electric energy transmission to foster efficiency while permitting reasonably priced tariffs.

In 2013, subsidiary CTEEP started recognizing construction revenue and costs for improvements in the electric energy facilities, as defined in ANEEL Order No. 4413 of December 27, 2013 and ANEEL Normative Resolution No. 443 of July 26, 2011, amended by Normative Resolution No. 463 of December 16, 2014.

The bid revenue associated with Service Concession Arrangement No. 143/2001 of indirect subsidiary Serra do Japi is not subject to the periodic tariff review.

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

(a) Regulatory remuneration base for Basic Electric Power Grid New Investments (RBNI);

(b) Efficient operating costs;

(c) Optimal capital structure and definition of transmission companies' remuneration;

(d) Identification of the amount to be considered as tariff reducer - other revenues.

The latest periodic tariff reviews are described as follows:

Concession operator	Ratification Ruling (REH)	REH date	Effective period
IEMG	1299	06.19.2012	07.01.2012
IENNE	1540	06.18.2013	07.01.2013
Evrecy	1538	06.18.2013	07.01.2013
Pinheiros	1755 / 1762	06.24 and 07.09.2014	07.01.2014
Serra do Japi	1901	06.16.2015	07.01.2015
IESul	1755	06.24.2014	07.01.2014
IE Madeira (i)	1755	06.24.2014	07.01.2014

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

27. Net operating revenue (Continued)

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

The next periodic tariff reviews of RAP for CTEEP and its subsidiaries are described in Note 1.2.

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

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

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

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

27.4. Annual revenue adjustment

On June 29, 2015, Ratification Ruling No. 1918 was published, establishing the annual revenues allowed (RAPs) of CTEEP and its subsidiaries due to the availability of the transmission facilities comprising the Basic Grid and Other Transmission Facilities (DIT), for the 12-month cycle, comprising the period from July 1, 2015 to June 30, 2016.

(In thousands of reais, unless otherwise stated)

27. Net operating revenue (Continued)

27.4. Annual revenue adjustment (Continued)

Pursuant to Ratification Ruling No. 1918, the RAP and amounts corresponding to the adjustment portion of CTEEP (Service Concession Arrangement No. 059/2001), net of PIS and COFINS (denominated Total Revenue), which amounted to R$700,355(*) on July 1, 2014, increased to R$836,611 (*) on July 1, 2015, an increase of R$136,256, equivalent to 19.6%, of which 8.3% (R$57,526) refers to the IPCA/IGPM; 0.1% (R$134) to the adjustment portion variation; 7.1% (R$49,922) to RAP's additional amount for new investments which became operative and investments planned to become operative during the cycle; and 4.1% (R$28,674) to the CAIMI (**).

(*) These amounts comprise revenue from authorized investments that will become operative in the next cycles.

(**) Revenue to offset the Annual Cost of Movable and Immovable Facilities (CAIMI).

The CTEEP's Total Revenue, net of PIS and COFINS, is broken down as follows:

Service concession arrangement	Basic Grid			Other Transmission Facilities - DIT			Total
	Existing assets	New investments	Adjustment portion	Existing assets	New investments	Adjustment portion	
059/2001	457,735	78,804	11,278	193,023	86,028	9,743	836,611
	457,735	**78,804**	**11,278**	**193,023**	**86,028**	**9,743**	**836,611**

Total Revenue of subsidiary CTEEP jointly with its subsidiaries, which amounted to R$827,701 (*) on July 1, 2014, increased to R$963,348 (*) on July 1, 2015, an increase of R$135,647, equivalent to 16.4%, of which 8.1% (R$66,961) refers to the IPCA/IGPM; -1.0% (-R$8,435) to the adjustment portion variation; 6.3% (R$52,145) to RAP's additional amount for new investments which became operative and investments planned to become operative during the cycle; -0.4% (-R$3,698) to the periodic tariff review of the arrangements of indirect subsidiaries Pinheiros and Serra do Japi; and 3.4% (R$28,674) to the CAIMI (**).

(*) These amounts comprise revenue from authorized investments that will become operative in the next cycles.

(**) Revenue to offset the Annual Cost of Movable and Immovable Facilities (CAIMI).

(In thousands of reais, unless otherwise stated)

27. Net operating revenue (Continued)

27.4. Annual revenue adjustment (Continued)

Total Revenue of subsidiary CTEEP and its subsidiaries, net of PIS and COFINS, is broken down as follows:

Service concession arrangement	Basic Grid				Other Transmission Facilities - DIT				Total
	Existing assets	New investments	Bid	Adjustment portion	Existing assets	New investments	Bid	Adjustment portion	
059/2001	457,735	78,804	-	11,278	193,023	86,028	-	9,743	836,611
143/2001	-	-	19,799	(1,903)	-	-	-	-	17,896
004/2007	-	-	16,575	(1,676)	-	-	-	-	14,899
012/2008	-	-	7,837	(786)	-	813	1,181	12	9,057
015/2008	-	11,864	14,878	(4,269)	-	3,687	364	558	27,082
018/2008	-	46	3,860	(462)	-	1,409	46	(106)	4,793
021/2011	-	-	4,125	(507)	-	-	1,513	-	5,131
026/2009	-	4,445	24,758	(81)	-	-	5,631		34,753
020/2008	-	10,173	-	728	-	2,238	-	(13)	13,126
	457,735	**105,332**	**91,832**	**2,322**	**193,023**	**94,175**	**8,735**	**10,194**	**963,348**

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

	Company			Consolidated			
	2015		2014	2015			2014
	Expenses	Total	Total	Costs	Expenses	Total	Total
Personnel	**(2,180)**	**(2,180)**	(2,005)	**(227,044)**	**(54,247)**	**(281,291)**	(270,916)
Services	**(1,581)**	**(1,581)**	(1,302)	**(169,894)**	**(44,582)**	**(214,476)**	(222,352)
Depreciation and amortization of intangible assets (Note 15 and 16)	**(29)**	**(29)**	(10)	**-**	**(8,554)**	**(8,554)**	(8,870)
Materials	**-**	**-**	-	**(141,819)**	**(980)**	**(142,799)**	(109,824)
Leases and rentals	**(311)**	**(311)**	(275)	**(8,045)**	**(6,579)**	**(14,624)**	(14,429)
Contingencies	**-**	**-**	-	**-**	**(97,414)**	**(97,414)**	(42,788)
Other	**(30)**	**(30)**	(82)	**(28,524)**	**(14,641)**	**(43,165)**	(40,516)
	(4,131)	**(4,131)**	(3,674)	**(575,326)**	**(226,997)**	**(802,323)**	(709,695)

<u>Consolidated</u>

Consolidated construction costs totaled R$254,982 in 2015 and R$242,324 in 2014. The corresponding construction revenue, stated in Note 27.1, is calculated by adding PIS and COFINS rates and other charges to the investment cost.

(In thousands of reais, unless otherwise stated)

29. Financial income (expenses)

	Company		Consolidated	
	2015	**2014**	**2015**	**2014**
Income				
Short-term investment yield	**5,370**	5,550	**70,774**	70,863
Interest income	**2,916**	1,883	**24,468**	41,307
SELIC interest - income tax - recoverable	**4,530**	911	**45,141**	911
Monetary gains	**-**	-	**-**	48,404
PIS on financial income	**(200)**	-	**(200)**	-
COFINS on financial income	**(1,233)**	-	**(1,233)**	-
Foreign exchange gains	**55,211**	22,544	**55,211**	22,544
Other	**-**	-	**11,502**	1,084
	66,594	30,888	**205,663**	185,113
Expenses				
Interest on bonds	**(9,440)**	(6,573)	**(51,367)**	(45,958)
Commissions and fees	**-**	(2,675)	**-**	(2,675)
Interest expenses	**(3)**	-	**(13,113)**	(12,064)
Charges on debentures	**-**	-	**(86,009)**	(89,070)
IRRF on remittance of interest	**(1,543)**	(981)	**(1,543)**	(981)
PIS on Interest on Equity (IOE)	**-**	(187)	**-**	(187)
COFINS on Interest on Equity (IOE)	**-**	(862)	**-**	(862)
Monetary losses	**(27,329)**	-	**(27,329)**	-
Foreign exchange losses	**(64,775)**	(24,884)	**(64,775)**	(24,884)
Other	**(117)**	(67)	**(2,612)**	(1,882)
	(103,207)	(36,229)	**(246,748)**	(178,563)
Total financial income (expenses)	**(36,613)**	(5,341)	**(41,085)**	6,550

30. Other operating income (expenses)

	Consolidated	
	2015	**2014**
Income		
Reversal of loss - IEMG	**2,340**	2,386
PIS and COFINS previously unused credits	**-**	21,398
Other income	**6,207**	1,832
	8,547	25,616
Expenses		
Goodwill amortization (Note 11)	**(29,887)**	(29,886)
Amortization of concession assets on acquisition of subsidiary Evrecy	**(2,491)**	(2,490)
Reversal of construction service portion	**-**	(19,224)
Disposal of unserviceable assets	**-**	(8,213)
Other	**(12,359)**	(5,159)
	(44,737)	(64,972)
	(36,190)	(39,356)

(In thousands of reais, unless otherwise stated)

31. Income and social contribution taxes

Corporate income tax (IRPJ) and social contribution tax (CSLL) are monthly provisioned on an accrual basis, and the results are taxed according to Law No. 12973/14.

The Company and its subsidiary CTEEP opted for the taxable profit regime whereby taxes are computed based on the company's accounting records, while indirect subsidiaries opted for the regime whereby profit is computed as a percentage of the company's gross revenue.

a) Reconciliation of effective rate

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

	Company		Consolidated	
	2015	**2014**	**2015**	**2014**
Income before income and social contribution taxes	**155,738**	135,120	**577,017**	451,192
Current statutory rates	**34%**	34%	**34%**	34%
Expected income and social contribution taxes	**(52,951)**	(45,941)	**(196,186)**	(153,405)
Income and social contribution taxes on permanent differences				
Interest on equity	**-**	(3,856)	**-**	6,087
Loss realized	**-**	-	**(518)**	(294)
Reversal of the provision for maintaining equity integrity (Note 11)	**-**	-	**19,725**	19,725
Equity pickup	**64,023**	49,005	**54,844**	30,908
Effect of adoption of taxable profit computed as a percentage of gross revenue - subsidiaries	**-**	-	**40,590**	16,099
Tax loss credit	**(10,960)**	-	**(10,960)**	-
Other	**(112)**	(81)	**109**	(468)
Effective income and social contribution taxes	**-**	(873)	**(92,396)**	(81,348)
Income and social contribution taxes				
Current	**-**	(604)	**(85,804)**	(50,958)
Deferred	**-**	(269)	**(6,592)**	(30,390)
	-	(873)	**(92,396)**	(81,348)
Effective rate	**-**	0.6%	**16.0%**	18.0%

(In thousands of reais, unless otherwise stated)

31. Income and social contribution taxes (Continued)

b) Breakdown of deferred income and social contribution taxes

In 2011, the Company recorded deferred tax assets on income and social contribution tax losses of R$53,000, based on projected future profitability, previously not expected. Company management reviewed the amounts and the existing balance of R$32,237 at December 31, 2015 is expected to be used until the end of 2023, as follows:

Tax credit used annually	2017	2019	2021	2023	Total
Income tax	5,847	7,212	4,481	6,164	23,704
Social contribution tax	2,105	2,596	1,613	2,219	8,533
	7,952	**9,808**	**6,094**	**8,383**	**32,237**

At December 31, 2015, the Company presents credits on income and social contribution tax losses of R$192,284 (R$192,284 in 2014), not accounted for, as such credits are not yet expected to be recovered in the foreseeable future.

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

	Company		Consolidated	
	2015	2014	2015	2014
Provision - SEFAZ (i)	**-**	-	**175,527**	175,527
Provision for contingencies	**-**	-	**64,369**	44,742
Assets subject to indemnification (ii)	**-**	-	**-**	(13,789)
First adoption of Law No. 12973/14 (iii)		-	**(23,890)**	(24,797)
Service concession arrangements - ICPC 01 (iv)		-	**(71,143)**	(33,988)
Deferred income tax loss (v)	**23,733**	23,733	**23,733**	23,733
Deferred social contribution tax loss	**8,504**	8,504	**8,504**	8,504
Other temporary differences	**-**	-	**3,145**	6,905
Net	**32,237**	32,237	**180,245**	186,837
Current assets	**-**	32,237	**-**	32,237
Noncurrent assets	**32,237**	-	**216,046**	188,556
Noncurrent liabilities	**-**	-	**35,801**	33,956

(i) See Note 9.

(ii) CTEEP recorded capital gain, for tax purposes, due to reversal and disposal of property and equipment, as provided for by Law No. 12783/13 and fifth amendment to service concession arrangement No. 059/2001, executed on December 4, 2012, amounting to R$250,231 (which for corporate purposes corresponds to R$97,497). Based on Decree-Law No. 1598/77, capital gain may be recognized for determination of taxable profit proportionally to the price portion received if such portion received, in whole or in part, is higher than the current fiscal year.

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

(iv) This refers to income and social contribution taxes on income (loss) from construction operation for provision of electric energy transmission service and financial income on concession assets (ICPC 01) recognized on an accrual basis, which are taxed proportionally to its effective receipt, as provided in articles 83 and 84 of Revenue Procedure No. 1515/14.

(v) Balance represented by IRPJ and CSLL tax loss set up in 2011.

(In thousands of reais, unless otherwise stated)

31. Income and social contribution taxes (Continued)

b) Breakdown of deferred income and social contribution taxes (Continued)

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

32. Transactions with related parties

Significant balances and transactions with related parties for the year are as follows:

		2015		2014		2015	2014
a) Parent Company - ISA Capital							
Nature of transaction	**Related party**	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Revenue/ (expense)**	**Revenue/ (expense)**
Consolidated							
Short-term benefits (*)	Key management personnel		**-**	-	-	**(6,775)**	(6,112)
Cash and cash equivalents	HSBC Finance (Brasil) S.A. Banco Múltiplo	**37**	**-**	1	-	**-**	-
Short-term investments (Note 7)	Banco Votorantim S.A.	**2,999**	**-**	8,548	-	**1,723**	2,002
Loans (Notes 12 and 29)	Interconexión Eléctrica	**92,954**	**-**	63,229	-	**2,916**	1,883
Interest on equity and dividends receivable	Subsidiary CTEEP	**-**	**-**	11,778	-	**-**	-
		95,990	**-**	83,556	-	**(2,136)**	(2,227)
b) Subsidiary CTEEP							
Dividends	IE Madeira	**29,170**	**-**	15,945	-	**-**	-
		29,170	**-**	15,945	-	**-**	-
Future capital contribution	IE Garanhuns	**-**	**-**	21,471	-	**-**	-
		-	**-**	21,471	-	**-**	-
Sublease	Subsidiary CTEEP	**-**	**23**	-	22	**(337)**	(326)
	IEMG	**7**	**-**	6	-	**96**	82
	Pinheiros	**18**	**-**	10	-	**238**	149
	Serra do Japi	**13**	**-**	8	-	**162**	143
	Evrecy	**4**	**-**	4	-	**47**	77
	IENNE	**18**	**-**	8	-	**112**	116
	IESul	**12**	**-**	5	-	**64**	68
		72	**23**	41	22	**382**	309
Service rendering	Subsidiary CTEEP	**-**	**15**	-	12	**(147)**	(140)
	IEMG	**11**	**-**	10	-	**132**	52
	Pinheiros	**100**	**-**	93	-	**1,958**	1,104
	Serra do Japi	**80**	**-**	24	-	**843**	286
	Evrecy	**67**	**-**	61	-	**759**	933
	IE Madeira	**-**	**-**	-	-	**-**	238
	IE Garanhuns	**-**	**-**	-	-	**345**	-
	Internexa	**-**	**13**	-	13	**(53)**	(173)
		258	**28**	188	25	**3,837**	2,300

(*) These refer to the Company's and subsidiary CTEEP's management compensation. As disclosed in the income statement, the Company states a balance of R$4,991 (R$4,841 in 2014).

32. Transactions with related parties (Continued)

Short-term benefits

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

Sublease

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

Service rendering

Subsidiary CTEEP maintains a service rendering agreement with the Company, including, among others, delivery of bookkeeping, tax calculation and payroll processing services.

Intercompany loan

Subsidiary CTEEP renders Technical Advisory Services to Support the Owner's Engineering Service Management to jointly controlled subsidiary IE Madeira.

Subsidiary CTEEP rendered Technical Engineering Advisory, Operation and Maintenance services to its jointly controlled subsidiary IE Garanhuns in 2015.

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

Internexa Brasil Operadora de Telecomunicações S.A - Internexa, is a subsidiary of ISA Group, with whom CTEEP has entered into a service agreement whereby, for valuable consideration, CTEEP assigns to Internexa the right to use the support infrastructure necessary for fiber optic cable installation, provision of ancillary services and related improvements. In addition, subsidiary CTEEP has hired 100Mbps internet link services from Internexa.

Future capital contributions

On November 24, 2014, subsidiary CTEEP and CHESF (Companhia Hidro Elétrica do São Francisco) entered into a private instrument for the advance of funds to jointly controlled subsidiary IE Garanhuns, which establishes the maximum limit of R$99,000 proportionally to their equity interest and transferred according to the agreed-upon schedule. By September 30, 2015, the amount of R$99,000 had been converted into capital and interest held by subsidiary CTEEP amounts to R$50,490.

(In thousands of reais, unless otherwise stated)

32. Transactions with related parties (Continued)

Future capital contributions (Continued)

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

33. Financial instruments

a) Identification of significant financial instruments

	Company		Consolidated	
	2015	**2014**	**2015**	**2014**
Financial assets				
Fair value through profit or loss				
Cash and cash equivalents	**18,914**	20,551	**25,049**	25,247
Short-term investments	**8,637**	-	**448,691**	479,601
Restricted cash	**-**	-	**12,059**	11,689
Loans and receivables				
Accounts receivables				
Current	**-**	-	**319,961**	729,946
Noncurrent	**-**	-	**3,526,968**	3,165,656
Receivables - State Finance Department (SEFAZ)				
Noncurrent	**-**	-	**965,920**	802,102
Receivables from subsidiaries	**-**	-	**29,200**	37,429
Loans receivable				
Current	**92,954**	-	**92,954**	-
Noncurrent	**-**	63,229	**-**	63,229
Accrued dividends receivable	**-**	11,778	**-**	-
Pledges and restricted deposits				
Current	**5,438**	3,699	**5,438**	3,699
Noncurrent	**-**	-	**66,268**	62,353
Financial liabilities				
Amortized cost				
Loans and financing				
Current	**4,532**	3,083	**75,602**	135,133
Noncurrent	**123,591**	84,071	**608,830**	524,651
Debentures				
Current	**-**	-	**180,782**	83,846
Noncurrent	**-**	-	**359,573**	535,399
Trade accounts payable	**371**	411	**35,321**	75,880
Interest on equity and dividends payable	**-**	-	**2,156**	21,925
Payables - Law No. 4819/58				
Current	**438,677**	411,347	**438,677**	411,347

(In thousands of reais, unless otherwise stated)

33. Financial instruments (Continued)

a) Identification of significant financial instruments (Continued)

Consolidated

Book values of asset and liability financial instruments, when compared with amounts that could be obtained in their trading in an active market or, when there is no active market, with adjusted net present value based on market interest rate in force, substantially approximate their corresponding market values. Subsidiary CTEEP classifies financial instruments under Level 1 and Level 2, as required by the CPC pronouncement in force:

Level 1 - Quoted prices (unadjusted) in active, liquid and visible markets, for identical assets and liabilities that are readily available at the measurement date;

Level 2 - Quoted prices (which may be adjusted or not) for similar assets or liabilities in active markets, and other unobservable inputs under Level 1, directly or indirectly, under the terms of the asset or liability; and

Level 3 - Assets and liabilities whose prices do not exist, or whose prices or valuation techniques are supported by a small market or by a non-existing, unobservable or illiquid market. Under this level fair value estimate is highly subjective.

b) Financing

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

- Debt-to-equity-ratio

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

	Company		Consolidated	
	2015	**2014**	**2015**	**2014**
Loans and financing				
Current	**4,532**	3,083	**75,602**	135,133
Noncurrent	**123,591**	84,071	**608,830**	524,651
Debentures				
Current	**-**	-	**180,782**	83,846
Noncurrent	**-**	-	**359,573**	535,399
Total debt	**128,123**	87,154	**1,224,787**	1,279,029
Cash and cash equivalents and short-term investments	**27,551**	20,551	**473,740**	504,848
Net debt	**100,572**	66,603	**751,047**	774,181
Equity	**1,760,160**	1,773,432	**5,252,740**	5,004,054
Net debt-to-equity ratio	**5.7%**	3.8%	**14.3%**	15.5%

33. Financial instruments (Continued)

b) Financing (Continued)

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

c) Risk management

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

(i) Credit risk - subsidiary CTEEP and its subsidiaries have executed and maintain agreements containing a bank guarantee clause with ONS, concession operators and other agents, governing the provision of their Basic Electric Power Grid services to 216 users. Also, CTEEP and its subsidiaries have executed and maintain agreements containing a bank guarantee clause with 30 concession operators and other agents, governing the provision of their services to Other Transmission Facilities (DIT).

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

(iii) Interest rate risk - Financing agreements of subsidiary CTEEP are monetarily restated by reference to TJLP, IPCA and CDI variation (Notes 17 and 18).

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

(v) Guarantee risk - Significant guarantee risks are:

- Management of risks associated with carrying retirement and healthcare benefits via FUNCESP (a closed supplementary pension entity), through representation before administration agencies.
- Participation as a security party, at the limit of its participation, of subsidiaries and jointly controlled subsidiaries, in their financing agreements (Note 17).

33. Financial instruments (Continued)

c) Risk management (Continued)

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

- Their operating activities, notably the use of their electric power transmission system by other concession operators and agents of the sector. Under current legislation, the annual revenue amount, represented by RAP, related to Basic Electric Power Grid facilities and Other Transmission Facilities (DIT), is defined by ANEEL; and

- Rights on receivables for the term extension of service concession arrangement No. 059/2001, governed by Law No. 12783/2013, whose determination of part of value and the payment method are pending definition by the Granting Authority (Note 1.2).

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

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

The receipt of the reversal portion of SE related facilities also represents an important source of cash generation so that subsidiary CTEEP successfully fulfills its financial planning from 2016.

d) Sensitivity analysis

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

For the purpose of defining a base scenario of the interest rate and price rate risk sensitivity analysis, the Company used the same assumptions established for long-term financial planning of subsidiary CTEEP. These assumptions are based on the Brazilian macroeconomic scenario and on opinions expressed by market specialists.

(In thousands of reais, unless otherwise stated)

33. Financial instruments (Continued)

d) Sensitivity analysis (Continued)

As such, in order to assess the effects of subsidiary CTEEP's cash flow variation, the sensitivity analysis below deems as probable scenario the interest rates at March 31, 2016 (fixed DI interest rate curve determined at December 30, 2015), reported in the interest rate risk tables. Such rates were appreciated and depreciated by 25% (scenario I) and 50% (scenario II).

Interest rate risk - effects on cash flow - consolidated

			Index increase risk		Index decrease risk	
Transaction	**Risk**	**Base scenario**	**Scenario I**	**Scenario II**	**Scenario I**	**Scenario II**
Financial assets						
Short-term investments	92% to 103.5% of CDI	12,146	15,001	17,792	9,222	6,226
Financial liabilities						
Debentures - 2nd series	IPCA+8.10%	1,888	2,144	2,395	1,628	1,363
Debentures - single series	116.0% of CDI p.a.	29,501	34,096	38,575	24,783	19,934
FINEM BNDES (i), (ii) and (iii)	TJLP+1.80% to 2.30%	5,322	6,344	7,355	4,286	3,238
BNDES (subsidiaries)	TJLP + 1.55% to 2.62% p.a.	3,840	4,479	5,110	3,193	2,539
Net effect of change		**(28,405)**	**(32,062)**	**(35,643)**	**(24,668)**	**(20,848)**
Reference for financial assets and liabilities						
100% CDI (March 2016)		14.15% p.a.	17.69% p.a.	21.23% p.a.	10.61% p.a.	7.08% p.a.

34. Commitments - operating lease agreements

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

	Consolidated	
	2015	**2014**
Within 1 year	**6,762**	6,747
From 1 to 5 years	**4,563**	11,048
	11,325	17,795

35. Insurance

Breakdown of insurance lines is as follows:

Line	Effective period	Insured amount in thousands of reais (R$)	Consolidated Premium in thousands of reais (R$)
Property (a)	03/01/15 to 09/01/16	2,969,913	5,519
General civil liability (b)	09/01/15 to 09/01/16	25,000	144
Domestic transportation (c)	09/30/15 to 09/30/16	93,159	8
Personal accidents - Group (d)	05/01/15 to 05/01/16	12,115	1
Automobile (e)	01/28/15 to 03/02/16	Market value	227
Court-ordered guarantee (f)	11/29/13 to 11/30/18	190,594	2,262
			8,161

(a) Property - Coverage against risks of fire and electrical damage to the main equipment installed in transmission substations, buildings and respective contents, storerooms and facilities, according to service concession arrangements, whereby the transmission companies shall maintain insurance policies to ensure adequate coverage of the most important equipment of the transmission system facilities, in addition to defining the items and facilities to be insured.

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

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

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

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

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

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

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

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

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

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

a) Lawsuit of the 2nd Public Finance Court

This event caused the filing of legal proceedings by retirees, with emphasis on the Civil Class Action whose decision was handed down by the 2nd Tax Court in June 2005, whereby the requesting for supplementary pension was deemed unfounded and SEFAZ was held liable for the supplementary pension. The AAFC - Associação dos Aposentados da FUNCESP, which represents retirees and pensioners of FUNCESP, filed an appeal and prior to its judgment protested against the jurisdiction of the Regular Legal Court, which was accepted by the São Paulo Court of Justice (TJ/SP). The STF recognized the jurisdiction of the Regular Legal Court in August 2008, and retirees filed another appeal taking the matter to the STF, which upheld the jurisdiction of the Regular Legal Court. The various appeals filed by AAFC were denied by the STF, and a final decision was handed down on October 7, 2015, maintaining the jurisdiction of the Regular Legal Court. Appeal heard by the STJ on December 3, 2015, awaiting transmittal of records so that the retirees' appeal against the decision rendering the matter groundless can be retried by the TJ/SP.

b) Lawsuit of the 49th Labor Court

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

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

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

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

Due to the existence of proceedings at Courts of different jurisdictions, the Conflict of Jurisdiction was raised before the STF to define the jurisdiction to judge the lawsuit. On March 12, 2015, the STF handed down a decision recognizing the jurisdiction of the Regular Legal Court and voiding all decisions of the Labor Court.

The AAAFC filed an appeal against the decision, which was denied on October 14, 2015, and the jurisdiction of the Regular Legal Court was upheld. An unappealable decision was handed down on November 20, 2015, pending transmittal of records to the Regular Legal Court.

c) Conflict of jurisdiction

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

Upon judging the Conflict of Jurisdiction that involves the lawsuits informed in letters “a” and “b”, the STF recognized the jurisdiction of the Regular Legal Court to process the lawsuits, voiding the decisions handed down by the Labor Court (decision issued in April 2015). The AAFC, association that represents retirees of FUNCESP) filed an appeal.

On May 4, 2015, by means of a Notice, SEFAZ-SP assumed the responsibility for processing and payment of the retirees’ payroll.

The AAFC filed Precautionary Action No. 3882 before the STF, seeking that the decision handed down by the Labor Court would prevail until the competent Court had analyzed the preliminary injunction handed down by the Labor Court.

The STF granted that application and by means of a Notice delivered on June 8, 2015 SEFAZ-SP ceased processing the payroll, which returned to the previous status (also through a SEFAZ-SP Notice). Subsidiary CTEEP, SEFAZ-SP and FUNCESP filed an appeal.

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

c) Conflict of jurisdiction (Continued)

On October 14, 2015, the STF judged those appeals, upholding the decision of Conflict of Jurisdiction that recognized the jurisdiction of Regular Legal Court to process and judge the class action that is currently being examined at the 49th Labor Court of São Paulo State, as well as the precautionary action filed by the AAFC, which maintains the preliminary injunction of the Labor Court until the Competent Court has considered the request. The Conflict of Jurisdiction decision became definitive on November 20, 2015.

d) Collection lawsuit

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

As a consequence of this decision, subsidiary CTEEP transferred to FUNCESP, from January 2005 to September 2015, R$3,504,305 for the payment of benefits under State Law No. 4819/58, having received from SEFAZ-SP R$2,258,683 for such purpose. The difference between the amounts transferred to FUNCESP and refunded by SEFAZ-SP, amounting to R$1,245,622 (Note 9.a), has been claimed by subsidiary CTEEP as a refund by SEFAZ-SP. In addition, there are amounts relating to labor claims settled by subsidiary CTEEP which are the responsibility of State Government, amounting to R$236,553 (Note 9.b), totaling R$1,482,175.

In December 2010, subsidiary CTEEP filed a collection lawsuit against SEFAZ-SP to recover the amounts until then not received in regard to this matter. In May 2013, after the decision handed down that dismissed the collection lawsuit without analyzing the merits of the case, CTEEP filed an appeal, however, said decision was upheld by the Court (December 2014).

Subsidiary CTEEP filed a new appeal and SEFAZ-SP and FUNCESP expressed their understanding. On August 31, 2015, the TJ/SP accepted the appeal of subsidiary CTEEP and ordered SEFAZ-SP to transfer the supplementary retirement and pension amounts under the terms of the adjustments executed with CTEEP and governing laws, except for amounts disallowed.

With a view to including the amounts disallowed in such decision, subsidiary CTEEP filed another appeal for clarification, which was accepted by the court on February 1, 2016, and upheld the decision of August 31, 2015, determining the verification, during the administrative procedure to adjust discrepancies in records, of the amounts not passed on by SEFAZ-SP.

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

e) Lawsuit from retirees' association

In the second half of 2012, the AAFC - Associação dos Aposentados da FUNCESP, which represents retirees and pensioners of FUNCESP, filed lawsuit No. 0022576-08.2012.8.26.0053 against SEFAZ-SP, seeking reimbursement of the supplementary retirement plan governed by State Law No. 4819/58 so that said plan may honor retirement and pension payouts.

This lawsuit was dismissed without judgment on the merits, and the AAFC filed an Appeal, which is pending referral to the Court for later judgment.

f) Writ of mandamus - Campinas City Union

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

The subsidiary is not part of this lawsuit, and only follows-up on the process since it can benefit from the decisions.

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

Corroborating the position mentioned above, the Union filed an application to extend the decision to retirees not included in the initial list, which was granted by the Labor Court.

SEFAZ-SP filed a number of legal measures to revert such decision, unsuccessfully to date.

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

Subsidiary CTEEP's view

Subsidiary CTEEP remains committed to voiding the decision of the 49th Labor Court in order to allow the return of the procedure of payment direct from payroll of benefits of State Law No. 4819/58 by SEFAZ-SP. Subsidiary CTEEP also stresses the understanding of its legal department and external legal advisors that costs arising from State Law No. 4819/58 and its regulation are the full responsibility of SEFAZ-SP and continues adopting additional measures to protect its interests.

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

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

37. Subsequent events

Company

a) *Payment of interest on bonds*

On October 9, 2015, through the exchange contract entered into with Banco Santander, the Company deposited R$5,243 at the Bank of New York ("BONY"), and these funds will be used for payment of interest on bonds in January 2016.

EXECUTIVE BOARD

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Chairman

ALEX ENRIQUE OLANO NIETO
Chief Financial Officer

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BERNARDO VARGAS GIBSONE
Chairman

CÉSAR AUGUSTO RAMÍREZ ROJAS
Vice-chairman

CARLOS ALBERTO RODRIGUEZ LÓPEZ
HENRY MEDINA GONZÁLEZ
Directors

ACCOUNTANT

ANA LUISA ANTUNES IOGUI
CRC 1SP.275.379/O-4