

Interim Financial Statements

ISA Capital do Brasil S.A.

March 31, 2016
with Independent Auditor's Report

ISA Capital do Brasil S.A.

Interim financial statements

March 31, 2016

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A free translation from Portuguese into English of Independent auditor's review report on individual and consolidated interim financial statements prepared in Brazilian currency in accordance with CPC 21 (R1) - Interim Financial Reporting and IAS 34 - Interim Financial Reporting, issued by the International Accounting Standards Board (IASB), as well as in accordance with accounting practices adopted in Brazil, applicable to the preparation of interim financial statements.

Independent auditor's review report on interim financial statements

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

Introduction

We have reviewed the individual and consolidated interim financial statements of ISA Capital do Brasil S.A. for the quarter ended March 31, 2016, which comprise the balance sheet as at March 31, 2016 and the related statements of income, of comprehensive income, of changes in equity and of cash flows for the three-month period then ended, including other explanatory information.

Management is responsible for the preparation of individual and consolidated interim financial statements in accordance with CPC 21 (R1) - Interim Financial Reporting and IAS 34 - Interim Financial Reporting, issued by the International Accounting Standards Board (IASB), as well as for the fair presentation of this information in accordance with accounting practices adopted in Brazil, applicable to the preparation of interim financial statements. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

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

Basis for qualified conclusion on individual and consolidated interim financial statements

As a consequence of the debt restructuring carried out in 2010, described in Note 16.a, the Company recognized the amount relating to the issue of redeemable preferred shares, mentioned in Note 25.a, as an equity instrument, which, in our opinion, should be recognized as a debt instrument, according to accounting practices adopted in Brazil, specifically CPC 39 and IAS 32. In addition, the Company recognized remuneration of the referred to instrument as fixed cumulative dividend, as provided for by its Articles of Incorporation and Shareholders' Agreement, rather than financial expense as interest, in the form we understand 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 March 31, 2016 would be reduced by R\$ 791,692 thousand (R\$ 791,692 thousand at December 31, 2015); total liabilities would be increased by the same amount (the same for December 31, 2015); and net income before noncontrolling interests for the three-month period ended March 31, 2016 would be reduced by R\$ 28,853 thousand (R\$ 26,661 thousand for the three-month period ended March 31, 2015).

Conclusion on individual and consolidated interim financial statements

Based on our review, except for the effects of the matter described in our "Basis for qualified conclusion on individual and consolidated interim financial statements" paragraph, we are not aware of any fact that would make us believe that the individual and consolidated interim financial statements of ISA Capital do Brasil S.A. do not present fairly, in all material respects, the individual and consolidated financial position of the Company as at March 31, 2016, its individual and consolidated operating performance and its individual and consolidated cash flows for the three-month period then ended, in accordance with the International Financial Reporting Standards (IFRS) issued by the IASB and accounting practices adopted in Brazil.

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. 12783/2013 and Technical Note No. 402/2013 of the National Electric Energy Agency (ANEEL), a valuation report was prepared by subsidiary CTEEP, 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. Additionally, 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" investments that subsidiary CTEEP would be entitled to receive, in the amount of R\$3,896,328 thousand. In addition, on April 20, 2016, the Ministry of Mines and Energy issued Ruling No. 120, determining that the amounts homologated by ANEEL related to these assets comprise the Regulatory Remuneration Base of electricity transmission concessionaires as from 2017 tariff process, for the estimated period of eight years. Given that, as mentioned in Note 36.b, certain matters that may impact the effects and form of recognition of such Ruling are still pending of regulation by ANEEL, CTEEP management is analyzing the accounting impacts from this Ruling and, until regulation by ANEEL, CTEEP keeps recorded, at construction cost of this infrastructure, R\$ 1,490,996 thousand, equivalent to regulatory property and equipment (historical amount). Our conclusion is not modified in respect of this matter.

(ii) Law No. 4819/58

As described in Notes 9 and 35, subsidiary CTEEP has recorded a net balance receivable from São Paulo State in the amount of R\$1,009,311 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, May 6, 2016.

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

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

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ISA Capital do Brasil S.A.

Balance sheets
March 31, 2016 and December 31, 2015
(In thousands of reais)

	Notes	Company		Consolidated	
		03/31/2016	12/31/2015	03/31/2016	12/31/2015
Assets					
Current assets					
Cash and cash equivalents	6	11,834	18,914	17,142	25,049
Short-term investments	7	8,926	8,637	413,463	448,691
Accounts receivable (concession assets)	8	-	-	289,609	319,961
Inventories	-	-	-	37,755	40,476
	11 and				
Loans receivable	31	85,530	92,954	85,530	92,954
Taxes and contributions recoverable	10	3,179	3,543	25,306	9,306
Pledges and restricted deposits	12	4,956	5,438	4,956	5,438
Prepaid expenses	-	-	-	40,570	6,057
Receivables from subsidiaries	-	-	-	1,134	29,200
Other	-	75	80	40,063	51,260
		114,500	129,566	955,528	1,028,392
Noncurrent assets					
Restricted cash	17	-	-	12,436	12,059
Accounts receivable (concession assets)	8	-	-	3,560,108	3,526,968
Receivables - State Finance Department (SEFAZ)	9	-	-	1,009,311	965,920
Tax benefit – goodwill on merger	-	-	-	-	586
Taxes and contributions recoverable	10	33,332	32,218	33,332	32,218
Deferred income and social contribution taxes	30.b	32,237	32,237	209,808	216,046
Pledges and restricted deposits	12	-	-	68,061	66,268
Inventories	-	-	-	31,033	29,675
Other	-	-	-	8,506	9,249
		65,569	64,455	4,932,595	4,858,989
Investments	13.b	2,169,114	2,134,003	1,592,602	1,572,640
Property and equipment	14	19	21	22,583	23,215
Intangible assets	15	95	101	159,145	161,192
		2,169,228	2,134,125	1,774,330	1,757,047
		2,234,797	2,198,580	6,706,925	6,616,036
Total assets					
		2,349,297	2,328,146	7,662,453	7,644,428

	Notes	Company		Consolidated	
		03/31/2016	12/31/2015	03/31/2016	12/31/2015
Liabilities and equity					
Current liabilities					
Loans and financing	16	1,652	4,532	72,952	75,602
Debentures	17	-	-	201,238	180,782
Trade accounts payable	-	531	371	46,884	35,321
Taxes and social charges payable	18	381	815	42,473	29,232
Taxes in installments - Law No. 11941	19	-	-	16,526	16,200
Regulatory charges payable	20	-	-	9,163	21,821
Interest on equity and dividends payable	-	-	-	2,155	2,156
Provisions	23	-	-	26,440	29,757
Payables - Law No. 4819/58 - State Finance Department (SEFAZ)	5.a	269,621	269,621	269,621	269,621
Payables - Law No. 4819/58 - OPA	5.b	169,056	169,056	169,056	169,056
Payables - Fundação CESP	24	-	-	6,446	6,144
Other	-	-	-	24,940	31,014
		441,241	444,395	887,894	866,706
Noncurrent liabilities					
Loans and financing	17	112,643	123,591	584,236	608,830
Debentures	18	-	-	360,555	359,573
Taxes in installments - Law No. 11941	20	-	-	125,319	126,897
Deferred PIS and COFINS	21	-	-	151,464	149,022
Deferred income and social contribution taxes	30.b	-	-	35,858	35,801
Regulatory charges payable	21	-	-	33,774	31,194
Provisions	22	-	-	194,386	189,612
Special obligations - reversal/amortization	24	-	-	24,053	24,053
		112,643	123,591	1,509,645	1,524,982
Equity					
Capital	25.a	840,378	840,378	840,378	840,378
Capital reserves	25.b	791,092	791,092	791,092	791,092
Goodwill on equity transaction	25.c	(5,679)	(5,679)	(5,679)	(5,679)
Income reserves	25.d	134,369	134,369	134,369	134,369
Retained earnings	-	35,253	-	35,253	-
		1,795,413	1,760,160	1,795,413	1,760,160
Noncontrolling interests		-	-	3,469,501	3,492,580
Total equity		1,795,413	1,760,160	5,264,914	5,252,740
Total liabilities and equity		2,349,297	2,328,146	7,662,453	7,644,428

See accompanying notes.

ISA Capital do Brasil S.A.

Income statements

Quarters ended March 31, 2016 and 2015

(In thousands of reais, except for earnings per share)

	Notes	Company		Consolidated	
		03/31/2016	03/31/2015	03/31/2016	03/31/2015
Net operating revenue	26	-	-	269,512	253,646
Cost of construction, operation and maintenance services	27	-	-	(103,678)	(116,252)
Gross profit		-	-	165,834	137,394
Operating income (expenses)					
General and administrative expenses	27	(1,429)	(1,049)	(37,412)	(45,722)
Other operating income (expenses), net	29	-	-	(126)	(7,819)
Equity pickup	13.c and 13.1	35,111	31,761	19,021	16,161
		33,682	30,712	(18,517)	(37,380)
Profit (loss) before financial income (expenses) and income taxes		33,682	30,712	147,317	100,014
Financial income	28	21,308	15,357	37,283	56,230
Financial expenses	28	(19,737)	(37,006)	(60,869)	(71,389)
Financial income (expenses)		1,571	(21,649)	(23,586)	(15,159)
Operating income		35,253	9,063	123,731	84,855
Nonoperating income, net		-	8,179	-	8,179
Income before income and social contribution taxes		35,253	17,242	123,731	93,034
Income and social contribution taxes					
Current	30.a	-	3,522	(19,055)	(14,967)
Deferred	30.a	-	-	(6,295)	(2,472)
		-	3,522	(25,350)	(17,439)
Net income for the period		35,253	20,764	98,381	75,595
Attributable to:					
Noncontrolling interests		-	-	63,128	54,831
Net income for the period allocated to controlling interests		35,253	20,764	35,253	20,764
Basic and diluted earnings per share	25.e	0.02860	0.01652	-	-
Average number of shares for the period	25.e	1,232,410,108	1,257,153,628	-	-

See accompanying notes.

ISA Capital do Brasil S.A.

Statements of comprehensive income
Quarters ended March 31, 2016 and 2015
(In thousands of reais)

	Company		Consolidated	
	03/31/2016	03/31/2015	03/31/2016	03/31/2015
Net income for the period	35,253	20,764	98,381	75,595
Other comprehensive income	-	-	-	-
Comprehensive income for the year	35,253	20,764	98,381	75,595
Controlling shareholders	35,253	20,764	35,253	20,764
Noncontrolling interests	-	-	63,128	54,831

See accompanying notes.

ISA Capital do Brasil S.A.

Statements of changes in equity
 Quarters ended March 31, 2016 and 2015
 (In thousands of reais)

	Capital	Capital reserve	Goodwill on equity transaction	Income reserve			Total equity	Noncontrolling interests	Total consolidated equity
				Legal reserve	Retained profits	Retained earnings			
Balances at December 31, 2014	840,378	841,092	(5,679)	5,881	91,760	-	1,773,432	3,230,622	5,004,054
Net income for the period	-	-	-	-	-	20,764	20,764	54,831	75,595
Expired dividends - subsidiary	-	-	-	-	-	-	-	316	316
Expired interest on equity - subsidiary	-	-	-	-	-	-	-	119	119
Noncontrolling interests on boutique investment funds	-	-	-	-	-	-	-	25,668	25,668
Increase in noncontrolling interest percentage	-	-	-	-	-	-	-	39,224	39,224
Other events - subsidiary	-	-	-	-	-	-	-	610	610
Balances at March 31, 2015	840,378	841,092	(5,679)	5,881	91,760	20,764	1,794,196	3,351,390	5,145,586
Balances at December 31, 2015	840,378	791,092	(5,679)	5,881	128,488	-	1,760,160	3,492,580	5,252,740
Net income for the period	-	-	-	-	-	35,253	35,253	63,128	98,381
Noncontrolling interests on boutique investment funds (*)	-	-	-	-	-	-	-	(86,207)	(86,207)
Balances at March 31, 2016	840,378	791,092	(5,679)	5,881	128,488	35,253	1,795,413	3,469,501	5,264,914

(*) Out of the total balance of R\$404,537 mentioned in Note 7, as Investment funds, the amount of R\$86,207 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
 Quarters ended March 31, 2016 and 2015
 (In thousands of reais – R\$)

	Company		Consolidated	
	03/31/2016	03/31/2015	03/31/2016	03/31/2015
Cash flow from operating activities				
Net income for the period	35,253	20,764	98,381	75,595
Adjustments to reconcile net income to cash provided by (used in) operating activities				
Depreciation and amortization (Note 27)	8	4	2,132	2,041
Deferred income and social contribution taxes	-	-	6,295	2,472
Deferred PIS and COFINS (Note 21)	-	-	2,442	3,952
Provision for contingencies (Note 23.a)	-	-	(384)	6,158
Net book value of property and equipment written off	-	-	70	-
Tax benefit - goodwill on merger (Note 29)	-	-	9	7,472
Amortization of concession assets on acquisition of subsidiary (Note 30)	-	-	622	623
Realization of loss on jointly-controlled subsidiary (Note 29)	-	-	(576)	(590)
Sale of shares	-	(8,136)	-	(8,136)
Equity pickup (Note 13)	(35,111)	(31,761)	(19,021)	(16,161)
Interest, monetary adjustments and exchange rate changes on assets and liabilities	(1,735)	22,667	35,767	56,166
	(1,585)	3,538	125,737	129,592
(Increase) decrease in assets				
Restricted cash	-	-	(377)	(665)
Accounts receivable (concession assets)	-	-	(2,212)	(75,834)
Inventories	-	-	1,363	3,787
Receivables - State Finance Department (SEFAZ)	-	-	(43,391)	(36,966)
Taxes and contributions recoverable	224	(3,858)	(16,140)	15,925
Pledges and restricted deposits	507	3,699	(110)	5,880
Prepaid expenses	-	-	(34,513)	(25,537)
Other	5	6	12,533	(2,769)
	736	(153)	(82,847)	(116,179)
Increase (decrease) in liabilities				
Trade accounts payable	160	(9)	11,563	(39,156)
Taxes and social charges payable	(434)	(122)	13,241	9,041
Taxes in installments - Law No. 11941	-	-	(4,106)	(3,785)
Regulatory charges payable	-	-	(10,999)	(292)
Provisions	-	-	(3,317)	(5,135)
Payables – FUNCESP	-	-	302	1,681
Other	-	-	(6,067)	5,288
	(274)	(131)	617	(32,358)

ISA Capital do Brasil S.A.

Statements of cash flows (Continued)
 Quarters ended March 31, 2016 and 2015
 (In thousands of reais – R\$)

	Company		Consolidated	
	03/31/2016	03/31/2015	03/31/2016	03/31/2015
Net cash provided by operating activities	(1,123)	3,254	43,507	(18,945)
Cash flow from investing activities				
Short-term investments (redemptions) (Note 7)	(289)	(23,096)	35,228	29,648
Transaction with noncontrolling shareholders - subsidiary	-	-	(82,379)	27,870
Property and equipment (Note 14)	-	-	(142)	(1,023)
Intangible assets (Note 15)	-	(15)	(3)	(542)
Sale of CTEEP preferred shares	-	47,714	-	47,714
Investments	-	-	(941)	(950)
Dividends received	-	-	28,050	-
Net cash provided by investing activities	(289)	24,603	(20,187)	102,717
Cash flow from financing activities				
Loan repayments (principal) (Note 16)	-	-	(14,468)	(44,411)
Loan repayments (interest) (Note 16)	(5,668)	(3,593)	(16,758)	(14,156)
Dividends and interest on equity paid	-	-	(1)	(2)
Net cash used in financing activities	(5,668)	(3,593)	(31,227)	(58,569)
Net increase (decrease) in cash and cash equivalents	(7,080)	24,264	(7,907)	25,203
Cash and cash equivalents at end of year	11,834	44,815	17,142	50,450
Cash and cash equivalents at beginning of year	18,914	20,551	25,049	25,247
	(7,080)	24,264	(7,907)	25,203

See accompanying notes.

ISA Capital do Brasil S.A.

Notes to interim financial statements

March 31, 2016

(In thousands of reais, unless otherwise stated)

1. Operations

1.1. Business purpose

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

The Company 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.

At March 31, 2016, the Company has 59,971,608 shares, with 57,714,208 common shares, equivalent to 89.50% of voting capital, and 2,257,400 preferred shares, totaling 37.19% of total capital of CTEEP (57,714,208 common shares and 2,257,400 preferred shares at December 31, 2015).

ISA Capital do Brasil S.A.

Notes to interim financial statements (Continued)

March 31, 2016

(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:

Concession operator	Contract	Interest (%)	Term (years)	Maturity	Periodic tariff review		Adjustment index	Annual Revenue Allowed (RAP)	
					Valid for	Next		R\$ thousand	Base month
CTEEP	059/2001		30	12/31/42	5 years	2018	IPCA	836,611	06/15
IEMG	004/2007	100	30	04/23/37	5 years	2017	IPCA	14,899	06/15
Pinheiros	012/2008	100	30	10/15/38	5 years	2019	IPCA	9,057	06/15
Pinheiros	015/2008	100	30	10/15/38	5 years	2019	IPCA	27,082	06/15
Pinheiros	018/2008	100	30	10/15/38	5 years	2019	IPCA	4,793	06/15
Pinheiros	021/2011	100	30	12/09/41	5 years	2017	IPCA	5,131	06/15
Serra do Japi	026/2009	100	30	11/18/39	5 years	2020	IPCA	34,753	06/15
Serra do Japi (*)	143/2001		30	12/20/31	N/A	N/A	IGPM	17,896	06/15
Evrecy	020/2008	100	30	07/17/25	4 years	2017	IGPM	13,126	06/15
IENNE	001/2008	25	30	03/16/38	5 years	2018	IPCA	36,452	06/15
IESul	013/2008	50	30	10/15/38	5 years	2019	IPCA	4,558	06/15
IESul	016/2008	50	30	10/15/38	5 years	2019	IPCA	10,724	06/15
IEMadeira	013/2009	51	30	02/25/39	5 years	2019	IPCA	222,772	06/15
IEMadeira (**)	015/2009	51	30	02/25/39	5 years	2019	IPCA	193,432	06/15
IEGaranhuns	022/2011	51	30	12/09/41	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 entity 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

ISA Capital do Brasil S.A.

Notes to interim financial statements (Continued)

March 31, 2016

(In thousands of reais, unless otherwise stated)

provide the right to remuneration on investments in expansion, reinforcement and improvements.

Law No. 12783/2013

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.

ISA Capital do Brasil S.A.

Notes to interim financial statements (Continued)

March 31, 2016

(In thousands of reais, unless otherwise stated)

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^o, 2012, the Ministry of Mines and Energy published:

- (i) Interministerial Ruling No. 580, which determined the indemnification for energized facilities as from June 1^o, 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^o, 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.

ISA Capital do Brasil S.A.

Notes to interim financial statements (Continued)
March 31, 2016
(In thousands of reais, unless otherwise stated)

1. Operations (Continued)

1.2. Concession Arrangements (Continued)

Law No. 12783/2013 (Continued)

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.
- 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.

ISA Capital do Brasil S.A.

Notes to interim financial statements (Continued)

March 31, 2016

(In thousands of reais, unless otherwise stated)

1. Operations (Continued)

1.2. Concession Arrangements (Continued)

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

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.

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. Until the interim financial statement close, there was no conclusion on this matter. CTEEP constantly monitors the matter to reflect it in its financial statements and to disclose to its shareholders any impacts that may arise from future Regulator's decisions.

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 07, 2011, Extremoz Transmissora do Nordeste - ETN S.A. was organized, considering the same equity interest, in order to operate the service granted. This project involves estimated investment of R\$622.0 million and RAP of R\$31.9 million, as of June 2011.

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Notes to interim financial statements (Continued)
March 31, 2016
(In thousands of reais, unless otherwise stated)

1. Operations (Continued)

1.2. Concession Arrangements (Continued)

Interest in consortium (Continued)

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

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 was resubmitted for ANEEL's final analyses.

2. Presentation of interim financial statements

2.1. Basis of preparation and presentation

The individual interim financial statements, identified as "Company", and the consolidated interim financial statements, identified as "Consolidated", are presented in accordance with CPC 21 (R1) - Interim Financial Reporting and IAS 34 - Interim Financial Reporting, issued by the International Accounting Standards Board (IASB), as well as in accordance with accounting practices adopted in Brazil, which comprise the Corporation Law, pronouncements, interpretations and guidance issued by the Brazilian FASB ("CPC"), which are in line with IFRS issued by the International Accounting Standards Board (IASB).

The individual and consolidated interim financial statements were prepared based on historical cost, unless otherwise stated, as described in the accounting practices of the annual financial statements for 2015. The historical cost is generally based on the value of the considerations paid in exchange for assets.

All amounts presented in these financial statements are in thousands of reais, unless otherwise stated.

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

ISA Capital do Brasil S.A.

Notes to interim financial statements (Continued)
March 31, 2016
(In thousands of reais, unless otherwise stated)

2. Presentation of interim financial statements (Continued)

2.2. Functional and reporting currency

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

2.3. Significant accounting judgments, estimates and assumptions

The Company declares that significant accounting judgments, estimates and assumptions, as well as significant accounting practices, are the same as those disclosed in the annual financial statements for 2015. Therefore, the corresponding information must be read jointly with Notes 2.4 and 3 to those financial statements.

2.4. Consolidation procedures

The consolidated interim financial statements comprise the interim 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 March 31, 2016 and December 31, 2015, interests held in subsidiaries were as follows:

	Interim financial statement reporting date	Interest %	
		03/31/2016	12/31/2015
Direct			
CTEEP	03/31/2016	37.19	37.19
Indirect			
Interligação Elétrica de Minas Gerais S.A. (IEMG)	03/31/2016	37.19	37.19
Interligação Elétrica Pinheiros S.A. (Pinheiros)	03/31/2016	37.19	37.19
Interligação Elétrica Serra do Japi S.A. (Serra do Japi)	03/31/2016	37.19	37.19
Evrecy Participações Ltda. (Evrecy)	03/31/2016	37.19	37.19
Fundo de Investimento Referenciado DI Bandeirantes	03/31/2016	21.94	21.94
Fundo de Investimento Xavantes Referenciado DI	03/31/2016	32.35	21.94

ISA Capital do Brasil S.A.

Notes to interim financial statements (Continued)

March 31, 2016

(In thousands of reais, unless otherwise stated)

2. Presentation of interim financial statements (Continued)

2.4. Consolidation procedures (Continued)

The following procedures were adopted in preparing the consolidated interim 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 interim financial statements.

At March 31, 2016 and December 31, 2015, interests held in jointly-controlled subsidiaries were as follows:

	Interim financial statement reporting date	(*) Interest %	
		03/31/2016	12/31/2015
Jointly-controlled subsidiaries			
Interligação Elétrica Norte e Nordeste S.A. (IENNE)	03/31/2016	9.30	9.30
Interligação Elétrica do Sul S.A. (IESul)	03/31/2016	18.59	18.59
Interligação Elétrica do Madeira S.A. (IE Madeira)	03/31/2016	18.97	18.97
Interligação Elétrica Garanhuns S.A. (IE Garanhuns)	03/31/2016	18.97	18.97

(*) CTEEP has a shareholders' agreement that determines that decisions must be made together.

3. Summary of significant accounting practices

The Company declares that information on significant accounting practices remains valid for these interim financial statements and the content of this information can be found in Note 3 to the financial statements for the year ended December 31, 2015.

ISA Capital do Brasil S.A.

Notes to interim financial statements (Continued)

March 31, 2016

(In thousands of reais, unless otherwise stated)

4. New and revised standards and interpretations not yet adopted

The Company and its subsidiaries have adopted all (new or revised) pronouncements and interpretations issued by the Brazilian FASB (CPC), when applicable, which were effective at December 31, 2015.

No new pronouncements were disclosed other than those mentioned in the financial statements for the year ended December 31, 2015. The Company will adopt, if applicable, such standards when they enter into force disclosing and recognizing the impacts therefrom in its financial statements.

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 March 31, 2016, 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\$269,621 at December 31, 2015) 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.

ISA Capital do Brasil S.A.

Notes to interim financial statements (Continued)

March 31, 2016

(In thousands of reais, unless otherwise stated)

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

- (c) Noncontrolling interests (OPA): the amount of R\$169,056 (R\$169,056 at December 31, 2015) 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

	% of CDI	Company		Consolidated	
		03/31/2016	12/31/2015	03/31/2016	12/31/2015
Cash and banks		118	118	2,064	3,916
Cash equivalents					
Bank Deposit Certificate (CDB)	92.0% to 102.0%	11,716	18,796	12,598	19,933
Repurchase agreements (a)	93.0% to 97.0%	-	-	1,638	1,194
Short-term investment funds (b)	60.0% to 70.0%	-	-	842	6
		11,834	18,914	17,142	25,049

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 32.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.

ISA Capital do Brasil S.A.

Notes to interim financial statements (Continued)

March 31, 2016

(In thousands of reais, unless otherwise stated)

7. Short-term investments

	% of CDI	Company		Consolidated	
		03/31/2016	12/31/2015	03/31/2016	12/31/2015
Bank Deposit Certificate (CDB)	92.0% to 104.7%	8,926	8,637	8,926	8,637
Investment funds (*)	100.78%	-	-	404,537	440,054
		8,926	8,637	413,463	448,691

(*) 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 at March 31, 2016: R\$158,705 (R\$183,806 at December 31, 2015).
- 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 at March 31, 2016: R\$245,832 (R\$256,248 at December 31, 2015).

The portfolios of Coral and Special Investment Funds by reference to DI comprise the following assets: investments in demand deposits, floating CDB, 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 32.c.

ISA Capital do Brasil S.A.

Notes to interim financial statements (Continued)

March 31, 2016

(In thousands of reais, unless otherwise stated)

8. Accounts receivable (concession assets)

Accounts receivable are as follows:

	Consolidated	
	03/31/2016	12/31/2015
O&M		
Accounts receivable - O&M services (a)	126,286	158,656
	126,286	158,656
Financial assets		
Accounts receivable - construction services (b)	2,144,100	2,111,192
Accounts receivable – indemnification (c)	88,335	86,085
	2,232,435	2,197,277
Indemnification asset - Law No. 12783/13		
Accounts receivable - Law No. 12783/13 (d)	1,490,996	1,490,996
	1,490,996	1,490,996
	3,849,717	3,846,929
Current	289,609	319,961
Noncurrent	3,560,108	3,526,968

- (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:
- Indemnification 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), which were substantially settled, having remained discussions on how to adjust them.
 - Indemnification of facilities for SE corresponds to the infrastructure construction cost, equivalent to the net book value of these assets in the regulatory financial statement, 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.

ISA Capital do Brasil S.A.

Notes to interim financial statements (Continued)

March 31, 2016

(In thousands of reais, unless otherwise stated)

8. Accounts receivable (concession assets) (Continued)

The aging list of accounts receivable is as follows:

	Consolidated	
	03/31/2016	12/31/2015
Falling due	3,837,195	3,834,981
Overdue		
within 30 days	635	167
from 31 to 60 days	305	147
from 61 to 360 days	2,206	2,610
above 361 days (i)	9,376	9,024
	12,522	11,948
	3,849,717	3,846,929

- (i) Certain system members challenged balances billed in connection with the Basic Electric Power Grid. By virtue of this challenge, judicial deposits were made of amounts owed by such members. Subsidiary CTEEP 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 at 12/31/2015	3,846,929
Construction revenue (Note 27.1)	24,334
Financial income on concession assets (Note 27.1)	57,993
Operation and maintenance revenue (Note 27.1)	219,157
Receipts	(298,696)
Balances at 03/31/2016	3,849,717

ISA Capital do Brasil S.A.

Notes to interim financial statements (Continued)

March 31, 2016

(In thousands of reais, unless otherwise stated)

9. Receivables - State Finance Department (SEFAZ)

	Consolidated	
	03/31/2016	12/31/2015
Payroll processing - Law No. 4819/58 (a)	1,284,527	1,245,622
Labor claims - Law No. 4819/58 (b)	241,039	236,553
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)
	1,009,311	965,920

- (a) These refer to receivables to settle the payroll portion of the supplementary retirement plan governed by State Law No. 4819/58, from January 2005 to March 2016 (Note 35). Increase against the prior year is related to compliance with the decision handed down by the 49th Labor Court (which, although unqualified, remains valid until the Regular Legal Court reassesses the request, as determined by STF), whereby subsidiary CTEEP, in the capacity of party served, monthly passes 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 the 1st quarter of 2016, 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 expected losses, the corresponding provision for losses totals R\$2,218.

10. Taxes and contributions recoverable

	Company		Consolidated	
	03/31/2016	12/31/2015	03/31/2016	12/31/2015
IRPJ loss	-	918	-	918
CSLL loss	-	331	-	331
Income tax recoverable (i)	35,639	33,985	46,464	34,617
Social contribution tax recoverable	872	527	4,916	580
Withholding Income Tax (IRRF)	-	-	3,358	1,690
Withholding social contribution (CSRF)	-	-	137	53
COFINS	-	-	2,575	2,354
PIS	-	-	559	511
Other	-	-	629	470
	36,511	35,761	58,638	41,524
Current	3,179	3,543	25,306	9,306
Noncurrent	33,332	32,218	33,332	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. Based on the study conducted, the Company reclassified balances expected to be used after the next 12 months to noncurrent assets.

ISA Capital do Brasil S.A.

Notes to interim financial statements (Continued)

March 31, 2016

(In thousands of reais, unless otherwise stated)

11. Loans receivable

Breakdown of loans and financing balances at March 31, 2016 is as follows:

Foreign currency	Charges	Final maturity	Company	
			03/31/2016	12/31/2015
Interconexión Eléctrica S.A. ESP ("ISA") (a)	LIBOR + 3% p.a.	12/28/2016	85,530	92,954
Total in foreign currency			85,530	92,954
Current			85,530	92,954
Noncurrent			-	-

(a) This refers to a loan granted by the Company to its parent company Interconexión Eléctrica S.A. ESP ("ISA"). for the full onlending of the loan obtained by the Company in 2006 denominated in US dollars, originally amounting to US\$23,800 thousand, whose maturity in a lump sum was on July 19, 2007 and interest was calculated based on LIBOR, plus 3.00% p.a. The Company 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.

Changes in loans receivable are as follows:

	Company
Balances at 12/31/2015	92,954
Interest and monetary and foreign exchange gains (losses)	(7,424)
Balances at 03/31/2016	85,530

12. Pledges and restricted deposits

	Company		Consolidated	
	03/31/2016	12/31/2015	03/31/2016	12/31/2015
Deposit - Bank of New York (guarantee) (a)	4,956	5,438	4,956	5,438
Judicial deposits				
Labor (Note 22.b)	-	-	54,875	54,711
Social security – INSS (Note 23.b)	-	-	3,342	3,261
PIS/COFINS (b)	-	-	3,440	2,049
Other	-	-	295	287
Notices of violation – ANEEL (c)	-	-	6,109	5,960
	4,956	5,438	73,017	71,706
Current	4,956	5,438	4,956	5,438
Noncurrent	-	-	68,061	66,268

ISA Capital do Brasil S.A.

Notes to interim financial statements (Continued)

March 31, 2016

(In thousands of reais, unless otherwise stated)

12. Pledges and restricted deposits (Continued)

- (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.

Within the legal term contractually established, the account balance was pushed back with a deposit amounting to R\$5,161, on March 4, 2016.

- (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. The Company 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 March 2016, the amounts deposited in court total R\$3,440.
- (c) These refer to deposits aiming at voiding ANEEL notices which subsidiary CTEEP has been challenging.

13. Investments

- a) Information on subsidiary CTEEP

	<u>03/31/2016</u>	<u>12/31/2015</u>
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	1,842,892
Retained earnings	94,411	-
Noncontrolling interests	96,417	178,796
Total	5,527,033	5,515,001

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Notes to interim financial statements (Continued)

March 31, 2016

(In thousands of reais, unless otherwise stated)

13. Investments (Continued)

b) Information on Company investment

	<u>03/31/2016</u>	<u>12/31/2015</u>
Number of common registered shares	57,714,208	57,714,208
Number of preferred registered shares	2,257,400	2,257,400
CTEEP's equity - consolidated	5,527,033	5,515,001
(-) Special goodwill reserve	(60,361)	(60,361)
(-) Noncontrolling interests	(96,417)	(178,796)
CTEEP's equity (equity pickup base)	5,370,255	5,275,844
Percentage of ownership interest in CTEEP	37.1895%	37.1895%
Investment	<u>1,997,171</u>	1,962,060
Special goodwill reserve	60,361	60,361
Equity adjustment – Law No. 4819/58 (i)	111,582	111,582
Total investment	<u>2,169,114</u>	2,134,003

- (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.

c) Changes in investments for the quarter ended March 31, 2016

Balance at 12/31/2015	<u>2,134,003</u>
Equity pickup	35,111
Balance at 03/31/2016	<u>2,169,114</u>

ISA Capital do Brasil S.A.

Notes to interim financial statements (Continued)
 March 31, 2016
 (In thousands of reais, unless otherwise stated)

13. Investments (Continued)

13.1. Investment in subsidiary CTEEP

a) Information on subsidiary CTEEP

Reporting date	Investments - Subsidiary CTEEP															
	IEMG		Pinheiros		Serra do Japi		Evrecy		IENNE		IESul		IEMadeira		IEGaranhuns	
	03/31/2016	12/31/2015	03/31/2016	12/31/2015	03/31/2016	12/31/2015	03/31/2016	12/31/2015	03/31/2016	12/31/2015	03/31/2016	12/31/2015	03/31/2016	12/31/2015	03/31/2016	12/31/2015
Number of common shares held	83,055,292	83,055,292	300,910,000	283,310,000	130,857,000	130,857,000	21,512,367	21,512,367	81,821,000	81,821,000	104,128,499	104,128,499	717,060,000	717,060,000	289,935,000	289,935,000
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	300,910	130,857	130,857	21,512	21,512	327,284	327,284	208,609	208,257	1,406,000	1,406,000	570,000	568,500
Equity	121,823	121,310	434,289	424,954	243,369	234,618	55,444	52,658	387,250	388,971	224,716	225,563	2,028,319	2,003,261	684,289	668,533
Net income (loss) (*)	513	2,470	9,335	5,099	8,751	1,191	2,786	2,562	(1,721)	(93)	(1,199)	650	25,058	18,828	14,256	12,263

(*) Comparative period information corresponds to the quarter ended March 31, 2015.

b) Changes in investments for the quarter ended March 31, 2016 of CTEEP

	Consolidated				
	IENNE	IESul	IEMadeira	IEGaranhuns	Total
Balances at 12/31/2015	97,243	112,782	1,021,663	340,952	1,572,640
Capital payment	-	176	-	765	941
Equity pickup	(430)	(600)	12,780	7,271	19,021
Balances at 03/31/2016	96,813	112,358	1,034,443	348,988	1,592,602

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Notes to interim financial statements (Continued)

March 31, 2016

(In thousands of reais, unless otherwise stated)

14. 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	03/31/2016		12/31/2015
		%	Cost	Accumulated depreciation	Net
				Net	Net
In operation					
Machinery and equipment	6%	26	(13)	13	13
Furniture and fixtures	6%	32	(26)	6	8
		58	(39)	19	21
		Consolidated			
		Annual average depreciation rates	03/31/2016		12/31/2015
		%	Cost	Accumulated depreciation	Net
				Net	Net
In operation					
Land	-	2,060	-	2,060	2,060
Machinery and equipment	6.44%	5,455	(1,981)	3,474	3,494
Furniture and fixtures	6.25%	7,393	(5,298)	2,095	1,921
IT equipment	24.1%	10,833	(7,343)	3,490	3,544
Vehicles	31.5% (*)	10,378	(932)	9,446	9,838
Other	4.0%	2,955	(937)	2,018	2,358
		39,074	(16,491)	22,583	23,215

(*) Including vehicle lease with rates of 25.0% and 33.3%.

Changes in property and equipment for the quarter ended March 31, 2016 are as follows:

		Company				
		Balances at 12/31/2015	Additions	Depreciation	Write-off	Balances at 03/31/2016
Machinery and equipment		13	-	(1)	-	12
Furniture and fixtures		8	-	(1)	-	7
		21	-	(2)	-	19

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Notes to interim financial statements (Continued)

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(In thousands of reais, unless otherwise stated)

14. Property and equipment (Continued)

	Consolidated				Balances at 03/31/2016
	Balances at 12/31/2015	Additions	Depreciation	Write-offs/ transfers	
Land	2,060	-	-	-	2,060
Machinery and equipment	3,494	-	(67)	46	3,473
Furniture and fixtures	1,921	-	(78)	253	2,096
IT equipment	3,544	-	(229)	175	3,490
Vehicles	9,838	-	(394)	2	9,446
Other	2,358	142	(1)	(481)	2,018
	23,215	142	(769)	(5)	22,583

15. Intangible assets

These substantially refer to:

- 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;
- Goodwill generated in the acquisition of Evrecy by subsidiary CTEEP; and
- Amount resulting from adjustment made in the equity pickup calculation on investment in subsidiary CTEEP in 2013, as mentioned in Note 13.b.

Changes in intangible assets for the quarter ended March 31, 2016 are as follows:

	Company	
	Software	Total
Balance at 12/31/2015	101	101
Amortization	(6)	(6)
Balance at 03/31/2016	95	95

	Consolidated		
	Goodwill	Software	Total
Balance at 12/31/2015	106,602	54,590	161,192
Additions	-	3	3
Write-offs	-	(65)	(65)
Amortization	-	(1,985)	(1,985)
Balance at 03/31/2016	106,602	52,543	159,145

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Notes to interim financial statements (Continued)

March 31, 2016

(In thousands of reais, unless otherwise stated)

16. Loans and financing

Breakdown of loans and financing is as follows:

	Company			
	Charges	Final maturity	03/31/2016	12/31/2015
Foreign currency				
Bonds (a)	8.8% p.a.	01/30/2017	114,295	128,123
Current			1,652	4,532
Noncurrent			112,643	123,591
	Consolidated			
	Charges	Final maturity	03/31/2016	12/31/2015
Foreign currency				
Bonds (a)	8.8% p.a.	01/30/2017	114,295	128,123
Total foreign currency			114,295	128,123
Brazilian currency				
BNDES (b) (i)	TJLP + 1.8% p.a.	03/15/2029	242,569	246,316
BNDES (b) (i)	3.5% p.a.	01/15/2024	80,006	82,538
BNDES (b) (iv)	TJLP + 2.1% p.a.	02/15/2028	6,340	6,451
BNDES (b) (iv)	3.5% p.a.	04/15/2023	12,829	13,282
BNDES (b) (v)	TJLP + 2.6% p.a.	05/15/2026	36,349	37,132
BNDES (b) (v)	5.5% p.a.	01/15/2021	48,580	51,092
BNDES (b) (vi)	TJLP + 1.9% p.a.	05/15/2026	37,999	38,796
BNDES (b) (vi)	TJLP + 1.5% p.a.	05/15/2026	32,837	33,525
BNDES (b) (vii)	TJLP + 2.4% p.a.	04/15/2023	36,278	37,425
BNDES/Finame PSI	4.0% p.a.	08/15/2018	185	204
BNDES/Finame PSI (c)	6.0% p.a.	11/18/2019	8,453	9,029
Eletrobras	8.0% p.a.	11/15/2021	185	196
Finance lease agreements	-	-	283	323
Total Brazilian currency			542,893	556,309
Total Brazilian and foreign currency			657,188	684,432
Current			72,952	75,602
Noncurrent			584,236	608,830

(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. Until January 26, 2016, ISA Capital paid the total amount of R\$5,668 (R\$8,256 at December 31, 2015) to bond holders.

There was no change in the nature of loans in relation to December 31, 2015.

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Notes to interim financial statements (Continued)
March 31, 2016
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16. Loans and financing (Continued)

(b) BNDES

- (i) On December 23, 2013, subsidiary CTEEP entered into a loan agreement with BNDES, with amendment on December 30, 2014, 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, R\$30,000 and R\$73,877 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.

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.

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.

The agreement has for 2016 the following maximum financial indicators, calculated on an annual basis: Net debt/Adjusted EBITDA < 3.5 and Net Debt/(Net Debt + Equity) < 0.6.

For calculation and proof purposes of said ratios, the Company 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%.

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Notes to interim financial statements (Continued)

March 31, 2016

(In thousands of reais, unless otherwise stated)

16. Loans and financing (Continued)

- (ii) 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.
- (iii) 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.
- (iv) 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.
- (v) 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.

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Notes to interim financial statements (Continued)

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(In thousands of reais, unless otherwise stated)

16. 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	
	03/31/2016	12/31/2015	03/31/2016	12/31/2015
2017	112,643	123,591	155,916	181,228
2018	-	-	57,547	57,481
2019	-	-	57,254	57,209
2020	-	-	55,156	55,091
2021	-	-	46,876	46,794
2022 to 2026	-	-	169,074	168,745
2027 to 2029	-	-	42,413	42,282
	112,643	123,591	584,236	608,830

Changes in loans and financing for the quarter ended March 31, 2016 are as follows:

	Company	Consolidated
Balances at 12/31/2015	128,123	684,432
Payment of principal	-	(14,468)
Payment of interest	(5,668)	(16,758)
Interest and monetary and foreign exchange gains (losses)	(8,160)	3,982
Balances at 03/31/2016	114,295	657,188

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Notes to interim financial statements (Continued)

March 31, 2016

(In thousands of reais, unless otherwise stated)

16. Loans and financing (Continued)

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

Company	Interest held in subsidiary	Bank	Type of debt	Debt balance at 03/31/2016	Type of guarantee	Balance guaranteed by CTEEP	Guarantee termination date
IEMG	100%	BNDES	FINEM	36,278	None	36,278	-
Serra do Japi	100%	BNDES	FINEM	70,836	None	70,836	-
Pinheiros	100%	BNDES	FINEM and PSI	84,929	None	84,929	-
Pinheiros	100%	BNDES	FINEM and PSI	19,169	None	19,169	-
IESul	50%	BNDES	FINEM and PSI	12,222	Bank surety	6,111	10/04/2016
IESul	50%	BNDES	FINEM and PSI	17,940	Bank surety	8,970	07/31/2017
IENNE	25%	Banco do Nordeste	FNE	197,433	Bank surety	49,358	06/01/2016
IENNE	25%	Banco do Brasil	Overdraft facilities	15,712	None	3,928	-
IEMadeira	51%	Banco da Amazônia	Bank Credit Bill	312,491	Bank surety	159,370	06/30/2016
IEMadeira	51%	BNDES	FINEM and PSI	1,603,572	Bank surety	817,822	06/30/2016
IEMadeira	51%	Itaú/BES	Infrastructure debentures	462,823	Back bond	236,040	06/30/2016
IEGaranhuns	51%	BNDES	FINEM and PSI	335,674	Bank surety	171,194	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 the compliance with financial indicators similarly to those mentioned in item (b) (i), as well as cross default clauses, which establish the accelerated maturity of debts in the event of noncompliance with indicators by subsidiary CTEEP.

At March 31, 2016, there is no debt acceleration event relating to covenants both for the Company and for any of its subsidiaries.

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Notes to interim financial statements (Continued)

March 31, 2016

(In thousands of reais, unless otherwise stated)

17. Debentures

	Maturity	Number	Charges	Consolidated	
				03/31/2016	12/31/2015
2 nd series (i)	12/15/2017	5,760	IPCA + 8.1% p.a.	43,924	41,608
Single series CTEEP (ii)	12/26/2018	50,000	116.0% of CDI p.a.	517,869	498,747
				561,793	540,355
Current				201,238	180,782
Noncurrent				360,555	359,573

- (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 \leq 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:

	03/31/2016	12/31/2015
2017	194,603	193,621
2018	165,952	165,952
	360,555	359,573

Changes in debentures for the quarter ended March 31, 2016 are as follows:

Balances at 12/31/2015	540,355
Interest and monetary and foreign exchange gains (losses)	21,438
Balances at 03/31/2016	561,793

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Notes to interim financial statements (Continued)

March 31, 2016

(In thousands of reais, unless otherwise stated)

18. Taxes and social charges payable

	Company		Consolidated	
	03/31/2016	12/31/2015	03/31/2016	12/31/2015
Income tax	-	-	13,549	2,163
CSLL	-	-	5,145	2,124
COFINS	33	99	9,128	8,599
PIS	5	16	1,806	1,718
Social Security Tax (INSS)	23	21	4,710	5,128
ISS	3	-	2,836	947
Unemployment Compensation Fund (FGTS)	-	-	913	1,536
Withholding Income Tax (IRRF)	315	677	2,472	3,761
Other	2	2	1,914	3,256
	381	815	42,473	29,232

19. 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, the Company 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. Installments are adjusted based on SELIC and at March 31, 2016 total R\$1,377.

Changes for the quarter ended March 31, 2016 are as follows:

	<u>Consolidated</u>
Balance at 12/31/2015	<u>143,097</u>
Monetary restatement on debt	2,854
Payments made	<u>(4,106)</u>
Balance at 03/31/2016	<u>141,845</u>
Current	<u>16,526</u>
Noncurrent	<u>125,319</u>

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Notes to interim financial statements (Continued)

March 31, 2016

(In thousands of reais, unless otherwise stated)

20. Deferred PIS and COFINS

	Consolidated	
	03/31/2016	12/31/2015
Deferred PIS	27,006	26,570
Deferred COFINS	124,458	122,452
	151,464	149,022

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.

21. Regulatory charges payable

	Consolidated	
	03/31/2016	12/31/2015
Research and development - R&D (i)	32,626	42,356
Energy Development Account (CDE)	1,338	1,157
Global Reversion Reserve (RGR) (ii)	7,591	7,730
Alternative Electric Power Source Incentive Program (PROINFA)	1,382	1,772
	42,937	53,015
Current	9,163	21,821
Noncurrent	33,774	31,194

- (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 ANEEL's final audit and evaluation. The total amount used in projects not completed until March 31, 2016 amounts to R\$11,752 (R\$11,075 at December 31, 2015).
- (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. In CTEEP, at December 31, 2015, RGR balance payable refers to additional charge for years 2010 and 2012.

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Notes to interim financial statements (Continued)

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(In thousands of reais, unless otherwise stated)

22. Provisions

	Consolidated	
	03/31/2016	12/31/2015
Vacation pay, 13 th monthly salary and social charges	22,925	23,365
Profit sharing (PLR)	3,515	6,392
Contingencies (a)	194,386	189,612
	220,826	219,369
Current	26,440	29,757
Noncurrent	194,386	189,612

(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	
	03/31/2016	12/31/2015
Labor (i)	165,307	164,528
Civil (ii)	17,248	14,302
Tax - Real Estate Tax (IPTU) (iii)	10,068	9,722
Social security - INSS (iv)	1,763	1,060
	194,386	189,612

(i) Labor

Subsidiary CTEEP is a defendant in certain lawsuits at different courts, mainly arising from labor claims for salary parity, overtime pay, and health exposure premiums among others. Subsidiary CTEEP has labor-related judicial deposits amounting to R\$54,859 (R\$54,695 at December 31, 2015), according to Note 12.

(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.

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Notes to interim financial statements (Continued)

March 31, 2016

(In thousands of reais, unless otherwise stated)

22. Provisions (Continued)

(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\$3,342 (Note 12).

Changes in provisions for contingencies for the quarter ended March 31, 2016 are as follows:

	Consolidated				Total
	Labor	Civil	Tax - IPTU	Social security - INSS	
Balances at 12/31/2015	164,528	14,302	9,722	1,060	189,612
Set up	2,527	2,709	-	111	5,347
Reversal/payment	(5,265)	(491)	-	-	(5,756)
Restatement	3,517	728	346	592	5,183
Balances at 03/31/2016	165,307	17,248	10,068	1,763	194,386

(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 is not set up, in the estimated amount of R\$594,020 at March 31, 2016 (R\$484,363 at December 31, 2015).

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March 31, 2016

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22. Provisions (Continued)

Classification	Number	Total
Labor	194	23,144
Civil	36	25,458
Civil - Merger of EPTE into CTEEP declared null (i)	1	141,278
Tax - social contribution tax loss (ii)	1	21,900
Tax - goodwill amortization (iii)	4	340,486
Tax - IRPJ and CSLL (iv)	1	17,947
Tax - other	39	23,807
Plan of Law No. 4819/58 (Note 35)	1	-
		594,020

(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.

(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 2016 by the Brazilian IRS, years 2008 to 2013, referring to goodwill paid by the Company in the acquisition of the ownership control of subsidiary CTEEP. 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

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income and social contribution tax debts, calculated from January to March 2003, which was partially deferred. This proceeding is pending judgment at CARF.

22. Provisions (Continued)

(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.

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

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maintaining the aforementioned collection against Eletropaulo. Appeals similar to those of ELETROBRAS were filed by subsidiary CTEEP.

22. Provisions (Continued)

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

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

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

Eletropaulo filed an appeal so that the lawsuit returned to the fact-finding phase for performance of expert evidence examination. The conclusion of the expert report presented in September 2015 is in line with CTEEP's view. The Subsidiary and Eletropaulo expressed opinions at September 30, 2015 about the expert report that were not analyzed yet.

(ii) PIS/COFINS

CTEEP is a defendant in the proceedings arising from PIS and COFINS delinquency notices for the years 2003 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\$1,705.0 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.

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23. Payables – FUNCESP

Subsidiary CTEEP sponsors supplementary retirement and death benefit plans maintained with FUNCESP. At March 31, 2016, their balance plus administrative costs of the fund amount to R\$6,446 (R\$6,144 at December 31, 2015) 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 35).

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 the Company. 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.

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23. Payables – FUNCESP (Continued)

b) PSAP/CTEEP (Continued)

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 of 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.

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.

For the quarter ended March 31, 2016, there were no significant changes in the rules of the plans above. In addition, there were no fluctuations that required adjustments to assumptions used in the actuarial calculations made at December 31, 2015 or significant impairment of plan assets that required recognition of any accounting effect during the period.

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24. Special obligations - reversal/amortization

In 2015, the balance of R\$24,053 refers to funds arising from the reversal and amortization reserve and portion held at the Company 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, the Company pays 5% on the reserve as interest, on an annual basis, with monthly settlement. The manner of settlement of these obligations has not been defined by the Granting Authority.

25. Equity

a) Capital

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

- (i) At the Special General Meeting held on March 9, 2010, 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.

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25. 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.

At March 31, 2016, the Company's subscribed and paid-in capital amounted to R\$840,378, represented by 840,625,000 common shares and 391,785,108 preferred shares (840,625,000 common shares and 391,785,108 in 2015).

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%

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Notes to interim financial statements (Continued)

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25. Equity (Continued)

b) 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.

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 March 31, 2016, this account totaled R\$791,092 (R\$791,092 at December 31, 2015).

c) 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 March 31, 2016, this account balance totals R\$5,679 (R\$5,679 at December 31, 2015).

d) Income reserves

	<u>03/31/2016</u>	<u>12/31/2015</u>
Legal reserve (i)	5,881	5,881
Retained profits reserve (ii)	128,488	128,488
	<u>134,369</u>	<u>134,369</u>

(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.

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25. Equity (Continued)

d) Income reserves (Continued)

(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.

e) 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:

	<u>03/31/2016</u>	<u>12/31/2015</u>
Basic earnings		
Net income (loss) – R\$ thousand	35,253	134,247
Weighted average number of shares		
Common shares	840,625,000	840,625,000
Preferred shares	391,785,108	416,528,628
	<u>1,232,410,108</u>	<u>1,257,153,628</u>
Total basic earnings per share - R\$	0.02860	0.10679

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

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26. Net operating revenue

26.1. Breakdown of net operating revenue

	Consolidated	
	03/31/2016	03/31/2015
Gross revenue		
Construction (a) (Note 8)	24,334	48,745
Operation and maintenance (a) (Note 8)	219,157	188,262
Financial income on concession assets (b) (Note 8)	57,993	43,293
Rentals	4,395	4,155
Service rendering	1,105	1,256
Total gross revenue	306,984	285,711
Taxes on revenues		
COFINS	(21,559)	(19,755)
PIS	(4,681)	(4,289)
ISS	(99)	(88)
	(26,339)	(24,132)
Regulatory charges		
	(3,972)	(2,237)
Global Reversion Reserve (RGR)	(751)	(712)
Research and Development (R&D)	(2,357)	(2,062)
	(4,053)	(2,922)
Alternative Electric Power Source Incentive Program (PROINFA)	(4,053)	(2,922)
	(11,133)	(7,933)
	269,512	253,646

(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.

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Notes to interim financial statements (Continued)
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26. Net operating revenue (Continued)

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

Under service concession arrangements, 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:

<u>Concession operator</u>	<u>Ratification Ruling (REH)</u>	<u>REH date</u>	<u>Effective period</u>
IEMG	1.299	06/19/2012	07/01/2012
IENNE	1.540	06/18/2013	07/01/2013
Evrecy	1.538	06/18/2013	07/01/2013
Pinheiros	1.755/1.762	06/24 and 07/09/2014	07/01/2014
Serra do Japi	1.901	06/16/2015	07/01/2015
IESul	1.755	06/24/2014	07/01/2014
IEMadeira (i)	1.755	06/24/2014	07/01/2014

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26. Net operating revenue (Continued)

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

- (i) The first periodic tariff review of indirect subsidiary IEMadeira 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. Indirect subsidiary IEMadeira 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, indirect subsidiary IEMadeira 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. Indirect subsidiary IEMadeira seeks an actual increase in RAP by 26.8%. The application is being analyzed by ANEEL.

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

26.3. 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.

26.4. 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.

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26. Net operating revenue (Continued)

26.4. 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).

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26. Net operating revenue (Continued)

26.4. 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				
	Existing assets	New investments	Bid	Adjustment portion	Existing assets	New investments	Bid	Adjustment portion	Total
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

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

	Company			Consolidated			
	03/31/2016	03/31/2015		03/31/2016	03/31/2015		
	Expenses	Total	Total	Costs	Expenses	Total	Total
Personnel	(503)	(503)	(468)	(59,421)	(14,288)	(73,709)	(69,057)
Services	(701)	(701)	(494)	(24,659)	(9,285)	(33,944)	(42,888)
Depreciation and amortization of intangible assets (Note 14 and 15)	(8)	(8)	(4)	-	(2,132)	(2,132)	(2,041)
Materials	-	-	-	(7,471)	(219)	(7,690)	(17,151)
Leases and rentals	(84)	(84)	(77)	(2,646)	(1,348)	(3,994)	(3,483)
Contingencies	-	-	-	-	(6,134)	(6,134)	(17,160)
Other	(133)	(133)	(6)	(9,481)	(4,006)	(13,487)	(10,194)
	(1,429)	(1,429)	(1,049)	(103,678)	(37,412)	(141,090)	(161,974)

Consolidated

Consolidated construction costs totaled R\$22,306 in Q1 2016 and R\$44,834 in Q1 2015. The corresponding construction revenue, stated in Note 26.1, is calculated by adding PIS and COFINS rates and other charges to the investment cost.

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28. Financial income (expenses)

	Company		Consolidated	
	03/31/2016	03/31/2015	03/31/2016	03/31/2015
Income				
Short-term investment yield	814	1,324	15,071	14,876
Interest income	879	583	1,542	10,098
SELIC interest - income tax - recoverable	973	140	973	140
Monetary gains	-	-	-	17,593
Foreign exchange gains	18,929	13,310	18,929	13,310
PIS on financial income	(40)	-	(40)	-
COFINS on financial income	(247)	-	(247)	-
Other	-	-	1,055	213
	21,308	15,357	37,283	56,230
Expenses				
Interest payable on loans	(2,688)	(2,031)	(13,968)	(13,077)
Interest expenses	-	-	(3,139)	(2,973)
Charges on debentures	-	-	(20,157)	(20,019)
IRRF on remittance of interest	(649)	(286)	(649)	(286)
Monetary losses	-	(16,978)	(6,399)	(16,978)
Foreign exchange losses	(16,359)	(17,656)	(16,359)	(17,656)
Other	(41)	(55)	(198)	(400)
	(19,737)	(37,006)	(60,869)	(71,389)
Total financial income (expenses)	1,571	(21,649)	(23,586)	(15,159)

29. Other operating income (expenses)

	Consolidated	
	03/31/2016	03/31/2015
Income		
Reversal of loss - IEMG	576	590
Other income	19	14
	595	604
Expenses		
Goodwill amortization	(9)	(7,472)
Amortization of concession assets on acquisition of subsidiary Evreco	(622)	(623)
Reversal of construction service portion	-	-
Disposal of unserviceable assets	-	-
Other	(90)	(328)
	(721)	(8,423)
	(126)	(7,819)

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Notes to interim financial statements (Continued)

March 31, 2016

(In thousands of reais, unless otherwise stated)

30. 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	
	03/31/2016	03/31/2015	03/31/2016	03/31/2015
Income before income and social contribution taxes	35,253	17,242	123,731	93,034
Current statutory rates	34%	34%	34%	34%
Expected income and social contribution taxes	(11,986)	(5,862)	(42,069)	(31,632)
Income and social contribution taxes on permanent differences				
Loss realized	-	-	(10)	(1,213)
Reversal of the Provision for Maintenance of Equity Integrity (PMIPL) (*)	-	-	6	4,931
Equity pickup	11,938	10,798	6,467	5,495
Effect of adoption of taxable profit computed as a percentage of gross revenue - subsidiaries	-	-	7,374	4,239
Tax loss credit	(8)	(1,462)	(8)	(1,462)
Other	56	48	2,890	2,203
Effective income and social contribution taxes	-	3,522	(23,350)	(17,439)
Income and social contribution taxes				
Current	-	3,522	(19,055)	(14,967)
Deferred	-	-	(6,295)	(2,472)
	-	3,522	(23,350)	(17,439)
Effective rate	-	(20.4%)	20.5%	18.7%

(*) The acquisition of ownership control of CTEEP by ISA generated goodwill, which at December 31, 2007 totaled R\$ 689,435, and was substantially amortized up to December 2015, in monthly installments, as authorized by ANEEL Resolution No. 1164. 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. The remaining balance at March 31, 2016 totals R\$577 (R\$586 at December 31, 2015).

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Notes to interim financial statements (Continued)

March 31, 2016

(In thousands of reais, unless otherwise stated)

30. 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 March 31, 2016 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 March 31, 2016, the Company presents credits on income and social contribution tax losses of R\$192,284 (R\$192,284 at December 31, 2015), not accounted for, as such credits are not expected to be recovered.

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

	Company		Consolidated	
	03/31/2016	12/31/2015	03/31/2016	12/31/2015
Provision - SEFAZ (i)	-	-	175,527	175,527
Provision for contingencies	-	-	66,065	64,369
First adoption of Law No. 12973/14 (ii)	-	-	(23,669)	(23,890)
Service concession arrangement (ICPC 01) (iii)	-	-	(77,942)	(71,143)
Deferred income tax loss (iv)	23,733	23,733	23,733	23,733
Deferred social contribution tax loss	8,504	8,504	8,504	8,504
Other temporary differences	-	-	1,732	3,145
Net	32,237	32,237	173,950	180,245
Current assets	-	-	-	-
Noncurrent assets	32,237	32,237	209,808	216,046
Noncurrent liabilities	-	-	35,858	35,801

(i) See Note 9.

(ii) 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.

(iii) 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.

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

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Notes to interim financial statements (Continued)
 March 31, 2016
 (In thousands of reais, unless otherwise stated)

30. Income and social contribution taxes (Continued)

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

Company 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.

31. Transactions with related parties

Significant balances and transactions with related parties are as follows:

		03/31/2016		12/31/2015		03/31/2016	03/31/2015
		Assets	Liabilities	Assets	Liabilities	Revenue/ (expense)	Revenue/ (expense)
a) Parent Company - ISA Capital							
Consolidated							
Short-term benefits (*)	Key management personnel		-	-	-	(1,522)	(1,562)
Cash and cash equivalents	HSBC Finance (Brasil) S.A. Banco Múltiplo	37	-	37	-	-	-
Short-term investments (Note 7)	Banco Votorantim S.A.	3,097	-	2,999	-	98	590
Loans (Notes 11 and 28)	Interconexión Eléctrica	85,530	-	92,954	-	879	583
Interest on equity and dividends receivable	Subsidiary CTEEP	-	-	-	-	-	-
		88,664	-	95,990	-	(545)	(389)
b) Subsidiary CTEEP							
Dividends	IE Madeira	1,121	-	29,170	-	-	-
		1,121	-	29,170	-	-	-
Future capital contribution	IE Garanhuns	-	-	21,471	-	-	-
		-	-	21,471	-	-	-
Sublease	Subsidiary CTEEP	-	29	-	23	(85)	(77)
	IEMG	8	-	7	-	21	22
	Pinheiros	8	-	18	-	28	36
	Serra do Japi	8	-	13	-	26	27
	Evrecy	3	-	4	-	11	13
	IENNE	8	-	18	-	26	30
	IESul	5	-	12	-	15	17
		40	29	72	23	42	68
Service rendering	Subsidiary CTEEP	-	15	-	15	(45)	(35)
	IEMG	11	-	11	-	34	31
	Pinheiros	231	-	100	-	426	286
	Serra do Japi	84	-	80	-	250	75
	Evrecy	67	-	67	-	200	183
	Internexa	-	20	-	13	(39)	-
		393	35	258	28	826	540

(*) 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).

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Notes to interim financial statements (Continued)

March 31, 2016

(In thousands of reais, unless otherwise stated)

31. 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 subleased at the 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 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.

ISA Capital do Brasil S.A.

Notes to interim financial statements (Continued)
 March 31, 2016
 (In thousands of reais, unless otherwise stated)

32. Financial instruments

a) Identification of significant financial instruments

	Company		Consolidated	
	03/31/2016	12/31/2015	03/31/2016	12/31/2015
Financial assets				
Fair value through profit or loss				
Cash and cash equivalents	11,834	18,914	17,142	25,049
Short-term investments	8,926	8,637	413,463	448,691
Restricted cash	-	-	12,436	12,059
Loans and receivables				
Trade accounts receivables				
Current	-	-	289,609	319,961
Noncurrent	-	-	3,560,108	3,526,968
Receivables - State Finance Department (SEFAZ)				
Noncurrent	-	-	1,009,311	965,920
Receivables from subsidiaries	-	-	1,134	29,200
Loans receivable				
Current	85,530	92,954	85,530	92,954
Pledges and restricted deposits				
Current	4,956	5,438	4,956	5,438
Noncurrent	-	-	68,061	66,268
Financial liabilities				
Amortized cost				
Loans and financing				
Current	1,652	4,532	72,952	75,602
Noncurrent	112,643	123,591	584,236	608,830
Debentures				
Current	-	-	201,238	180,782
Noncurrent	-	-	360,555	359,573
Trade accounts payable	531	371	46,884	35,321
Interest on equity and dividends payable	-	-	2,155	2,156
Payables - Law No. 4819/58				
Current	438,677	438,677	438,677	438,677

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:

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Notes to interim financial statements (Continued)
March 31, 2016
(In thousands of reais, unless otherwise stated)

32. Financial instruments (Continued)

a) Identification of significant financial instruments (Continued)

Consolidated (Continued)

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	
	03/31/2016	12/31/2015	03/31/2016	12/31/2015
Loans and financing				
Current	1,652	4,532	72,952	75,602
Noncurrent	112,643	123,591	584,236	608,830
Debentures				
Current	-	-	201,238	180,782
Noncurrent	-	-	360,555	359,573
Total debt	114,295	128,123	1,218,981	1,224,787
Cash and cash equivalents and short-term investments	20,760	27,551	430,605	473,740
Net debt	93,535	100,572	788,376	751,047
Equity	1,795,413	1,760,160	5,264,914	5,252,740
Net debt-to-equity ratio	5.2%	5.7%	15.0%	14.3%

Subsidiary CTEEP and its subsidiaries have loan and financing agreements with covenants based on debt-to-equity-ratios (Notes 16 and 17). Subsidiary CTEEP complies with the covenant requirements.

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Notes to interim financial statements (Continued)

March 31, 2016

(In thousands of reais, unless otherwise stated)

32. Financial instruments (Continued)

c) Risk management

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

- (i) *Credit risk* - subsidiary CTEEP and its subsidiaries have executed and maintain agreements containing a bank guarantee clause with ONS, concession operators and other agents, governing the provision of their Basic Electric Power Grid services to 216 users. Also, CTEEP and its subsidiaries have executed and maintain agreements containing a bank guarantee clause with 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 26.2).
- (iii) *Interest rate risk* - Financing agreements of subsidiary CTEEP are monetarily restated by reference to TJLP, IPCA and CDI variation (Notes 16 and 17).
- (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 16).

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Notes to interim financial statements (Continued)

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(In thousands of reais, unless otherwise stated)

32. 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, cash 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.

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Notes to interim financial statements (Continued)

March 31, 2016

(In thousands of reais, unless otherwise stated)

32. Financial instruments (Continued)

d) Sensitivity analysis (Continued)

As such, in order to assess the effects of Company's cash flow variation, the sensitivity analysis below deems as probable scenario the interest rates at June 30, 2016 (fixed DI interest rate curve determined at March 31, 2016), 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						
Transaction	Risk	Base scenario	Index increase risk		Index decrease risk	
			Scenario I	Scenario II	Scenario I	Scenario II
Financial assets						
Short-term investments	93.5% to 101.0% of CDI	11,793	14,572	17,292	8,949	6,309
Financial liabilities						
Debentures – 2 nd series	IPCA+8.10%	1,981	2,248	2,510	1,709	1,432
Debentures - single series	116.0% of CDI p.a.	30,236	34,920	39,488	25,428	20,489
FINEM BNDES (i), (ii) and (iii)	TJLP+1.80% to 2.30%	5,530	6,604	7,666	4,441	3,337
BNDES (subsidiaries)	TJLP + 1.55% to 2.62% p.a.	3,931	4,597	5,255	3,257	2,573
Net effect of change		(29,885)	(33,797)	(37,627)	(25,886)	(21,522)
Reference for financial assets and liabilities						
100% of CDI (June 2016)		13.86%	17.33%	20.79%	10.40%	6.93%

33. 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	
	03/31/2016	12/31/2015
Within 1 year	7,292	6,762
From 1 to 5 years	5,589	4,563
	12,881	11,325

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Notes to interim financial statements (Continued)

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34. Insurance

Breakdown of insurance lines is as follows:

Consolidated			
Line	Effective period	Insured amount in thousands of reais (R\$)	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	16
Personal accidents – Group (d)	05/01/15 to 05/01/16	12,115	1
Automobile (e)	03/02/16 to 03/02/17	Market value	222
Court-ordered guarantee (f)	11/29/13 to 03/14/21	223,712	2,585
			8,487

(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.

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Notes to interim financial statements (Continued)

March 31, 2016

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35. 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.

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). STJ recognized the jurisdiction of the Regular Legal Court in August 2008, and AAFC 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 TJ/SP on February 24, 2016 so that the AAFC's appeal against the decision rendering the matter groundless can be retried.

b) Labor claim received by 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.

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Notes to interim financial statements (Continued)

March 31, 2016

(In thousands of reais, unless otherwise stated)

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

b) Labor claim received by 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 AAFC 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. On March 21, 2016, TST required the immediate transfer of the claim from the São Paulo 49th Labor Court to the Regular Legal Court.

c) Conflict of jurisdiction

Upon judging the Conflict of Jurisdiction, on March 12, 2015, 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 on April 17, 2015). The AAFC 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.

Associação dos Aposentados da Fundação CESP (AAFC) filed the Precautionary Action No. 3882 before the STF, seeking that the decision handed down by the Labor Court prevail until the competent Court analyzes 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.

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Notes to interim financial statements (Continued)
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35. 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 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, mentioned in item "b" above.

As a consequence of this decision, subsidiary CTEEP transferred to FUNCESP, from January 2005 to March 2016, R\$3,606,144 for the payment of benefits under State Law No. 4819/58, having received from SEFAZ-SP R\$2,321,617 for such purpose. The difference between the amounts transferred to FUNCESP and refunded by SEFAZ-SP, amounting to R\$1,284,527 (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 the Company which are the responsibility of State Government, amounting to R\$241,039 (Note 9.b), totaling R\$1,525,566.

In December 2010, subsidiary CTEEP filed a collection lawsuit against SEFAZ-SP to recover the amounts 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. SEFAZ-SP, on March 7, 2016, filed an appeal pending judgment.

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Notes to interim financial statements (Continued)

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35. 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.

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

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.

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Notes to interim financial statements (Continued)

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(In thousands of reais, unless otherwise stated)

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

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

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.

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, and finds adequate, 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.

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Notes to interim financial statements (Continued)

March 31, 2016

(In thousands of reais, unless otherwise stated)

36. Subsequent events

a) Capital increase

On April 5, 2016, the Board of Directors of CTEEP approved Subsidiary's capital increase, based on the capital authorized established in the Articles of Organization, upon private subscription of shares. Capital increase will amount to at least R\$59,773 and at most R\$160,725, and the minimum amount corresponds to the increase portion that will be up to the controlling shareholder, ISA Capital.

b) Ruling No. 120 - Ministry of Mines and Energy

Based on the Material News Release disclosed on April 22, 2016 by CTEEP, the Ministry of Mines and Energy issued Ruling No. 120, on April 20, 2016, determining that the amounts homologated by ANEEL through Order No. 4036/2015, relating to indemnification of non-depreciated assets existing on May 31, 2000 (SE), comprise the Regulatory Remuneration Base of electricity transmission concessionaires as from 2017 tariff process, for the estimated period of eight years. The Ruling addresses aspects related to adjustment, remuneration and taxation of the amounts involved, mentioning the existence of matters pending regulation by ANEEL. CTEEP is analyzing the accounting impacts of such Ruling, but no effect therefrom was recognized in the interim financial statements for the quarter ended March 31, 2016.