CTEEP - Companhia de Transmissão de Energia Elétrica Paulista

Individual and consolidated financial statements prepared in accordance with accounting practices adopted in Brazil

CONTENTS

MESSAGE FROM MANAGEMENT

The year of 2016 represents a milestone that ends a cycle of profound changes for CTEEP, which began in 2012 with publication of Provisional Executive Order No. 579/12, subsequently passed into Law No. 12783/2013. In accepting the extension of the concession agreement, we began a new stage in the Company's trajectory, in a highly complex scenario with significant changes in the Brazilian electric power sector.

We accepted the challenge of reorganizing the Company with courage, determination and in an unprecedented manner, adapting it to a context of drastic reduction in revenue. We took on the task of further raising the high level of efficiency for which CTEEP has always been recognized. We undertook the ongoing commitment with strict financial discipline and cost control, and actively defended the interests of the Company. All these efforts have earned us valuable achievements and significant progress, many of which were evidenced throughout 2016.

One of the major events was the publication of Administrative Ruling No. 120, on April 20, 2016, by the Ministry of Mines and Energy, which establishes the rules for payment of unamortized assets existing in May 2000 arising from the concession renewal process. Although lower than the amount presented in a report filed with ANEEL on August 13, 2014, a total of R$3.9 billion has already been ratified by ANEEL. Even with the progress made, we continue claiming the fair value of unamortized assets with the competent authorities.

Another issue of great importance for CTEEP concerns Law No. 4819/58. In 2015, the Federal Supreme Court defined that the Common Court, rather than the Labor Court, shall have jurisdiction to judge the action that refers to such payments, resulting in significant progress in 2016, through legal decisions favorable to the Company. In special is the enforcement action that declares the São Paulo State Treasury as responsible for the transfer of amounts spent by CTEEP with payment of supplementation to those benefited by Law No. 4819/58, and determines the reimbursement of the amounts that had not been previously transferred by the Treasury. While these decisions are positive, they were insufficient to bring an end to the matter because of appeals lodged still pending judgment. We continue to work intensively to resolve this issue and relieve the financial commitment that has a negative impact on the Company's sustainability and growth.

In the regulatory area, we also identified progress in discussions on the transfer of facilities with voltage below 230 kV, the so-called Other Transmission Facilities (DIT), from transmission companies to distribution companies. We believe that the uncertainty surrounding this issue was overcome with technical note No. 170/2016 issued by ANEEL, after intense debate with the agents involved, which informed that the compulsory transfer would be restricted to exclusive DITs, that is, to the facilities with voltage below 230 kV that serve a single concession operator. Despite the impacts on the transmission companies, this change significantly reduces these repercussions.

The conditions presented in the transmission auctions conducted by ANEEL were also positive, among which we highlight the increase in the rate of return on investments and improvement in the deadlines for environmental licensing. These advances paved the way to another highlight that marks 2016 and opens a new cycle for CTEEP: winning three lots of transmission projects. We concluded two lots in partnership with Taesa, in Bahia and Minas Gerais, and were also winners of a project in Espírito Santo. Together, the contributions to the three lots concluded represent a total investment of R$1,148.5 million and expansion of 625 kilometers of transmission lines and 1,197 MVA of transformation capacity.

In terms of operational performance, we implemented the reorganization of the Technical Executive Board, working with a more synergistic model among the Company units and strengthening strategic points of our customer service network. This new approach led us to obtain, in another year, expressive efficiency indicators. The Company's Index of Energy Not Supplied (IENS) presented significant levels of excellence, a result that ranks the Company among the best in the sector.
This qualified work also enabled us to successfully overcome the challenges of 2016. In June, given the extreme weather conditions, CTEEP faced the most significant event in its history in terms of geographical coverage: the outage of tower structures in nine transmission lines, in five different locations in the state of

São Paulo. In spite of the complexity of this event, we were able to restore the transmission of energy with agility, quality and safety, avoiding a possible collapse of the energy system in the region.

Our efforts in 2016 also aimed to improve the governance of our subsidiaries. We are close to concluding the tests of IE Madeira and the project is almost entirely operational, allowing the transmission of energy to its fullest potential.

Over the past year, we contributed R$191.8 million to projects of CTEEP and its subsidiaries. This amount is the result of our rigorous vision of project profitability, which has led us to adopt a more careful approach in conducting these investments, revisiting our contribution strategy in order to reach better results.

The financial figures of 2016 confirm CTEEP's commitment to management excellence and sustainable growth: net operating revenue totaled R$7,789.2 million and net income recorded at the year-end was R$4,949.3 million. This exceptional result is consequence of our efforts begun in 2012 and recognition of the Company's regulatory remuneration base in May 2000.

We reaffirm our commitment to dialogue and relationships with our stakeholders, always guided by ethical standards and transparency, and by principles such as the United Nations Global Compact, of which we have been signatories since 2011.

The year 2016 symbolizes the beginning of a new phase for CTEEP. We must continue working in 2017 to maintain efficiency in our operations and the same financial discipline, in order to build sustainable growth bases with resources from the adjustment of the regulatory remuneration base. This challenge began with the projects won in the last auction, and will continue to be the focus of our management and our mission.

CTEEP is ready to lead a new stage of expansion of the national electric sector, contributing directly to the Country's upturn.

Reynaldo Passanezi Filho
CEO

1. COMPANY PROFILE

CTEEP is one of the most important transmission companies in the Brazilian electric sector. With innovative technologies, well-structured processes and a team of 1,400 highly qualified professionals, the Company transmits 24% of all electric power produced in the Country, 60% of the energy consumed in the Southeast Region and almost 100% in the state of São Paulo.

CTEEP and its companies have an infrastructure with installed capacity of 56,237 MVA of transformation and formed by 18,633 kilometers of transmission lines, 25,785 kilometers of circuits, 2,347 kilometers of own fiber optic cables and 122 substations with voltage of up to 550 kV.

With own activities and activities of its subsidiaries and affiliates, the Company is present in 16 states of Brazil: Rio Grande do Sul, Santa Catarina, Paraná, São Paulo, Minas Gerais, Espirito Santo, Rondônia, Mato Grosso, Mato Grosso do Sul, Goiás, Tocantins, Maranhão, Piauí, Paraíba, Pernambuco and Alagoas.

Operating under the most demanding quality standards and investing constantly in technology, training of its teams and improvement of its processes, CTEEP provides highly reliable services, and is considered a benchmark by ANEEL as regards operational efficiency and service quality indicators.

The Company invests in the professional qualification of its teams and among its priorities are the safety of its employees and management of the organizational climate. In 2016, CTEEP achieved its best result in the Climate Survey, whereby more than 70% of employees considered the Company´s efforts regarding the work environment as positive. This result places CTEEP among a group of companies considered benchmark in management of organizational climate, according to the Hay Group, an international business management consultancy. It was also elected one of the "Best Workplaces" by the Great Place to Work (GPTW), an international institute that conducts organizational research in 53 countries.

CTEEP´s strategy involves an analysis of the social, environmental and economic impacts that its activities may have, seeking to balance the growth needs of its business and the demands of society.

The Company adopts market benchmarks to guide its sustainability performance, such as the Dow Jones Sustainability Index (DJSI) and the Ethos Indicators for Sustainable and Responsible Business. It is also a signatory, since 2011, of the United Nations Global Compact, a formal commitment undertaken by businesses worldwide to align ten human rights, labor rights, environmental and anti-corruption principles.

CTEEP develops and supports social-environmental, cultural and sporting projects that contribute to the quality of life of the population. In 2016, through tax incentive laws and own resources, R$1.9 million was allocated to health, cultural, community-based initiatives and prevention of risks related to the transmission business.

Acknowledgments

For the second consecutive year, the Company was among the winners of the Brazilian Association of Publicly-Held Companies (ABRASCA) Award, which highlights the best Annual and Sustainability Reports. The Company was winner in the category of publicly-traded companies with net revenue below R$3 billion, once this award was granted before recognition of RBSE.

In 2016, the Company was considered among the top 10 companies according to APIMEC (Association of Capital Market Analysts and Professionals), achieved as a result of the evaluation of the APIMEC meeting held in 2015. It ranked among the top 20 companies with best reputation of the São Paulo Stock Exchange (Bovespa).

2. MANAGEMENT

CTEEP's strategy is based on efficient performance, discipline in economic and financial management, and a careful perspective of the profitability of investments. These aspects, combined with the synergistic performance between the various units of the Company located in Brazil, allow the delivery of quality and reliable services.

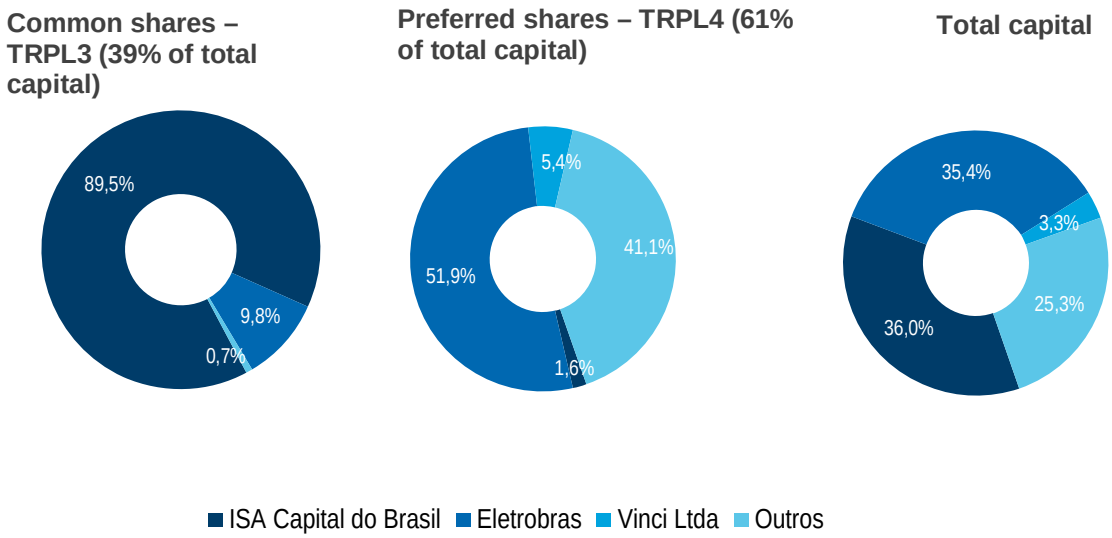
The Company conducts dedicated management of regulatory issues that affect companies in the sector. In this context, we highlight the Company´s performance in 2016 in the revision of the amount approved by ANEEL for adjustment of the regulatory remuneration base and its active participation in discussions regarding transfer of the Other Transmission Facilities (DIT) to the distribution companies.

CTEEP has been working to reduce contingencies, adopting a more proactive and active approach in the settlement of lawsuits and litigation, in addition to improving the strategy to deal with these issues.

The management of its subsidiaries is a priority for the Company. Measures aimed to improve corporate governance, increasing alignment of operational and management processes and technological systems, were carried out in 2016 and will continue this year.

3. CORPORATE GOVERNANCE

CTEEP is controlled by ISA, a multinational company based in Medellin, Colombia, with more than 50 years of experience in linear infrastructure systems, and investors also include Eletrobras, the largest Brazilian electric power group, and 60,000 individuals and legal entities from different countries. The graph below shows holders of more than 5% of the common or preferred Company shares:



CTEEP has been a member of BM&FBovespa's Corporate Governance Level 1 since 2002, and participates in the American Depositary Receipts (ADRs) program - Rule 144A in the United States since 1999.

The Company was the first organization in the electrical sector to obtain the international Quality Assessment certification awarded by The Institute of Internal Auditors (IIA), which recognizes the quality of the internal audit areas of companies.

The Company has an Integral Risk Management policy, based on the Enterprise Risk Management (ERM) methodology, whose main objective is to identify and manage the strategic, operational and environmental risks related to its business activities. It also implemented the Anti-Money Laundering and Counter Terrorism Financing Risk Management System (SARLAFT), a set of preventive and risk detection actions to protect the Company from relationships with individuals or legal entities directly involved in money laundering and terrorist financing crimes.

4. OPERATIONAL PERFORMANCE

CTEEP is a benchmark in the industry when it comes to performance. This level of quality is achieved, year after year, as a result of the use of state-of-the-art technologies, combined with the in-depth technical knowledge of its employees and an operation and maintenance strategy focused on the synergy between the various Company units.

The Company performs a detailed monitoring of its operational indicators, seeking continuous improvement in its efficiency levels, among which is the Index of Energy Not Supplied (IENS), obtained by the percentage ratio between the total energy not supplied during all occurrences in the year and the total energy demand supplied by the Company. In 2016, IENS was of 6.54.10-6 on the load served. This was one of the best results presented by CTEEP for this indicator, confirming the downward trend registered in recent years.

The Company also adopts world-class benchmarks, such as the International Transmission Operations & Maintenance Study (ITOMS) program indicators. CTEEP is the only Brazilian company that is part of this program, which measures the performance of transmission companies from different countries, evaluating their performance in relation to service level and cost. In ITOMS, the Company is a reference in different aspects, including substation maintenance costs.

An important aspect of the Company's operational strategy is the constant search for innovative solutions. Since its implementation, CTEEP's Research and Development (R&D) Program has invested R$71 million in 105 completed and ongoing projects, encouraging employees to find improvements in equipment and processes, generating new knowledge that leverages CTEEP's performance and bring benefits to the entire electric power industry. The R&D program contributed more than R$2 million only in 2016.

5. ECONOMIC AND FINANCIAL PERFORMANCE

RBSE recognition

CTEEP recognized the updated RBSE in 2016, with an impact of R$7,318.5 million in financial assets, R$6,503.6 million in net operating revenue, R$2,211.2 million in provisions for deferred income and social contribution taxes and R$4,292.4 million in net income.

The measurement and accounting of the right related to SE facilities was possible, after publication of Technical Note No. 336/2016 by ANEEL in October 2016, which resulted in the opening of Public Hearing No. 68/2016, for the period from October 14 to November 14, 2016, with a view to obtaining subsidies and additional information to improve the calculation of the cost of capital to be added to RAP of the transmission concession operators, under the scope of Law No. 12783/2013, in accordance with Administrative Ruling MME No. 120/2016.

Results for 2016 under IFRS

In 2016, Consolidated **Gross Operating Revenue** totaled R$8,774.3 million, mostly due to restatement of financial assets of RBSE accounts receivable, of R$7,318.5 million.

- Consolidated **Infrastructure Revenue** totaled R$171.9 million in 2016, down 38.3% in relation to R$278.7 million in 2015, substantially a result of completion of reinforcement projects, implementation of new infrastructure facilities in substations and reconfiguration of transmission lines in the Parent Company. The subsidiaries posted decrease in infrastructure revenue due to the implementation phase of installation of transformer bank, capacitors and reactors at IEPinheiros and Serra do Japi.

- In 2016, Consolidated **Operating and Maintenance Revenue** totaled R$835.8 million, an increase of 0.8% when compared to R$829.6 million in 2015. This increase is mainly due to the positive

variation of IGPM/IPCA applied to the portion of O&M revenue that adjusts RAP of the 2016/2017 cycle, the reduction of new projects and the negative variation of the adjustment portion (AP).

- Consolidated **Revenue from Remuneration of Concession Assets** totaled R$7,743.2 million in 2016, reflecting the restatement of RBSE accounts receivable, which resulted in asset adjustment of R$7,318.5 million. Not including such effect, consolidated **Revenue from Remuneration of Concession Assets** totaled R$424.7 million in 2016, an increase of 36.3% compared to 2015, mainly reflecting the 2016/2017 RAP cycle adjustment and restatement of the asset financial.

- **Other Revenues** refer to lease with telecommunication companies and rendering of services related to maintenance and technical analysis engaged by third parties. In 2016, these revenues totaled R$23.4 million, an increase of 5.4% compared to 2015.

Consolidated **Deductions from Operating Revenue** reached R$985.1 million in 2016, compared to R$154.9 million in 2015, resulting in the effect of the provision for PIS and COFINS of R$814.9 million on the remuneration of the concession assets of RBSE.

Net Operating Revenue in 2016 reached R$7,789.2 million, mainly due to recognition of remuneration of the concession assets of RBSE of R$6,503.6 million.

O&M costs and expenses in 2016 were of R$479.5 million, down 8.2% over 2015.

This reduction in costs and expenses results mainly from the increase in personnel costs and expenses due to the collective bargaining agreement of 9.32% granted in 2016; increase in materials as a consequence of consumption of inventories in the maintenance of transmission lines and substations; increase in third-party services for maintenance and upkeep of transmission lines and substations and contractual adjustments; and decrease in contingency expenses due to the non-recurring effect of the review of the methodology adopted in labor claims, made in 2015, when CTEEP began to consider the history of decisions with available evidence and similar cases.

Consolidated infrastructure costs totaled R$156.4 million in 2016, a decrease of 38.6% compared to 2015. This variation is in line with the fall in infrastructure revenue, due to completion of reinforcement projects and less infrastructure implementation activity.

Consolidated **equity pickup** in 2016 recorded revenue of R$267.7 million, a 66.0% increase compared to R$161.3 million recorded in 2015.

The positive variation is mainly due to increase in net revenue of the subsidiaries IEMadeira and IEGaranhuns, reflecting the 2016/2017 RAP cycle adjustment of both subsidiaries and the receipt of the integral RAP in IEGaranhuns for the start-up of operations at the end of 2015.

The consolidated **financial income (expenses)** recorded an expense of R$109.9 million in 2016, an increase of 333.5% compared to the expense of R$25.3 million recorded in 2015.

The variation is substantially due to the end of revenue from monetary variation and interest receivable referring to IPCA + 5.59%, receipt of accounts receivable from reversible assets under Law No. 12783/2013 (RBNI), combined with the increase in monetary variation expenses from restatement of provisions for contingencies.

Income and Social Contribution Taxes totaled an expense of R$2,333.9 million, due to recognition of deferred income and social contribution taxes on R$2,211.2 million arising from the effect of recognition of the RSBE concession asset remuneration in P&L for 2016. Excluding this effect, consolidated income and social contribution taxes totaled an expense of R$122.7 million in the year, 32.8% higher than in 2015.

Net Income in 2016 totaled R$4,949.3 million, compared to R$517.2 million in 2015, due to the impact of R$4,292.4 million on recognition of RBSE concession asset remuneration. Excluding this effect, net income was R$656.9 million in 2016, an increase of 27.0%

Consolidated EBITDA, according to CVM Ruling No. 527/12, was of R$7,404.8 million. Excluding the effect of recognition of RBSE concession asset remuneration, EBITDA totaled R$901.1 million in 2016, an increase of R$225.3 million compared to EBITDA of R$675.8 million recorded in 2015.

Consolidated **gross debt** at December 31, 2016 totaled R$1,010.5 million, down 7.9% over the same prior-year period, of R$1,096.7 million, mainly reflecting the payment of R$270.2 million of principal and interest of debentures of the 1st and 3rd Issue of the Company, and issue of R$148.3 million of infrastructure debentures in August 2016.

CTEEP's consolidated **cash and cash equivalents** totaled R$340.6 million as of December 31, 2016, down 23.7% compared to December 31, 2015. Consolidated **net debt** totaled R$669.8 million, representing 3.0% increase in relation to net debt at the end of 2015.

6. INVESTMENTS

In 2016, CTEEP, its subsidiaries and jointly-controlled subsidiaries invested a total of R$191.8 million in reinforcements, new connections and modernizations, compared to R$376.5 million invested in 2015. The variation is primarily due to commercial negotiation efforts to reduce contractual prices and suspension of projects claimed by CTEEP seeking better profitability.

2017 Investment Plan

At the meeting held in November 2016, the Board of Directors approved an Investment Plan for 2017 of up to R$513.8 million, of which R$310.3 million refers to reinforcements, new connections, modernizations and improvements in CTEEP, R$157.6 million to investments by the subsidiaries in the original project, improvements, reinforcements and new connections, and R$45.9 million to investment in personnel and corporate investments.

7. CAPITAL MARKETS

CTEEP common and preferred shares (BM&FBovespa: TRPL3 and TRPL4) were quoted at R$59.00 and R$64.87 at the end of 2016, representing a variation of 37.24% and 41.95%, respectively, in relation to December 31, 2015. In the same period, Ibovespa registered a valuation of 38.94% and the Electric Power Index (IEE) of 45.58%.

During 2016, CTEEP preferred shares had an average daily trading volume of R$27.4 million on BM&FBovespa, an increase of 83.9% compared to 2015. The total traded volume of TRPL4 in the year was R$6,928 million.

The average daily trading of preferred shares was 2,614, an increase of 37.0% over the average for 2015. CTEEP preferred shares reached 650.9 thousand trades in 2016.

8. INDEPENDENT AUDITORS

With respect to the provision of external audit services, CTEEP informs that Ernst & Young Auditores Independentes S.S. only provided services related to the audit of the individual and consolidated financial statements for 2016.

Management

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Statements of financial position
December 31, 2016 and 2015
In thousands of reais, unless otherwise stated

		Company		Consolidated	
Assets	**Note**	**2016**	**2015**	**2016**	**2015**
Current assets					
Cash and cash equivalents	5	1,609	3,120	4,524	6,135
Short-term investments	6	124,479	230,855	336,138	440,054
Accounts receivable (concession asset)	7	1,091,764	220,566	1,221,016	319,961
Inventories		35,796	38,787	37,723	40,476
Taxes and contributions recoverable	9	8,248	4,928	8,563	5,763
Receivables from subsidiaries	29	18,340	29,500	18,041	29,200
Prepaid expenses		10,104	6,037	10,303	6,057
Other		41,714	49,866	44,036	51,180
		1,332,054	**583,659**	**1,680,344**	**898,826**
Noncurrent assets					
Long-term receivables					
Restricted cash	14	-	-	12,002	12,059
Accounts receivable (concession asset)	7	9,222,081	2,569,403	10,225,808	3,526,968
Receivables - State Finance Department	8	1,150,358	965,920	1,150,358	965,920
Deferred income and social contribution taxes	28	-	183,809	-	183,809
Pledges and restricted deposits	10	70,166	66,252	70,175	66,268
Inventories		25,438	27,948	32,512	29,675
Other		1,570	9,835	1,570	9,835
		10,469,613	**3,823,167**	**11,492,425**	**4,794,534**
Investments	11	2,757,784	2,394,590	1,826,930	1,572,640
Property, plant and equipment	12	25,424	23,163	25,457	23,194
Intangible assets	13	18,219	22,649	41,843	49,509
		2,801,427	**2,440,402**	**1,894,230**	**1,645,343**
		13,271,040	**6,263,569**	**13,386,655**	**6,439,877**
Total assets		**14,603,094**	**6,847,228**	**15,066,999**	**7,338,703**

See accompanying notes.

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Statements of financial position
December 31, 2016 and 2015
In thousands of reais, unless otherwise stated

		Company		Consolidated	
Liabilities and equity	**Note**	**2016**	**2015**	**2016**	**2015**
Current liabilities					
Loans and financing	14	32,872	32,530	71,679	71,070
Debentures	15	192,368	180,782	192,368	180,782
Trade accounts payable		39,279	31,824	41,482	34,950
Taxes and social charges payable	16	28,373	26,825	30,053	28,417
Taxes in installments - Law No. 11941	17	17,540	16,200	17,540	16,200
Regulatory charges payable	19	12,598	21,442	12,751	21,821
Interest on equity and dividends payable	23(b)	139,946	2,156	139,946	2,156
Provisions	20	32,562	28,828	33,610	29,757
Payables - Funcesp	21	5,495	6,144	5,495	6,144
Other		49,715	21,849	53,047	31,014
		550,748	**368,580**	**597,971**	**422,311**
Noncurrent liabilities					
Long-term liabilities					
Loans and financing	14	279,689	306,076	432,472	485,239
Debentures	15	313,931	359,573	313,931	359,573
Taxes in installments - Law No. 11941	17	119,857	126,897	119,857	126,897
Deferred PIS and COFINS	18	945,480	107,741	989,445	149,022
Deferred income and social contribution taxes	28	2,068,537	-	2,106,603	35,801
Regulatory charges payable	19	29,374	28,783	32,509	31,194
Provisions	20	153,035	189,320	153,035	189,612
Special obligations - reversal/amortization	22	24,053	24,053	24,053	24,053
		3,933,956	**1,142,443**	**4,171,905**	**1,401,391**
Equity					
Capital	23 (a)	2,372,437	2,215,291	2,372,437	2,215,291
Capital reserves	23 (c)	1,217,583	1,277,356	1,217,583	1,277,356
Future capital contribution		666	666	666	666
Income reserves	23 (d)	6,527,704	1,842,892	6,527,704	1,842,892
		10,118,390	**5,336,205**	**10,118,390**	**5,336,205**
Non-controlling interests		-	-	178,733	178,796
		10,118,390	**5,336,205**	**10,297,123**	**5,515,001**
Total liabilities and equity		**14,603,094**	**6,847,228**	**15,066,999**	**7,338,703**

See accompanying notes.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Income statements
Years ended December 31, 2016 and 2015
In thousands of reais, unless otherwise stated

		Company		Consolidated	
	Note	**2016**	**2015**	**2016**	**2015**
Net operating revenue	24.1	7,585,688	1,089,287	7,789,240	1,287,130
Costs of infrastructure implementation, operation and maintenance services	25	(474,606)	(521,298)	(494,973)	(575,326)
Gross profit		**7,111,082**	**567,989**	**7,294,267**	**711,804**
Operating income (expenses)					
General and administrative	25	(130,133)	(192,335)	(135,198)	(196,991)
Management fees	25 and 29	(5,227)	(4,595)	(5,661)	(4,991)
Other operating income (expenses), net	27	(27,939)	(37,919)	(27,939)	(36,190)
Equity pickup	11	426,824	281,766	267,706	161,306
		263,525	46,917	98,908	(76,866)
Income before financial income (expenses) and income taxes		**7,374,607**	**614,906**	**7,393,175**	**634,938**
Financial income	26	51,106	133,835	76,684	151,711
Financial expenses	26	(169,258)	(159,041)	(186,613)	(177,067)
		(118,152)	(25,206)	(109,929)	(25,356)
Income before income and social contribution taxes		**7,256,455**	**589,700**	**7,283,246**	**609,582**
Income and social contribution taxes					
Current	28	(71,797)	(80,523)	(79,301)	(85,804)
Deferred	28	(2,252,346)	(4,747)	(2,254,611)	(6,592)
		(2,324,143)	(85,270)	(2,333,912)	(92,396)
Net income for the year		**4,932,312**	**504,430**	**4,949,334**	**517,186**
Attributable to:					
Controlling shareholders				4,932,312	504,430
Non-controlling interests				17,022	12,756
Basic earnings per share	23 (e)	30.20956	3.12807		
Diluted earnings per share	23 (e)	30.01340	3.07192		

See accompanying notes.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Statements of comprehensive income
Years ended December 31, 2016 and 2015
In thousands of reais, unless otherwise stated

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Net income for the year	4,932,312	504,430	4,949,334	517,186
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	**4,932,312**	**504,430**	**4,949,334**	**517,186**
Attributable to:				
Controlling shareholders			4,932,312	504,430
Non-controlling interests			17,022	12,756

See accompanying notes.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Statements of changes in equity
Years ended December 31, 2016 and 2015
In thousands of reais, unless otherwise stated

												Company and Consolidated
					Income reserves							
	Note	**Capital**	**Capital reserves**	**Future capital contribution**	**Legal reserve**	**Statutory reserve**	**Retained profits reserve**	**Special unearned income reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total**
At December 31, 2014		**2,215,291**	**1,277,356**	**666**	**253,032**	**191,906**	**1,226,794**	**-**	**-**	**5,165,045**	**63,567**	**5,228,612**
Unclaimed interest on equity		-	-	-	-	-	-	-	570	570	-	570
Unclaimed dividends		-	-	-	-	-	-	-	1,025	1,025	-	1,025
Acquisition of additional shareholding from non-controlling interests		-	-	-	-	-	-	-	-	-	102,473	102,473
Net income for the year		-	-	-	-	-	-	-	504,430	504,430	12,756	517,186
Allocation of income:												
Legal reserve	23 (c)	-	-	-	25,222	-	-	-	(25,222)	-	-	-
Statutory reserve	23 (c)	-	-	-	-	29,623	-	-	(29,623)	-	-	-
Retained profits reserve	23 (c)	-	-	-	-	-	116,315	-	(116,315)	-	-	-
Interim dividends (R$2.0765735 per share)	23 (b)	-	-	-	-	-	-	-	(334,865)	(334,865)	-	(334,865)
At December 31, 2015		**2,215,291**	**1,277,356**	**666**	**278,254**	**221,529**	**1,343,109**	**-**	**-**	**5,336,205**	**178,796**	**5,515,001**
Capital increase	23 (a)	157,146	(59,773)	-	-	-	-	-	-	97,373	-	97,373
Acquisition of additional shareholding from non-controlling interests		-	-	-	-	-	-	-	-	-	(17,085)	(17,085)
Net income for the year		-	-	-	-	-	-	-	4,932,312	4,932,312	17,022	4,949,334
Allocation of income:												
Legal reserve	23 (c)	-	-	-	196,234	-	-	-	(196,234)	-	-	-
Statutory reserve	23 (c)	-	-	-	-	15,715	-	-	(15,715)	-	-	-
Retained profits reserve	23 (c)	-	-	-	-	-	148,639	-	(148,639)	-	-	-
Special unearned income reserve	23 (c)	-	-	-	-	-	-	4,324,224	(4,324,224)			
Interim dividends (R$1.502543 per share)	23 (b)	-	-	-	-	-	-	-	(247,500)	(247,500)	-	(247,500)
At December 31, 2016		**2,372,437**	**1,217,583**	**666**	**474,488**	**237,244**	**1,491,748**	**4,324,224**	**-**	**10,118,390**	**178,733**	**10,297,123**

See accompanying notes.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Cash flow statements
Years ended December 31, 2016 and 2015
In thousands of reais, unless otherwise stated

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Cash flow from operating activities				
Net income for the year	4,932,312	504,430	4,949,334	517,186
Adjustments to reconcile net income to cash provided by operating activities				
Restatement of accounts receivable – Law No. 12783 - SE	(7,318,492)	-	(7,318,492)	-
Deferred PIS and COFINS (Note 18)	837,739	27,874	840,423	31,050
Depreciation and amortization (Notes 12, 13 and 25)	8,313	7,776	9,061	8,525
Deferred income and social contribution taxes	2,252,346	4,747	2,254,611	6,592
Provision for contingencies (Note 20 (a))	(63,749)	36,937	(64,041)	37,136
Net book value of PP&E written off (Notes 12 and 13)	5,319	375	5,340	375
Tax benefit – merged goodwill (Note 27)	36	29,887	36	29,887
Amortization of concession asset in acquisition of subsidiary (Note 11)	2,490	2,491	2,490	2,491
Realization of losses in jointly-controlled subsidiary (Note 11)	(2,276)	(2,340)	(2,276)	(2,340)
Equity pickup (Note 11)	(426,824)	(281,766)	(267,706)	(161,306)
Interest and monetary and exchange variations on assets and liabilities	160,737	151,214	177,749	168,466
	387,951	481,625	586,529	638,062
(Increase) decrease in assets				
Restricted cash	-	-	57	(369)
Accounts receivable (concession asset)	(205,384)	137,881	(279,127)	51,013
Inventories	5,501	14,684	(84)	13,538
Receivables - State Finance Department	(184,438)	(163,818)	(184,438)	(163,818)
Taxes and contributions recoverable	(3,320)	27,300	(2,800)	28,799
Prepaid expenses	(4,067)	(5,218)	(4,246)	(5,109)
Pledges and restricted deposits	215	(3,899)	222	(3,915)
Other	15,301	17,276	14,292	34,704
	(376,192)	24,206	(456,124)	(45,157)
Increase (decrease) in liabilities				
Trade accounts payable	7,455	(14,657)	6,532	(40,520)
Taxes and social charges payable	1,548	2,184	1,636	1,896
Taxes in installments - Law No. 11941	(16,927)	(15,603)	(16,927)	(15,603)
Regulatory charges payable	(12,170)	(12,292)	(11,856)	(12,886)
Provisions	3,734	1,842	3,853	2,288
Payables - Funcesp	(649)	769	(649)	769
Other	27,867	11,536	22,032	14,798
	10,858	(26,221)	4,621	(49,258)
Cash from operating activities	**22,617**	**479,610**	**135,026**	**543,647**

See accompanying notes.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Cash flow statements
Years ended December 31, 2016 and 2015
In thousands of reais, unless otherwise stated

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Cash flow from investing activities				
Short-term investments	106,376	167,768	103,916	39,547
Transactions with non-controlling interests	-	-	(17,085)	102,473
Property, plant and equipment (Note 12)	(5,745)	(2,166)	(5,767)	(2,184)
Intangible assets (Note 13)	(5,718)	(1,111)	(5,721)	(1,335)
Investments (Note 11)	(2,394)	(120,964)	(2,394)	(103,364)
Dividends received	78,050	27,628	28,050	15,945
Cash from investing activities	**170,569**	**71,155**	**100,999**	**51,082**
Cash flow from financing activities				
Loans taken out (Notes 14 and 15)	150,407	103,877	150,407	103,877
Repayment of loans (principal) (Notes 14 and 15)	(219,355)	(115,140)	(245,851)	(141,636)
Repayment of loans (interest) (Notes 14 and 15)	(113,412)	(172,871)	(129,855)	(190,630)
Payment of capital	97,373	-	97,373	-
Dividends and interest on equity paid (Note 23 (b))	(109,710)	(364,901)	(109,710)	(364,901)
Cash used in financing activities	**(194,697)**	**(549,035)**	**(237,636)**	**(593,290)**
Increase (decrease) in cash and cash equivalents	**(1,511)**	**1,730**	**(1,611)**	**1,439**
Cash and cash equivalents at end of year	1,609	3,120	4,524	6,135
Cash and cash equivalents at beginning of year	3,120	1,390	6,135	4,696
Changes in cash and cash equivalents	**(1,511)**	**1,730**	**(1,611)**	**1,439**

Income and social contribution taxes paid by the Company and its subsidiaries in 2016 totaled R$61,867 (R$56,646) and R$66,776 (R$60,701), respectively.

See accompanying notes.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Statements of value added
Years ended December 31, 2016 and 2015
In thousands of reais, unless otherwise stated

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Revenues				
Operating revenues	8,558,047	1,233,093	8,774,336	1,442,071
Other operating revenues	4,055	5,635	4,055	8,547
	8,562,102	1,238,728	8,778,391	1,450,618
Inputs acquired from third parties				
Cost of services rendered	(29,941)	(20,766)	(35,211)	(25,006)
Materials, energy, third-party services and other	(298,365)	(363,095)	(305,339)	(404,914)
	(328,306)	(383,861)	(340,550)	(429,920)
Gross value added	**8,233,796**	**854,867**	**8,437,841**	**1,020,698**
Retentions				
Depreciation and amortization	(8,313)	(7,776)	(9,061)	(8,525)
Net value added produced by the entity	**8,225,483**	**847,091**	**8,428,780**	**1,012,173**
Received in transfer				
Equity pickup	426,824	281,766	267,706	161,306
Financial income	51,106	133,835	76,684	151,711
Total value added to be distributed	**8,703,413**	**1,262,692**	**8,773,170**	**1,325,190**
Distribution of value added				
Personnel				
Direct compensation	(156,258)	(231,758)	(163,843)	(240,016)
Benefits	(50,915)	(48,640)	(52,800)	(50,718)
Unemployment Compensation Fund (FGTS)	(15,993)	(14,302)	(16,409)	(14,869)
	(223,166)	(294,700)	(233,052)	(305,603)
Taxes, charges and contributions				
Federal (*)	(3,338,010)	(268,874)	(3,362,632)	(288,661)
State	(371)	(318)	(384)	(319)
Municipal	(26,724)	(23,534)	(26,736)	(23,543)
	(3,365,105)	(292,726)	(3,389,752)	(312,523)

(*) The amount of R$2,211,229 refers to deferred income and social contribution taxes on SE facilities.

See accompanying notes.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Statements of value added
Years ended December 31, 2016 and 2015
In thousands of reais, unless otherwise stated

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Debt remuneration				
Rental	(13,730)	(13,201)	(14,690)	(14,313)
Interest and monetary and foreign exchange variations	(169,100)	(157,635)	(186,342)	(175,565)
	(182,830)	(170,836)	(201,032)	(189,878)
Equity remuneration				
Interest on equity and dividends	(247,500)	(334,865)	(247,500)	(334,865)
Retained profits	**4,684,812**	**169,565**	**4,701,834**	**182,321**

See accompanying notes.

1. Operations

1.1 Business purpose

CTEEP - Companhia de Transmissão de Energia Elétrica Paulista ("CTEEP" or "Company") is a publicly-traded company, authorized to operate as an electric utility concession operator, and is primarily engaged in the transmission of electric power, which requires planning, implementation of infrastructure and operation and maintenance of power transmission subordinated systems. Its activities also envisage investing funds in and managing research and development programs with respect to power transmission and other activities related to available technology. The Company's activities are regulated and supervised by Brazil's National Electric Power Agency (ANEEL).

The Company is the result of a spin-off of Companhia Energética de São Paulo ("CESP") and started up on April 1, 1999. On November 10, 2001, EPTE - Empresa Paulista de Transmissão de Energia Elétrica S.A. ("EPTE"), a company arising from the spin-off of Eletropaulo - Eletricidade de São Paulo S.A., was merged into the Company.

In a privatization auction held at the São Paulo Stock Exchange (BOVESPA) on June 28, 2006 under Bid Notice SF/001/2006, the São Paulo State Government, until then majority shareholder, sold 31,341,890,064 of its common shares, corresponding to 50.10% of the common shares issued by CTEEP. The winner of the auction was Interconexión Eléctrica S.A. E.S.P.

The Company shares are traded on the Securities, Commodities and Futures Exchange (BM&FBovespa). CTEEP also participates in the American Depositary Receipts (ADRs) program - Rule 144A in the United States. The ADRs depositary is JPMorgan Chase Bank, and Banco Itaú S.A. is the custodian bank.

In September 2002, the Company adopted the Level-1 Corporate Governance Practices of BM&FBovespa. The commitments assumed under these practices ensure greater transparency of the Company for the market, investors and shareholders, thus facilitating the follow-up of management's actions.

The Company is included in the Trade Corporate Governance Index (*Índice de Governança Corporativa Trade* - IGCT); Electric Pwer Index (*Índice de Energia Elétrica* - IEE); Brazil Extended Index (*Índice Brasil Amplo* - IBrA); Brazil Index 100 (*Índice Brasil 100* - IBrX 100); Special Corporate Governance Stock Index (*Índice de Ações com Governança Corporativa Diferenciada* - IGCX); Mid Large Cap Index (*Índice Mid Large Cap* – MLCX); BM&FBOVESPA Public Utility Index (*Índice BM&FBOVESPA Utilidade Pública* – UTIL) and BM&FBOVESPA Value Index (*Índice Valor BM&FBOVESPA* – IVBX2).

1.2 Concessions

The Company and its subsidiaries are entitled to explore, either directly or indirectly, the following concession arrangements of utility concession arrangements for electric power transmission:

					Periodic tariff review			Annual revenue allowed (RAP)	
Concession operator	**Contract**	**Part (%)**	**Term (years)**	**Maturity**	**Term**	**Next**	**Restatement index**	**R$ thousand**	**Base month**
CTEEP	059/2001		30	12.31.42	5 years	2018	IPCA	893,452	06/16
Subsidiaries									
Serra do Japi	026/2009	100	30	11.18.39	5 years	2020	IPCA	37,506	06/16
Pinheiros	015/2008	100	30	10.15.38	5 years	2019	IPCA	31,800	06/16
Serra do Japi (*)	143/2001	100	30	12.20.31	n/a	n/a	IGPM	20,384	06/16
IEMG	004/2007	100	30	04.23.37	5 years	2017	IPCA	16,861	06/16
Evrecy	020/2008	100	30	07.17.25	4 years	2017	IGPM	13,367	06/16
Pinheiros	012/2008	100	30	10.15.38	5 years	2019	IPCA	10,410	06/16
Pinheiros	021/2011	100	30	12.09.41	5 years	2017	IPCA	5,971	06/16
Pinheiros	018/2008	100	30	10.15.38	5 years	2019	IPCA	5,577	06/16
Itaúnas	018/2017	100	30	02.10.47	5 years	2022	IPCA	47,200	06/16
Jointly-controlled subsidiaries									
IEMadeira	013/2009	51	30	02.25.39	5 years	2019	IPCA	235,847	06/16
IEMadeira (**)	015/2009	51	30	02.25.39	5 years	2019	IPCA	209,821	06/16
IEGaranhuns	022/2011	51	30	12.09.41	5 years	2017	IPCA	93,505	06/16
IENNE	001/2008	25	30	03.16.38	5 years	2018	IPCA	40,907	06/16
IESul	016/2008	50	30	10.15.38	5 years	2019	IPCA	11,306	06/16
IESul	013/2008	50	30	10.15.38	5 years	2019	IPCA	5,564	06/16
Paraguaçu	03/2017	50	30	02.10.47	5 years	2022	IPCA	106,613	06/16
Aimorés	04/2017	50	30	02.10.47	5 years	2022	IPCA	71,424	06/16

(*) On April 30, 2015, the Company assigned Electric Power Transmission Service Concession Arrangement No. 143/2001 to subsidiary Serra do Japi through capital increase, as approved by ANEEL Authorizing Resolution No. 5036 of January 20, 2015 (Note 11 (a) (i)).

(**) In May 2014, the facilities related to the service concession arrangement No. 015/2009 of jointly-controlled subsidiary IEMadeira were completed and delivered to Brazil's National Electric System Operator (ONS) for tests. In June 2014, due to the existence of restrictions in systems and related to third parties, ONS issued the Partial Release Term (TLP) for temporary commercial operation purposes. Given the existence of impediments due to other agents (regarding the non-completion of the joint studies of the integrators in ONS´ electric study simulator), the reduction factor equivalent to 10% of the revenue associated with this contract has been applied.

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

Law No. 12783/2013

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

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

On November 1, 2012, the Ministry of Mines and Energy (MME) published Interministerial Ruling No. 580, which determined the indemnification attributable to the Company for energized facilities as from June 1, 2000 - New Investment (NI), in the amount R$2,891,291 related to Service Concession Arrangement No. 059/2001 (single arrangement covered by such MP), and Interministerial Ruling No. 579, which defined the RAP from January 1, 2013 onwards.

On November 29, 2012, Provisional Executive Order No. 591 (MP No. 591) was published as an amendment to MP No. 579 to authorize the payment of amounts related to existing non-depreciated assets on May 31, 2000 (Existing Service - SE) by the Granting Authority. In January 2013, MPs No. 579 and No. 591 were signed into Law No. 12783/2013.

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

On December 4, 2012, an amendment to Service Concession Arrangement No. 059/2001 was entered into by CTEEP, with an option to receive indemnification in connection with the New Investment (NI) assets, 50% of which in cash and 50% payable in installments, settled in 2015. Discussions as to the form of restatement are underway (Note 7).

On August 13, 2014, the Company filed the independent appraisal report on the SE assets that totaled R$5,186,018, which corresponds to investments at the New Replacement Value (VNR) adjusted for accumulated depreciation through December 31, 2012. The 47th Annual Public Meeting of ANEEL´s Board held on December 15, 2015 approved the assets for R$3,896,328, as defined in Order No. 4036/2015, published in the Federal Official Gazette on December 21, 2015. With a view to reversing the decision by the ANEEL Board, CTEEP filed a request for reconsideration of the asset amounts on December 30, 2015, which is still under analysis and inspection by ANEEL. As a continuation of this inspection process, a complementary inspection report was issued on February 7, 2017, which concludes as to the amount of R$4,094,440, base date December 31, 2012. Since this amount depends on ANEEL's approval, it was not accounted for as of December 31, 2016.

On April 20, 2016, Administrative Ruling No. 120 was issued by the Ministry of Mines and Energy (MME), which established that the amounts approved by ANEEL through Order No. 4036/2015 relating to the facilities of the Existing Service (SE) should be part of the Regulatory Remuneration Base of electric power transmission companies for an estimated eight years following the 2017 tariff review process.

ANEEL Technical Note No. 336/2016, issued on October 6, 2016, presents a proposal for the regulation provided for in MME Administrative Ruling No. 120, having been submitted to Public Hearing beginning on October 14, 2016. The Technical Note regulates the methodology to calculate the cost of capital and the RAP to be added referring to the Existing System facilities, and determines amounts and terms for payment by concession operators, as mentioned in Note 7 (d).

ANEEL Technical Note No. 032/2015 SRD/ANEEL

ANEEL's Board held an Annual Public Meeting on June 23, 2015 to approve the opening of public hearings from June 29 to August 31, 2015 to collect data and additional information for analysis of the proposal to transfer the Other Transmission Facilities (DIT) from electric power transmission companies to distribution companies, under ANEEL Technical Note No. 32/2015 (Administrative Proceeding No. 48500.004452/2014-60). DITs are facilities operating at 230 kV or less, and paragraph 46 of the mentioned Technical Note proposes the transfer of part of these facilities, which would entail payment of indemnification to the transmission companies affected.

In August 2015, the Company made its contributions to the Public Hearing, together with legal, technical and economic and financial opinions and reports. CTEEP challenged the grounds of ANEEL Note No. 32/2015, pointed out the consequences of a potential transfer of part of its DIT, and defined the criteria to be considered in order to keep the economic and financial balance of the concession, including a review of the indemnification calculation criteria.

After contributions were made by agents, on December 7, 2015, Opinion No. 786/2015/PF-ANEEL/PGF/AGU was issued by the Deputy Attorney General of ANEEL, challenging ANEEL´s competence to promote the compulsory transfer of DITs from transmission to distribution companies, and suggesting further consideration by the technical areas of a possible impairment of the financial and economic balance that this could have on the revenue of transmission companies.

In view of the contributions received as provided for in Opinion No. 786/2015/PF-ANEEL/PGF/AGU, on April 26, 2016 ANEEL´s Board determined the opening of the second phase of the Public Hearing, with contributions from April 28 to July 27, 2016. In this second phase, the scope of transfer was limited to DITs of exclusive use of distribution companies, however still compulsorily.

Within the term established by ANEEL, the Company presented its contributions together with legal, technical and economic and financial opinions and reports, which presented the following particular arguments: (i) required maintenance of the economic and financial balance of the service concession arrangement of the transmission company; (ii) possible transfer of these facilities should be consensual and not compulsory, through the establishment of "regulation by incentive"; (iii) preservation in the transmission companies of the assets that have systemic functions, thus avoiding the possible return of the issue in the future, considering the possibility of transferring DITs with electro-energetic optimization.

On February 7, 2017, Regulatory Resolution No. 758 established the general provisions for transfer of certain exclusive DITs to distributing companies, as set out in the annex to said resolution.

Exclusive DITS liable for transfer will be merged into the distribution companies´ assets in the first ordinary tariff review subsequent to January 1, 2019.

According to Technical Note No. 170/2016, considering the list of facilities included in the annex of Regulatory Resolution No. 758/2017, the current RAP of these facilities is of approximately R$6.0 million, against indemnification of approximately R$12.0 million. Any loss of revenue from the transfer of these DITs will correspond to the marginal cost of operation and maintenance, to be determined by ANEEL based on the tariff review.

Auction No. 008/2011 - ANEEL

On June 10, 2011, the consortium Extremoz, consisting of CTEEP (51%) and Companhia Hidro Elétrica do São Francisco - Chesf (49%), bought lot A of ANEEL auction No. 001/2011, in a public session held at BM&FBovespa, comprising LT Ceará-Mirim - João Câmara II, in 500 kV with 64 km; LT Ceará-Mirim - Campina Grande III, in 500 kV with 201 km; LT Ceará-Mirim - Extremoz II, in 230 kV with 26 km; LT Campina Grande III - Campina Grande II, with 8.5 km; SE João Câmara II 500 kV, SE Campina Grande III 500/230 kV and SE Ceará-Mirim 500/230 kV. On July 7, 2011, Extremoz Transmissora do Nordeste - ETN S.A. was incorporated, considering the same equity interest, in order to operate the concession service. Estimated project investment is of R$622.0 million and RAP of R$31.9 million, as of June 2011.

On March 20, 2015, Extremoz formally expressed to ANEEL CTEEP's intention to withdraw from the consortium. ANEEL Authorizing Resolution No. 5218 of May 20, 2015 approved the transfer of equity control and established that the transaction should be completed within 120 days from the date of publication of the resolution. On December 10, 2015, approval was granted by the Brazilian Antitrust Enforcement Agency (CADE). On December 6, 2016, ANEEL´s approval was granted, pending authorization from the Ministry of Planning, Development and Management (DEST).

Auction No. 013/2015 – ANEEL (2nd phase)

On October 28, 2016, through ANEEL auction No. 013/2015, in a public session held at BM & FBOVESPA, the Company bought lot 21 independently, and lots 3 and 4 through the consortium Columbia and TAESA (Transmissora Aliança de Energia Elétrica S.A.). The Columbia consortium is formed by the Company (50%) and TAESA (50%).

Lot 21 comprises the following:

Lot	Description	RAP bid (R$)	Estimated investments ANEEL (R$)	Term (months)	CTEEP interest
21	LT 345 kV Viana 2 – João Neiva 2, with 79 km; SE 345/138-13.8 kV João Neiva 2, (9+1Res) x 133 MVA; Static Compensator (-150/+150) Mvar.	47,200	297,819	60	100%

The project should be operating within 60 months from the concession contract date, signed on February 10, 2017.

Lots 3 and 4 comprise the following:

Lot	Description	RAP bid (R$)	Estimated investments ANEEL (R$)	Term (months)	CTEEP interest
3	LT 500 kV Poções III - Padre Paraíso 2 C2, with 338 km;	106,613	505,595	60	50%
4	LT 500 kV Padre Paraíso 2 - Governador Valadares 6 C2, with 208 km;	71,424	341,118	60	50%

Similarly to lot 21, the project should be operating within 60 months from the concession contract date, signed on February 10, 2017.

2 Presentation of financial statements

2.1 Basis of preparation and presentation

The individual financial statements identified as “Company” and the consolidated financial statements identified as “Consolidated” were prepared and are presented in accordance with accounting practices adopted in Brazil, which comprise the provisions contained in the Brazilian Corporation Law, accounting pronouncements, interpretations and guidance issued by the Brazilian FASB (CPC) and approved by the Brazilian Securities and Exchange Commission (CVM), which are in compliance with the IFRS issued by the International Accounting Standards Board (IASB), disclosing solely and all the relevant information specific to the financial statements, corresponding to the information used by management.

Since there is no difference between consolidated equity and P&L attributable to the Company's shareholders, disclosed in the consolidated financial statements prepared in accordance with IFRS and accounting practices adopted in Brazil, and equity and P&L of the Company, disclosed in the individual financial statements, the Company opted to present such individual and consolidated financial statements as a single set, side by side.

Except for P&L for the year, the Company has no other comprehensive income.

The individual and consolidated financial statements were prepared considering the historical cost, except when otherwise stated, as described in the accounting practices below. The historical cost is based on the fair value of the consideration paid in exchange for assets.

Non-financial data included in these financial statements, such as energy volume and capacity, contractual information, projections, insurance and the environment, was not audited.

The financial statements were approved and authorized for disclosure by the Board of Directors on February 22, 2017.

These financial statements, as well as the statutory financial statements mentioned in Note 2.6, will be available on the Company's site on February 23 and April 30, 2017, respectively.

2.2 Reclassification of book balances

(i) At December 31, 2015, balances referring to "general and administrative expenses" and "financial income and expenses" in the income statement for the year were reclassified for a better presentation of the monetary variation of contingencies.

	Company			Consolidated		
Income statements	**Balances in 2015**	**Reclassifications**	**Balances in 2015 after reclassifications**	**Balances in 2015**	**Reclassifications**	**Balances in 2015 after reclassifications**
General and administrative expenses	(213,219)	20,884	(192,335)	(217,875)	20,884	(196,991)
Financial income (expenses)	(4,322)	(20,884)	(25,206)	(4,472)	(20,884)	(25,356)

2.3 Functional and reporting currency

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

2.4 Significant accounting judgments, estimates and assumptions

Preparation of the individual and consolidated financial statements requires that management make judgments using estimates and assumptions based on objective and subjective factors and legal advisors´ opinions to establish the proper amounts to be recorded regarding certain transactions that affect assets, liabilities, revenues and expenses. Actual results of these transactions could differ from the estimates.

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

Judgments, estimates and assumptions considered critical refer to the following matters: accounting for concession arrangements, timing of recognition of financial asset, determination of infrastructure and operating and maintenance revenues, definition of the effective interest rate of the financial asset, accrual of deferred tax assets or liabilities, analysis of credit risk and other risks to determine the need for provisions, including provision for tax, civil and labor contingencies.

· Accounting for concession arrangements (ICPC 01 (R1) and OCPC 05)

In recognizing service concession arrangements, the Company performs analyses involving management's judgment, substantially in relation to applicability of service concession arrangement interpretation, determination and classification of expenses with implementation of infrastructure, expansion, reinforcements and improvements as financial assets. The accounting treatment for each concession arrangement of the Company and its characteristics are described in Notes 3.22 and 7.

· Timing of recognition of financial asset

The Company management assesses the time financial assets are recognized based on the economic characteristics of each service concession arrangement. Subsequent additions to financial assets will be recorded when the infrastructure implementation service related to expansion/improvement/reinforcement of the infrastructure representing potential additional revenue generation is rendered. The financial asset is recorded against infrastructure revenue, which is recognized according to expenses incurred. The indemnifiable financial asset is identified upon completion of implementation of the infrastructure.

· Determination of the financial asset´s effective interest rate

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument. This interest rate is determined by concession arrangement, assessed individually by project. When an entity revises its estimates of payments, revenues or interest rates, the carrying amount of the financial asset is adjusted to reflect actual and revised estimated cash flows, and the adjustment is recognized as revenue or expense in P&L.

· Determination of infrastructure revenues

When the concessionaire provides infrastructure implementation services, the infrastructure revenue is recognized at fair value and the related costs are converted into expenses related to the infrastructure implementation services provided and, consequently, the profit margin is calculated. In accounting for infrastructure revenues, the Company management evaluates issues related to primary responsibility for the provision of infrastructure implementation

services, even in cases of outsourcing of services and costs of management and/or monitoring of the work, taking into account that the projects include enough margin to cover infrastructure implementation costs and charges. All the assumptions described are used to determine the fair value of the infrastructure implementation activities.

· Value of the indemnifiable asset

As defined in the contracts, the termination of the concession will determine the reversion of the assets linked to the service to the Granting Authority, and calculations and evaluations are made, as well as determination of the indemnification payable to the concession operator, observing the amounts and dates of its inclusion in the electrical system (Notes 3.7 and 7).

· Determination of operation and maintenance revenue

When the operator renders operation and maintenance services, revenue is recognized at fair value, and related costs are recorded according to consideration for the services.

2.5 Consolidation procedures

The consolidated financial statements include those of the Company and its subsidiaries.

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

Subsidiaries are fully consolidated from the date that full control starts until the date it ceases to exist.

At December 31, 2016 and 2015, interest held in subsidiaries was as follows:

	Financial statements reporting date	% - Interest held		
		12.31.2016		12.31.2015
Subsidiaries				
Interligação Elétrica de Minas Gerais S.A. (IEMG)	12.31.2016	100		100
Interligação Elétrica Pinheiros S.A. (Pinheiros)	12.31.2016	100		100
Interligação Elétrica Serra do Japi S.A. (Serra do Japi)	12.31.2016	100		100
Evrecy Participações Ltda. (Evrecy)	12.31.2016	100		100
Fundo de Investimento Referenciado DI Bandeirantes	12.31.2016	53	(*)	59
Fundo de Investimento Xavantes Referenciado DI	12.31.2016	38	(*)	59

(*) Includes both direct and indirect interests.

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

· elimination of the subsidiaries' equity;
· elimination of equity pickup; and
· elimination of asset and liability, revenue and expense balances among the consolidated companies.

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

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

The jointly-controlled subsidiaries are accounted for under the equity method, in accordance with CPCs 19 (R2) and 36 (R3) and have a shareholders' agreement that defines shared control.

At December 31, 2016 and 2015, interest held in subsidiaries was as follows:

	Financial statements reporting date	% - Interest held	
		12.31.2016	12.31.2015
Jointly-controlled subsidiaries			
Interligação Elétrica Norte e Nordeste S.A. (IENNE)	12.31.2016	25	25
Interligação Elétrica do Sul S.A. (IESul)	12.31.2016	50	50
Interligação Elétrica do Madeira S.A. (IEMadeira)	12.31.2016	51	51
Interligação Elétrica Garanhuns S.A. (IEGaranhuns)	12.31.2016	51	51

2.6 Regulatory financial statements

In accordance with the Accounting Manual for the Electric Power Sector, the Company is required to disclose the Regulatory Accounting Statements - "DCR", with the full set of financial statements for regulatory purposes, presented independently of these financial statements.

These DCRs must be audited by the same firm that audits the financial statements for corporate purposes, and as determined in the Accounting Manual for the Electric Power Sector (MCSE) and Order No. 3.371, of December 22, 2016 issued by ANEEL, shall be made available on the website of that Agency and of the Company until April 30, 2017.

3 Summary of significant accounting practices

3.1 Determination of profit and loss

Revenues and expenses are recorded on an accrual basis.

3.2 Revenue recognition

Revenues are recognized in accordance with ICPC 01 (R1) (IFRIC 12 and OCPC 05, see Note 3.22). Concession operators must record and measure service revenue according to accounting pronouncements CPC 17 (R1) (IAS 11) - Construction Arrangements and CPC 30 (R1) (IAS 18) - Revenues (operation and maintenance services), even when provided under a single concession contract. The Company's revenues are classified into the following groups:

(a) Infrastructure revenue

This refers to infrastructure implementation, expansion, reinforcement and improvement services of the electric power transmission facilities. Effective January 1, 2013, as a result of the extension of concession contract No. 059/2001, regulated by Law No. 12783/2013, the Company started recognizing revenue from implementation of infrastructure for improvements to electric power facilities, as per ANEEL Order No. 4413 of December 27, 2013 and Regulatory Resolution No. 443 of July 26, 2011. Infrastructure revenue is are recognized according to expenses incurred and calculated by adding PIS and COFINS rates to the value of the investment, once the projects include enough margin to cover infrastructure implementation costs and charges, considering that a significant part of its facilities is implemented through outsourced contracts with unrelated parties.

(b) Remuneration of concession assets

This refers to interest recognized by the straight-line method based on the effective interest rate on the amount receivable from infrastructure revenue and indemnification. The effective interest rate is calculated by discounting the estimated future cash flows over the expected life of the financial asset on the initial book value of this financial asset.

(c) Revenue from operation and maintenance

Refers to the operation and maintenance services of the electric power transmission facilities, with the objective of avoiding interruption of operation of these facilities.

3.3 Current and deferred income and social contribution taxes

These are determined observing the applicable legal provisions, based on net income, adjusted by inclusion of non-deductible expenses, exclusion of non-taxable profit and inclusion and/or exclusion of temporary differences.

The Company elected the regime whereby taxable profit is computed based on annual accounting records (previously quarterly accounting records). Current and deferred income tax is calculated at a rate of 15%, plus 10% surtax on taxable profit exceeding R$240, whereas current and deferred social contribution tax is computed at a rate of 9% on net profit. These consider offset of income and social contribution tax losses, limited to 30% of taxable profit, if applicable. The subsidiaries Pinheiros, IEMG, Serra do Japi and Evrecy elected the regime whereby taxable profit is computed as a percentage of gross revenue.

Deferred tax assets arising from temporary differences were recorded in accordance with CVM Ruling No. 371, of June 27, 2002, and CPC 32 (IAS 12) – Income Taxes, and consider the history of profitability and expected generation of future taxable profit based on technical feasibility study approved by management.

Recovery of the deferred tax asset balance is reviewed at least at each year-end, and when it is no longer likely that future taxable profit will be available to enable recovery of assets, fully or partially, the asset balance is adjusted for the amount expected to be recovered.

Deferred tax assets and liabilities are measured at applicable rates in the period in which liabilities are expected to be settled or assets realized, based on rates established in current tax legislation at each year-end, or when new legislation has been substantially approved.

Deferred tax assets and liabilities are only offset when there is the legal right to offset the current tax asset against the current tax liability, and when they refer to taxes administered by the same tax authority and the Company intends to settle the net value of its current tax assets and liabilities.

3.4 Regulatory taxes and charges on revenue

(a) Sales taxes

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

(b) Regulatory fees

The sector charges, described below, are part of the government policies for the electric power sector and are all defined in Law. Their amounts are established by ANEEL Resolutions or Orders, to be charged by the concession operators from consumers, through electric power supply fees, and are classified under regulatory charges payable in the statement of financial position.

(i) Fuel Consumption Bill (CCC)

CCC was created by Decree No. 73102, of November 7, 1973 with the objective of reimbursing part of the total generation cost to meet the demand of the electric utility service in isolated systems. It includes costs related to price of electric energy and associated power contracted by distribution agents, charges and taxes not recovered, provision of electric power service in remote regions and contracting of capacity reserve to ensure the supply of electric power. The amount is established annually by ANEEL based on the electric power used by consumer units connected to the transmission facilities. This amount is paid to Centrais Elétricas Brasileiras S.A. - Eletrobras (Eletrobras) and transferred to the consumer units through TUST (transmission system use tariff). According to article 23 of Law No. 12783/2013, as of January 1, 2013, the CCC is provided with CDE funds.

(ii) Energy Development Account (CDE)

CDE was created by Law No. 10438, of April 26, 2002, in order to provide funds for: i) energy development of the states; ii) competitiveness of energy produced from wind power sources, small hydroelectric power plants, biomass, natural gas and coal, in areas served by interconnected electrical systems; iii) universalization of the electric power service throughout the Brazilian territory. The amount is set annually by ANEEL based on the electric power used by consumer units connected to the transmission facilities. This amount is paid to Eletrobras and transferred to the consumer units through TUST (transmission system use tariff).

(iii) Alternative Energy Source Incentive Program (PROINFA)

PROINFA was established by Law No. 10438, of April 26, 2002, for the purpose of increasing the participation of alternative renewable sources in the production of electric power in the country, such as wind energy, biomass and small hydroelectric power plants. The amount is set annually based on estimated generation of electric power by the power plants that are part of PROINFA. It is paid to Eletrobras and transferred to the consumer units through TUST (transmission system use tariff).

(iv) Global Reversion Reserve (RGR)

This charge was created by Decree No. 41019 of February 26, 1957 and refers to an annual amount established by ANEEL, paid monthly in twelve installments by the concession operators, for the purpose of providing funds for reversion and/or expropriation of electric utility services, as well as to finance the expansion and improvement of these services. According to article 21 of Law No. 12783, as of January 01, 2013, concession operators of electric power transmission services with extended service concession arrangements under such Law are not required to pay the annual RGR portion.

(v) Research and Development (R&D)

The concession operators of distribution, transmission or generation of electric power, permittees of distribution of electric power and entities authorized to independently generate electric power, excluding, by exemption, those that generate power exclusively from wind, solar, biomass, qualified cogeneration and small hydroelectric plants, are required to make an annual investment of a percentage of net operating revenue in Technological R&D projects in the electric power sector, as set forth by ANEEL regulations.

(vi) Electric Power Service Inspection Fee (TFSEE)

TFSEE was created by Law No. 9427/1996 and is imposed on the production, transmission, distribution and sale of electric power. It is equivalent to 0.5% of gross operating revenue, derived from the Basic Network and Other Transmission Facilities (DIT). According to article 29 of Law No. 12783 of January 11, 2013, TFSEE now corresponds to 0.4% of the annual economic benefit.

3.5 Financial instruments

(a) Financial assets

(i) Classification and measurement

These are classified as financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets and loans and receivables, as appropriate. When an equity instrument is not quoted in an active market and its fair value may be reliably measured, it is measured at cost and tested for impairment.

The classification depends on the purpose of the financial assets and is determined upon initial recognition. All regular acquisitions or disposals of financial assets are recognized or derecognized based on the negotiation date. Regular acquisitions or disposals correspond to acquisitions or disposals of financial assets that require delivery of assets within the period established by regulation or market practice.

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

Financial assets and liabilities are offset and the net value is recognized in the statement of financial position when there is a legal right to offset the amounts recognized and the intention to settle them on a net basis, or realize the asset and settle the liability simultaneously.

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

Financial assets are classified at fair value through profit or loss when they are held for trading or designated at fair value through profit or loss. Financial assets at fair value through profit or loss are stated at fair value and any resulting gains or losses are recognized in P&L. Net gains or losses recognized in P&L include dividends or interest earned on the financial assets, and is included under “Other gains and losses” in P&L.

A financial asset is classified as held for trading if (i) acquired primarily to be sold in the short term; (ii) the initial recognition is part of an identified financial instruments portfolio that the Company manages jointly and has an actual recent pattern of short-term profits; or (iii) it is a derivative that has not been designated as an effective hedge instrument.

Financial assets other than those held for trading may be designated at fair value through profit or loss upon initial recognition if (i) such designation eliminates or significantly reduces an inconsistency in measurement or recognition that would otherwise arise; (ii) the financial asset is part of a managed group of financial assets or liabilities or both, and its performance is measured at fair value in accordance with the Company's documented risk or investment management strategy, and when the information on the grouping is provided internally on the same basis; or (iii) the financial asset is part of a contract containing one or more embedded derivatives and CPC 38 and IAS 39 allow the combined contract to be fully designated at fair value through profit or loss.

At December 31, 2016 and 2015, financial assets classified in this category are related to cash equivalents and short-term investments.

· *Loans and receivables*

Loans and receivables are non-derivative financial assets, with fixed or determinable payments, not listed in an active market. They are recorded as current assets, except those maturing in over 12 months after the date of the statement of financial position, classified as noncurrent assets.

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

At December 31, 2016 and 2015, the Company's financial assets classified in this category comprised mostly accounts receivable (concession assets) and Receivables – State Finance Department.

(ii) Impairment of financial assets

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

The book value of the financial asset is reduced directly by the impairment loss for all financial assets, except accounts receivable, the book value of which is reduced by an allowance for doubtful accounts. Subsequent recoveries of amounts previously written off are recorded as a credit to the allowance. Changes in the book value of allowance are recognized in P&L.

(iii) Write-off of financial assets

The write-off (derecognition) of a financial asset takes place when the contractual rights to the asset's cash flows expire, or when the rights to receive contractual cash flows on a financial asset are transferred in a transaction whereby substantially all risks and rewards of ownership of the financial asset are passed on. Any participation that is created or retained by the Company in such transferred financial assets is recognized as a separate asset or liability.

(b) Financial liabilities

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

3.6 Cash and cash equivalents

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

For a short-term investment to be classified as cash equivalent it must be readily convertible into a known cash amount and involve low risk of change in its value. Consequently, an investment usually qualifies as cash equivalent when maturing in the short term, for instance, three months or less, as from the contract date.

3.7 Accounts receivable (concession asset)

Financial assets classified as loans and receivables include amounts receivable related to infrastructure implementation services, revenue from remuneration of concession assets and operation and maintenance services, as well as the amount of the indemnifiable asset.

The indemnifiable asset recorded at the conclusion of the infrastructure implementation refers to the estimated portion of investments made and not amortized up to the end of the concession period in relation to which the Company will be entitled to receive cash or other financial assets at the end of the concession term. As defined in the contracts, the termination of the concession will determine the reversion of the assets linked to the service to the Granting Authority, and calculations and evaluations are made, as well as determination of the indemnification payable to the concession operator, observing the amounts and dates of its inclusion in the electrical system.

The Company considers that the indemnification to which it is entitled at the end of the renewed concession must correspond to the New Replacement Value adjusted by accumulated depreciation of each item.

Considering that management constantly monitors the sector regulation, in case of changes that could alter the estimated asset indemnification amount, the accounting effects of these changes will be treated prospectively in the financial statements.

3.8 Inventories

Inventories are presented by maintenance supply items and measured at the lower of cost and net realizable value. Inventory costs are calculated by the average cost method.

3.9 Investments

The Company recognizes and presents investments in subsidiaries by the equity pickup method.

3.10 Property, plant and equipment

PP&E items are substantially represented by administrative assets. Depreciation is calculated by the straight-line method considering the estimated useful life of the assets.

Other expenses are capitalized only when there is an increase in this item´s economic benefits. Any other type of expense is recognized in P&L as an expense when incurred.

3.11 Intangible assets

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

The useful life of an intangible asset is either finite or indefinite: (i) finite intangible assets are amortized over their economic useful lives and are tested for impairment whenever there is any indication of loss in economic value, (ii) intangible assets with indefinite useful lives are not amortized, but are submitted to annual impairment tests, either individually or at the cash generating unit level.

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

3.12 Lease

(a) The Company as lessee

· *Operating lease*

Operating lease payments are recognized as an expense under the straight-line method over the term of the agreement, except when another systematic basis is more representative to reflect the time when the economic benefits of the leased asset are consumed. Contingent payments arising from operating lease agreements are recognized as an expense in the period in which they incur.

· *Finance lease*

At the inception, finance lease agreements are recognized as asset and liability balances for amounts equal to the fair value of the leased property or, if lower, for the present value of the minimum lease payments.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if it is practicable to determine such rate. Otherwise the incremental financing rate of the lessee is used. Any initial direct costs of the lessee are added to the amount recognized as asset.

3.13 Other current and noncurrent assets

These are presented at net realization amounts.

Provisions are recorded for amounts deemed of unlikely realization of the assets at the statement of financial position date.

3.14 Current and noncurrent liabilities

Current and noncurrent liabilities are stated at known or determinable amounts increased, where applicable, by the corresponding charges and monetary and/or exchange variations incurred to the statement of financial position date.

3.15 Provisions

Provisions are recognized for present obligations (legal or constructive) resulting from past events, the likelihood of loss of which is probable and whose financial settlement amounts may be reliably estimated.

The provision recognized is the best estimate of the considerations required to settle the obligation at each year-end, considering the risks and uncertainties surrounding the obligation. When the provision is measured based on estimated cash flows to settle the obligation, the book value corresponds to the present value of such cash flows.

When some or all the economic benefits required to settle a provision are expected to be recovered from a third party, an asset is recognized if, and only if, the reimbursement is practically certain and the amount may be reliably measured.

The provisions are quantified at the present value of the expected disbursement to settle the obligation, using the appropriate discount rate according to the liability-related risks. They are restated to the statement of financial position dates by the estimated amount of probable losses, based on their nature and supported by the opinion of the Company's and its subsidiaries' counsel.

Provisions are recognized when the Company and its subsidiaries have a present or constructive obligation arising from past events, the settlement of which is expected to result in an outflow of funds and the amount may be reliably estimated.

The grounds and nature of provisions for tax, civil and labor contingencies are described in note 20 (a).

3.16 Employee benefits

The Company sponsors supplementary retirement and death benefit plans for its employees, former employees and related beneficiaries, administered by FUNCESP, the objective of which is to supplement the Social Security benefits.

Defined contribution pension plan payments are recognized as an expense when the services that grant the right to these payments are provided.

In the actuarial valuation of the plan commitments, the projected unit credit method was adopted, in accordance with CPC 33 (R1).

The valuation occurs on an annual basis and the effects of the remeasurement of Plan commitments, which include actuarial gains and losses, effect of changes in the upper limit of the asset (if applicable) and the return on plan assets (excluding interest), are reflected immediately in the statement of financial position as a charge or credit recognized in other comprehensive income in the period in which they occur.

At December 31, 2016 and 2015, the Company did not account for actuarial assets or liabilities, as mentioned in Note 21.

3.17 Dividends and interest on equity

The dividend recognition policy is in accordance with CPC 24 (IAS 10) and ICPC 08 (R1), which determine that proposed dividends that are based on statutory obligations be recorded in current liabilities. The Company's articles of incorporation establish mandatory minimum dividend equivalent to 10% of paid-in capital, conditional upon the existence of profits.

The Company may pay interest on equity, which is deductible for tax purposes and considered part of the mandatory dividends, shown as allocation of income directly in equity.

3.18 Operating segment

Operating segments are defined as business activities from which revenue can be generated and expenses incurred, with availability of individualized financial information, and whose operating results are regularly reviewed by management in the decision-making process.

In the Company management´s understanding, although revenues are recognized for infrastructure implementation, and operation and maintenance activities, such revenues originate from concession contracts that have only one operating segment: electric power transmission.

3.19 Statement of Value Added (SVA)

This statement is intended to highlight the wealth created by the Company and its distribution over a given period, and is presented by the Company, as required by Brazilian corporation law, as part of the individual financial statements and as supplementary information to the consolidated financial statements, since it is not a statement provided for nor mandatory under IFRS.

3.20 Cash Flow Statement (CFS)

The cash flow statement was prepared using the indirect method and is presented in accordance with CVM Rule No. 547 of August 13, 2008, which approved accounting pronouncement CPC 03 (R2) - Cash Flow Statement, issued by the CPC.

3.21 Earnings per share

The Company calculates earnings per share using the weighted average number of common shares and total preferred shares outstanding in the period corresponding to P&L, in accordance with accounting pronouncement CPC 41 (IAS 33).

Basic earnings per share are calculated by dividing net income for the period by the weighted average number of shares issued. The calculation of diluted earnings is affected by instruments convertible into shares, as mentioned in Note 23 (e).

3.22 Service Concession Arrangements (ICPC 01 (R1) and OCPC 05 - IFRIC 12)

The Company and its subsidiaries adopt the provisions of ICPC 01 (R1), issued by CPC (equivalent to IFRIC12 of the international accounting standards issued by IASB) for classification and measurement of the concession activities. This Interpretation guides the concession operators on how to account for public service concessions to private entities.

For concession contracts qualified under ICPC 01 (R1) (IFRIC 12), the infrastructure implemented, expanded, reinforced or improved by the operator is not recorded as a fixed asset of the operator itself because the concession contract does not transfer to the concession operator the right to control the use of utility infrastructure. Only the transfer of ownership of these assets is provided to perform the public services, and such fixed assets are reversed to the grantor after termination of the respective contract. The concession operator has the right to operate the infrastructure to provide the public services on behalf of the grantor, under the conditions set forth in the contract.

Thus, under the terms of concession contracts within the scope of ICPC 01 (R1) (IFRIC 12), the concession operator acts as a service provider, implementing, expanding, reinforcing or improving the infrastructure (infrastructure implementation services) used to provide the public service, in addition to operating and maintaining such infrastructure (operation and maintenance services) over a given period. The concession operator records and measures revenue from services provided in accordance with Accounting Pronouncements CPC 17 (R1) - Construction Contracts (equivalent to IAS 11, as issued by IASB) and CPC 30 (R1) - Revenues (equivalent to IAS 18, as issued by IASB). If the concession operator performs more than one service (infrastructure implementation services or operation services, for instance) under a single contract, the remuneration received or receivable is allocated based on the relative fair values of the services provided if the amounts are separately identifiable. Accordingly, the matching entry for the infrastructure implementation services made to the concession assets is a financial asset, an intangible asset or both.

The financial asset originates to the extent that the operator has the unconditional contractual right to receive cash or another financial asset from the grantor for the infrastructure implementation services. The grantor has little or no option to avoid payment, usually because the contract is enforceable by law. The concession operator has the unconditional right to receive cash if the grantor guarantees in contract the payment of (a) pre-established or determinable amounts or (b) insufficiency, if any, of the amounts received from users of public services in relation to pre-established or determinable values, even if the payment is conditional upon the concession operator's guarantee that the infrastructure meets specific quality or efficiency requirements. Intangible assets arise as the operator receives the right (authorization) to charge users of public services. This right does not constitute an unconditional right to receive cash because the amounts are conditional upon the use of the service by the public. If the concession operator's infrastructure implementation services are partially recognized in financial assets and partially in intangible assets, each component of the operator's remuneration must be accounted for separately. The

remuneration received or receivable from both components must be initially recorded at the fair value received or receivable.

The criteria used to adopt the interpretation of concessions held by the Company are described below:

Accounting Interpretation ICPC 01 (R1) (IFRIC 12) was considered applicable to all public-private service contracts to which the Company is a party.

All concessions were classified according to the financial asset model, and the recognition of revenue and costs of works related to the formation of the financial asset through expenses incurred. The indemnifiable financial asset is identified when the implementation of the infrastructure is completed and included as compensation for the infrastructure implementation services.

As defined in the contracts, the termination of the concession will determine the reversion of the assets linked to the service to the Granting Authority, and calculations and evaluations are made, as well as determination of the indemnification payable to the concession operator, observing the amounts and dates of its inclusion in the electrical system.

The Company determined the fair value of infrastructure implementation services considering that the projects include sufficient margin to cover infrastructure implementation costs and incident charges. The effective interest rate that remunerates the financial asset from infrastructure implementation services was determined considering the cash flow estimated for the asset with these characteristics.

The financial assets were classified as loans and receivables and the remuneration of concession assets calculated monthly is recorded directly in P&L.

Revenues from infrastructure implementation and from remuneration of concession assets calculated on the financial assets for implementation of the infrastructure are subject to deferral of cumulative Contribution Tax on Gross Revenue for Social Integration Program (PIS) and Contribution Tax on Gross Revenue for Social Security Financing (COFINS), recorded under "Deferred taxes" in noncurrent liabilities.

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), effective at December 31, 2016.

The new and/or revised standards and interpretations issued by CPC, CVM and IASB in 2016 are as follows:

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

Pronouncements effective as from January 1, 2018:

- CPC 47 – Revenue from Contracts with Customers – CVM Rule No. 762 on December 22, 2016; and
- CPC 48 – Financial Instruments – CVM Rule No. 763 on December 22, 2016.

(b) Standards and interpretations revised by IASB and not yet issued by CPC:

- IFRS 14 – Regulatory Deferral Accounts
- IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations
- IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortization
- IAS 16 and IFRS 41 – Agriculture: Bearer Plants
- IAS 27 - Equity Method in Separate Financial Statements
- IFRS 7 – Financial Instruments: Disclosures

- IAS 19 – Employee Contributions to Defined Benefit Plans
- IAS 34 – Interim Financial Reporting
- IAS 1 – Disclosure Initiative
- IFRS 10, IFRS 12 and IAS 28 – Investment Entities: Applying the Consolidation Exception

In view of the non-pronouncement by the CPC in relation to the above standards, the Company did not early adopt these standards in its individual and consolidated financial statements as of December 31, 2016. Management of the Company and its subsidiaries is in the process of analyzing the impacts of these pronouncements, however no material impacts on the financial statements are expected.

(c) New and revised standards and interpretations by IASB and not yet effective:

- IFRS 9 – Financial Instruments
- IFRS 14 – Regulatory Deferral Accounts
- IFRS 15 – Revenue from Contracts with Customers
- IFRS 2 – Share-based Payment
- IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- IAS 7 – Disclosure Initiative
- IAS 12 - Recognition of Deferred Tax Assets for Unrealized Losses
- IFRS 2 – Share-based Payment
- IFRS 16 – Leases

Management of the Company and its subsidiaries is in the process of analyzing the impacts of these pronouncements, however no material impacts on the financial statements are expected.

5 Cash and cash equivalents

		Company		Consolidated	
	% of CDI	**2016**	**2015**	**2016**	**2015**
Cash and banks		505	2,287	1,571	3,798
Cash equivalents					
Bank Deposit Certificate (CDB)	92.0% to 100.0%	940	827	946	1,137
Repurchase agreements (a)	93.0% to 97.0%	-	-	1,843	1,194
Short-term investment funds (b)	60.0% to 70.0%	164	6	164	6
		1,609	**3,120**	**4,524**	**6,135**

Cash equivalents 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 30 (c).

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

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

6 Short-term investments

		Company		Consolidated	
	% of CDI	**2016**	**2015**	**2016**	**2015**
Investment funds (*)	101.62%	124,479	230,855	336,138	440,054
		124,479	**230,855**	**336,138**	**440,054**

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

The Company, its subsidiaries and jointly-controlled 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 the assets.

Investment funds are:

- Fundo de Investimento Referenciado DI Bandeirantes (Bandeirantes Investment Fund by reference to Interbank Deposit - DI): fund established for exclusive investment by the Company, its subsidiaries and jointly-controlled subsidiaries, administered by Banco Bradesco, the portfolio of which is comprised of shares of Coral Investment Fund by reference to Interbank Deposit (DI). The Company and consolidated balances at December 31, 2016 were respectively: R$88,541 and R$207,025 (R$97,490 and R$183,806 at December 31, 2015).

- Fundo de Investimento Xavantes Referenciado DI (Xavantes Investment Fund by reference to Interbank Deposit - DI): fund established for exclusive investment by the Company, its subsidiaries and jointly-controlled subsidiaries, administered by Banco Itaú-Unibanco, the portfolio of which is comprised of shares of Special Investment Fund by reference to Interbank Deposit (DI) (Corp by reference to DI merged by Special DI). The Company and consolidated balances at December 31, 2016 were respectively: R$35,938 and R$129,113 (R$133,365 and R$256,248 at December 31, 2015).

Coral and Special Investment Funds by reference to Interbank Deposit (DI) have daily liquidity, irrespective of assets, as established in the regulations of Bandeirantes and Xavantes Funds. The portfolios at December 31, 2016 are mostly composed of investments in repo operations in federal government bonds, financial bills, debentures, floating rate CDBs and demand deposits, as shown below.

	Coral by reference to DI	**Special DI**
Government bonds (over)	52.6%	43.9%
Financial bill	24.9%	28.4%
Financial Treasury Bill	16.7%	22.9%
Debentures	5.5%	2.9%
CDB	0.00%	1.3%
Other	0.3%	0.6%

Company management's analysis of the exposure of these assets to interest rate risks, among others, is disclosed in Note 30 (c).

7 Accounts receivable (concession asset)

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
O&M				
Accounts receivable - O&M services (a)	81,811	149,451	92,577	158,656
	81,811	**149,451**	**92,577**	**158,656**
Financial asset				
Accounts receivable – infrastructure implementation (b)	1,396,183	1,137,185	2,443,191	2,111,192
Accounts receivable - indemnification (c)	26,363	12,337	101,568	86,085
Accounts receivable - Law No. 12783 – SE (d)	8,809,488	1,490,996	8,809,488	1,490,996
	10,232,034	**2,640,518**	**11,354,247**	**3,688,273**
	10,313,845	**2,789,969**	**11,446,824**	**3,846,929**
Current	**1,091,764**	**220,566**	**1,221,016**	**319,961**
Noncurrent	**9,222,081**	**2,569,403**	**10,225,808**	**3,526,968**

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

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

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

(d) Accounts receivable - Law No. 12783 - refers to the amount receivable related to investments of concession contract No. 059/2001, which was extended under Law No. 12783, whose right to receive was subdivided into NI and SE:

- Indemnification referring to NI facilities corresponds to the original amount of R$2,949,121, 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 divided into 31 monthly installments for which the restatement method has not yet been defined. ANEEL, Eletrobras and the Federal Audit Court (TCU) reviewed the amounts transferred as indemnification of the NI facilities to all concession operators and, in their understanding, there were mistakes in the restatement calculation, leading to overpayments to the concession operators. Based on independent economic report and the legal advisor´s opinion, the Company believes that it is entitled to receive monetary restatement and arrears interest regarding delayed installments. However, once these discussions are in the initial stages, management considered it appropriate to record a liability according to the amount presented in a letter of collection issued by Eletrobras, of R$24,513, while the discussion is in progress. The amount is recognized under “other”, in current liabilities.

- The amount referring to SE facilities, at September 30, 2016, was remeasured according to the conditions set forth in Administrative Ruling No. 120/16 and amounts regulated by ANEEL Technical Note No. 336/2016, as determined by CPC 38 - Financial Instruments - Recognition and Measurement and in light of CPC 23 - Accounting Policies, Changes in Accounting Estimates and Errors. This CPC provides that many of the items in the financial statements may not be measured accurately and can only be estimated. An estimate involves judgments based on available information and may require review if changes occur in the circumstances on which the estimate was based or as a result of new information. The effect of change in the accounting estimate should be recognized in P&L for the period and prospectively.

  The Company management, based on the amounts and deadlines disclosed in ANEEL Technical Note No. 336/2016, and even considering that such Technical Note may change during the Public Hearing process, currently underway at ANEEL, prepared its best estimate for recognition of the opening balance at September 30, 2016, and as of this date the amount referring to SE facilities was treated as a financial asset with a specific term and effective interest rate, according to its characteristics. The assumptions used for the opening balance are as follows:

	Technical Note No. 336/2016 (*) – as of July 2017	**Company estimate – as of September 2016**
Net remuneration base at December 31, 2012	3,896,328	3,896,328
Addition to the Regulatory Remuneration Base (BBR)	July 2017	July 2017
Deadline for payment of the revenue portion of January 2013 to June 2017	8 years	8 years
Deadline for payment of the remaining portion	6.3 years	6.3 years
CAAE (**) + cost of capital from January 2013 to June 2017	5,711,454	4,457,994
Remaining CAAE (**)	3,114,951	3,348,965
RAP for the period from January 2013 to June 2017	943,183	906,503
RAP for the remaining period	811,316	778,887
PIS and COFINS increase to 9.25%, according to current legislation	-	9.25%

(**) CAAE – Annual Cost of Electric Assets

Based on the estimate of the RAP amounts as of September 2016, the Company reviewed the cash receipt flows and remeasured the financial asset related to SE facilities at September 30, 2016, which resulted in R$8,602,710, with an impact of R$7,111,714 on the financial asset, R$6,315,963 on net operating revenue (R$795,751 related to deferred PIS and COFINS), R$2,147,428 on provision for deferred income and social contribution taxes and R$4,168,535 on net income. The remuneration of this financial asset in the fourth quarter of 2016 generated revenue of R$206,778, recorded under remuneration of concession assets.

Based on the opinion of its legal advisors, the Company understands that revenue arising from this operation should be subject to PIS, COFINS, IRPJ and CSSL, upon effective receipt.

(*) On February 21, 2017, ANEEL Board of Directors approved the result of Public Hearing No. 068/2016, created to include the effects of Administrative Ruling MME No. 120/2016, which regulates Law No. 12783/2013. The Company´s preliminary analysis of this Public Hearing indicates that there are no significant effects on the estimates recorded in accounting. Accordingly, no changes were recognized in the financial statements as of December 31, 2016.

The aging list of accounts receivable is as follows:

The aging list of accounts receivable is as follows:

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Falling due	10,303,491	2,778,636	11,435,913	3,834,981
Overdue				
Within 30 days	204	127	242	167
From 31 to 60 days	78	140	94	147
From 61 to 360 days	993	2,319	1,147	2,610
More than 361 days (i)	9,079	8,747	9,428	9,024
	10,354	**11,333**	**10,911**	**11,948**
	10,313,845	**2,789,969**	**11,446,824**	**3,846,929**

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

The Company 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 the Company. Therefore, it did not recognize allowance for doubtful accounts.

Changes in accounts receivable:

	Company	Consolidated
Balances in 2014	**2,971,959**	**3,895,602**
Infrastructure revenue (Note 24.1)	239,101	278,685
Remuneration of concession assets (Note 24.1)	170,419	311,647
Operation and maintenance revenue (Note 24.1)	797,930	829,551
Transfer of concession contract No. 143/2001 (Note 11 (a) (i))	(44,109)	-
Restatement of accounts receivable - IPCA/WACC indemnification	53,733	53,733
Receipts – accounts receivable – indemnification NI	(540,583)	(540,583)
Monetary restatement – noncurrent credit	11,073	11,073
Receipts	(869,554)	(992,779)
Balances in 2015	**2,789,969**	**3,846,929**
Infrastructure revenue (Note 24.1)	164,290	171,902
Remuneration of concession assets (Note 24.1)	7,557,589	7,743,248
Operation and maintenance revenue (Note 24.1)	809,280	835,786
Receipts	(1,007,283)	(1,151,041)
Balances in 2016	**10,313,845**	**11,446,824**

8 Receivables - State Finance Department - Company and consolidated

	Company and Consolidated	
	2016	**2015**
Payroll processing - Law No. 4819/58 (a)	1,412,518	1,245,622
Labor claims - Law No. 4819/58 (b)	254,095	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)
	1,150,358	**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 December 2016 (Note 33). The increase over the previous year is related to compliance with the decision handed down by the 49th Labor Court, whereby CTEEP, in the capacity of the party served, monthly passes on the amounts to Funcesp for processing of retirees´ payment.

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

(c) The provision was based on the extension of the period of expected realization of part of accounts receivable from the State of São Paulo and on the status of litigation. The Company monitors the progress of this issue and regularly reviews the provision, evaluating the need for supplementing or reversing the provision based on legal events that may change the opinion of its advisors. Until December 31, 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 CTEEP upon CESP spin-off. Considering the likelihood of loss, the corresponding provision for losses totals R$2,218.

9 Taxes and contributions recoverable

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Income tax recoverable	544	-	594	633
Social contribution tax recoverable	-	-	73	53
Withholding Income Tax (IRRF)	1,009	1,689	1,053	1,689
Withholding social contribution tax (CSRF)	30	53	30	53
COFINS	5,104	2,354	5,104	2,354
PIS	1,108	511	1,108	511
Other	453	321	601	470
	8,248	**4,928**	**8,563**	**5,763**

10 Pledges and restricted deposits

Pledges and restricted deposits are recorded in noncurrent assets, given the uncertainties around the outcome of the related litigation.

Deposits are recognized at nominal value and adjusted for inflation. Breakdown of the balance is as follows:

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Judicial deposits				
Labor (Note 20 (a) (i))	53,913	54,695	53,922	54,711
Social security - INSS (Note 20 (a) (iv))	3,531	3,261	3,531	3,261
PIS/COFINS (a)	5,599	2,049	5,599	2,049
Other	327	287	327	287
Notices served - ANEEL (b)	6,796	5,960	6,796	5,960
	70,166	**66,252**	**70,175**	**66,268**

(a) In March 2015, through Decree No. 8426/15, the PIS/COFINS rate applicable on financial income was reinstated at 4.65% effective from July 1, 2015. The Company legally sought to avoid such taxation based on the fact that the levy could only be required by Law as defined in item I, article 150 of the Federal Constitution, and that Decree No. 8426/15 also violates the principle of non-cumulative taxation established in paragraph 12 of article 194. Judicial deposits made until December 31, 2016 total R$5,599.

(b) These refer to deposits for the purpose of voiding ANEEL notices which the Company has been challenging.

11 Investments

(a) Investments in subsidiaries and jointly-controlled entities

	Reporting date	Number of common shares held	Interest in paid-in capital - %	Paid-in capital	Assets	Liabilities	Equity	Gross revenue	Net income
IEMG	2016	83,055,292	100.0	83,055	181,970	48,131	133,839	24,999	12,529
	2015	83,055,292	100.0	83,055	173,433	52,123	121,310	20,271	12,992
Pinheiros	2016	300,910,000	100.0	300,910	623,627	142,843	480,784	92,237	71,830
	2015	300,910,000	100.0	300,910	582,531	157,577	424,954	111,749	68,698
Serra do Japi	2016	130,857,000	100.0	130,857	367,821	90,291	277,530	84,029	61,912
	2015	130,857,000	100.0	130,857	334,039	99,421	234,618	63,093	28,233
Evrecy	2016	21,512,367	100.0	21,512	54,472	3,167	51,305	17,749	12,847
	2015	21,512,367	100.0	21,512	56,283	2,825	53,458	17,399	10,537
IENNE	2016	81,821,000	25.0	327,284	766,043	346,471	419,572	91,367	30,601
	2015	81,821,000	25.0	327,284	719,556	330,585	388,971	83,227	29,535
IESul	2016	105,758,499	50.0	211,515	330,972	91,649	239,323	41,527	10,502
	2015	104,128,499	50.0	208,257	307,089	81,526	225,563	24,763	3,892
IEMadeira	2016	717,060,000	51.0	1,406,000	5,756,230	3,376,285	2,379,945	939,262	407,684
	2015	717,060,000	51.0	1,406,000	5,302,355	3,299,094	2,003,261	681,973	242,306
IEGaranhuns	2016	290,700,000	51.0	570,000	1,335,532	573,564	761,968	239,865	91,935
	2015	289,935,000	51.0	568,500	1,178,434	509,901	668,533	300,738	55,681

(i) Subsidiaries

Interligação Elétrica de Minas Gerais S.A. (IEMG)

IEMG was incorporated on December 13, 2006 for the purpose of exploring the public electric power transmission service, particularly the 500 kV Neves 1 - Mesquita (Minas Gerais state) transmission line extending over 172 km (Service Concession Arrangement No. 004/2007 - Note 1.2). IEMG was authorized to operate commercially in 2009.

In 2011, CTEEP acquired from Cymi a 40% stake in IEMG's capital, thus holding a 100% interest in its capital. The amount paid was R$15,283, reporting a loss of R$28,490. As a result of this transaction, the Company's investment in IEMG on the transaction date was equivalent to its fair value, i.e. R$38,206, which is not the same as the carrying amount of IEMG's equity.

At December 31, 2016, the reconciliation between IEMG's equity and the Company's investment is as follows:

	R$ thousand
IEMG equity	133,839
Interest held by CTEEP	100%
Investment book value	133,839
Loss on acquisition of control in IEMG (net) - fair value	(33,180)
Total investment	100,659

Interligação Elétrica Pinheiros S.A. (Pinheiros)

Pinheiros was incorporated on July 22, 2008 for the purpose of exploring the public electric power transmission service, particularly the transmission lines and substations purchased in Lots E, H and K of ANEEL Auction No. 004/2008, and Lot K of ANEEL Auction No. 004/2011.

Araras, Getulina, and Mirassol substations (Lot H - Service Concession Arrangement No. 015/2008) became operational on September 5, 2010, March 10, 2011, and April 17, 2011, respectively. Piratininga II substation (Lot E - Service Concession Arrangement No. 012/2008) became operational on December 26, 2011. Atibaia II substation (Lot K - Service Concession Arrangement No. 018/2008) became operational on January 8, 2013.

Itapeti substation (Lot K - Service Concession Arrangement No. 021/2011) became operational on August 9, 2013.

Interligação Elétrica Serra do Japi S.A. (Serra do Japi)

Serra do Japi was incorporated on July 1, 2009 for the purpose of exploring the public electric power transmission service, particularly Jandira and Salto substations purchased in Lot I of ANEEL Auction No. 001/2009 (Service Concession Arrangement No. 026/2009 - Note 1.2).

Serra do Japi became operational in 2012 (Salto substation in January 2012, and Jandira substation in March 2012). On April 30, 2015, CTEEP transferred the electric power transmission service concession arrangement No. 143/2001 to subsidiary Serra do Japi, through a capital increase, as approved by ANEEL Authorizing Resolution No. 5036 of January 20, 2015. The capital increase totaling R$44,109 refers to the financial asset (accounts

receivable - concession assets) of Service Concession Arrangement No. 143/2001, on March 31, 2015, determined pursuant to an independent appraisal report.

Evrecy Participações Ltda. (Evrecy)

In 2012, CTEEP acquired from EDP Energias do Brasil S.A. (EDP) 100% of the capital of Evrecy Participações Ltda. (Evrecy) for R$63.2 million.

Evrecy is a power transmission company that was formed after the spin-off of the power generation and transmission assets of Espírito Santo Centrais Elétricas - Escelsa in 2005; it owns 154 km of transmission lines and three substations in the states of Espírito Santo and Minas Gerais.

The acquisition cost was allocated among the assets acquired and the liabilities assumed at fair value. The concession asset computed in the amount of R$31,337 refers to the right acquired to operate and maintain the assets related to the concession held by Evrecy, and has been amortized over Evrecy's concession term

At December 31, 2016, the reconciliation between Evrecy's equity and the Company's investment is as follows:

	R$ thousand
Evrecy equity	51,305
Interest held by CTEEP	100%
Investment book value	51,305
Concession asset at December 31, 2016 (net)	20,576
Total investment	71,881

(ii) Jointly-controlled subsidiaries

Interligação Elétrica Norte e Nordeste S.A. (IENNE)

IENNE was incorporated on December 3, 2007 for the purpose of exploring the public electric power transmission service, particularly Colinas (Tocantins) - Ribeiro Gonçalves (Piauí) and Ribeiro Gonçalves - São João do Piauí (Piauí) transmission lines, both operating at 500 kV, extending over 720 km (Service Concession Arrangement No. 001/2008 - Note 1.2).

In 2011, IENNE obtained authorization and became operational.

Interligação Elétrica Sul S.A. (IESul)

IESul was incorporated on July 23, 2008 for the purpose of exploring the public electric power transmission service, particularly the transmission lines and substations purchased in Lots F and I of ANEEL Auction No. 004/2008.

Nova Santa Rita - Scharlau transmission line and Scharlau substation (Service Concession Arrangement No. 013/2008) became operational on December 6, 2010.

Forquilhinha substation, Jorge Lacerda B - Siderópolis transmission line and Joinville Norte - Curitiba transmission line (Service Concession Arrangement No. 016/2008) became operational on October 10, 2011, August 21, 2012, and August 10, 2015, respectively.

Interligação Elétrica do Madeira S.A. (IEMadeira)

IEMadeira was incorporated on December 18, 2008 for the purpose of exploring the public electric power transmission service, particularly the transmission lines and substations purchased in Lots D and F of ANEEL Auction No. 007/2008.

The Porto Velho - Araraquara transmission line (Service Concession Arrangement No. 013/2009) became operational on August 1, 2013. The Inverter and Rectifier stations (Service Concession Arrangement No. 015/2009) became operational on a provisional basis on May 12, 2014. The concession assets referring to this contract were declared free of impediments in August 2014. Due to the existence of impediments of other agents (related to the non-conclusion of the joint studies on the integrators in the ONS electrical studies simulator), a reducing factor corresponding to 10% of revenue associated with the contract has been applied.

Commissioning tests at the Conversion Stations of Araraquara and Porto Velho are in their final stage, and the full commercial operation and issue by ONS of the Definitive Term of Approval are scheduled for the first half of 2017.

Interligação Elétrica Garanhuns S.A. (IEGaranhuns)

IEGaranhuns was incorporated on October 7, 2011 for the purpose of exploring the public electric power transmission service, particularly the transmission lines and substations purchased in Lot L of ANEEL Auction No. 004/2011.

Luiz Gonzaga-Garanhuns (AL-PE), Garanhuns-Pau Ferro (PE), Garanhuns-Campina Grande III (PE-PB) and Garanhuns-Angelim I (PE) transmission lines, as well as Garanhuns (PE) and Pau Ferro (PE) substations became operational substantially in December 2015 and are complete since March 2016.

(b) Changes in investments

									Company
	IEMG	**Pinheiros**	**Serra do Japi**	**Evrecy**	**IENNE**	**IESul**	**IEMadeira**	**IEGaranhuns**	**Total**
Balances in 2014	**70,522**	**338,656**	**168,639**	**73,798**	**89,859**	**107,636**	**927,254**	**190,920**	**1,967,284**
Capital payment	-	17,600	-	-	-	3,200	-	121,635	142,435
Dividends receivable	-	-	(6,363)	(5,320)	-	-	(29,170)	-	(40,853)
Equity pickup	12,992	68,698	28,233	10,537	7,384	1,946	123,579	28,397	281,766
Transfer of concession contract No. 143/2001	-	-	44,109	-	-	-	-	-	44,109
Loss realized on acquisition of control	2,340	-	-	-	-	-	-	-	2,340
Amortization of concession asset	-	-	-	(2,491)	-	-	-	-	(2,491)
Balances in 2015	**85,854**	**424,954**	**234,618**	**76,524**	**97,243**	**112,782**	**1,021,663**	**340,952**	**2,394,590**
Capital payment	-	-	-	-	-	1,629	-	765	2,394
Dividends receivable	-	(16,000)	(19,000)	(15,000)	-	-	(15,810)	-	(65,810)
Equity pickup	12,529	71,830	61,912	12,847	7,650	5,250	207,919	46,887	426,824
Loss realized on acquisition of control	2,276	-	-	-	-	-	-	-	2,276
Amortization of concession asset	-	-	-	(2,490)	-	-	-	-	(2,490)
Balances in 2016	**100,659**	**480,784**	**277,530**	**71,881**	**104,893**	**119,661**	**1,213,772**	**388,604**	**2,757,784**

					Consolidated
	IENNE	**IESul**	**IEMadeira**	**IEGaranhuns**	**Total**
Balances in 2014	**89,859**	**107,636**	**927,254**	**190,920**	**1,315,669**
Capital payment	-	3,200	-	121,635	124,835
Dividends receivable	-	-	(29,170)	-	(29,170)
Equity pickup	7,384	1,946	123,579	28,397	161,306
Balances in 2015	**97,243**	**112,782**	**1,021,663**	**340,952**	**1,572,640**
Capital payment	-	1,629	-	765	2,394
Dividends receivable	-	-	(15,810)	-	(15,810)
Equity pickup	7,650	5,250	207,919	46,887	267,706
Balances in 2016	**104,893**	**119,661**	**1,213,772**	**388,604**	**1,826,930**

12 Property, plant and equipment

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

	Company				
			2016	2015	Average annual depreciation rates
	Cost	Accumulated depreciation	Net	Net	-%
Land	2,060	-	2,060	2,060	-
Machinery and equipment	5,304	(1,667)	3,637	3,481	6.33%
Furniture and fixtures	7,436	(5,430)	2,006	1,911	6.24%
IT equipment	14,824	(8,441)	6,383	3,533	11.3%
Vehicles	10,586	(2,050)	8,536	9,838	14.1%
Other	3,740	(938)	2,802	2,340	4.0%
	43,950	**(18,526)**	**25,424**	**23,163**	

	Consolidated				
			2016	2015	Average annual depreciation rates
	Cost	Accumulated depreciation	Net	Net	-%
Land	2,060	-	2,060	2,060	-
Machinery and equipment	5,304	(1,667)	3,637	3,481	6.33%
Furniture and fixtures	7,442	(5,433)	2,009	1,913	6.24%
IT equipment	14,849	(8,444)	6,405	3,544	11.3%
Vehicles	10,586	(2,050)	8,536	9,838	14.1%
Other	3,748	(938)	2,810	2,358	4.0%
	43,989	**(18,532)**	**25,457**	**23,194**	

Changes in property, plant and equipment are as follows:

	Company				
	Balances in 2014	**Additions**	**Depreciation**	**Write-offs/transfers**	**Balances in 2015**
Land	2,060	-	-	-	2,060
Machinery and equipment	1,187	328	(214)	2,180	3,481
Furniture and fixtures	2,105	-	(303)	109	1,911
IT equipment	4,938	370	(2,119)	344	3,533
Vehicles	10,854	-	(528)	(488)	9,838
Other	3,394	1,468	(2)	(2,520)	2,340
	24,538	**2,166**	**(3,166)**	**(375)**	**23,163**

	Company				
	Balances in 2015	**Additions**	**Depreciation**	**Write-offs/transfers**	**Balances in 2016**
Land	2,060	-	-	-	2,060
Machinery and equipment	3,481	441	(280)	(5)	3,637
Furniture and fixtures	1,911	425	(304)	(26)	2,006
IT equipment	3,533	4,190	(1,339)	(1)	6,383
Vehicles	9,838	208	(1,509)	(1)	8,536
Other	2,340	481	(2)	(17)	2,802
	23,163	**5,745**	**(3,434)**	**(50)**	**25,424**

	Consolidated				
	Balances in 2014	**Additions**	**Depreciation**	**Write-offs/transfers**	**Balances in 2015**
Land	2,060	-	-	-	2,060
Machinery and equipment	1,187	328	(214)	2,180	3,481
Furniture and fixtures	2,120	-	(303)	96	1,913
IT equipment	4,938	370	(2,121)	357	3,544
Vehicles	10,854	-	(528)	(488)	9,838
Other	3,394	1,486	(2)	(2,520)	2,358
	24,553	**2,184**	**(3,168)**	**(375)**	**23,194**

					Consolidated
	Balances in 2015	**Additions**	**Depreciation**	**Write-offs/transfers**	**Balances in 2016**
Land	2,060	-	-	-	2,060
Machinery and equipment	3,481	441	(280)	(5)	3,637
Furniture and fixtures	1,913	427	(305)	(26)	2,009
IT equipment	3,544	4,205	(1,340)	(4)	6,405
Vehicles	9,838	208	(1,509)	(1)	8,536
Other	2,358	486	(2)	(32)	2,810
	23,194	**5,767**	**(3,436)**	**(68)**	**25,457**

13 Intangible assets

The balance of R$18,219 at the Company refers mostly to expenses with upgrading of ERP-SAP and software license, amortized on a straight-line basis over 5 years.

The amount of R$20,576 in the consolidated financial statements refers to concession assets determined according to the report issued by an independent consulting firm (Note 11) arising from acquisition of subsidiary Evrecy, based on expected profits to be generated over the concession period. The concession assets are amortized over the subsidiary's service concession arrangement period, which expires on July 17, 2025, under the terms of item b, paragraph 2, article 14 of CVM Ruling No. 247 of March 27, 1996, as amended by CVM Ruling No. 285 of July 31, 1998.

Changes in intangible assets:

	Company	**Consolidated**
Balances in 2014	**26,148**	**56,022**
Additions	1,111	1,335
Amortization	(4,610)	(7,848)
Balances in 2015	**22,649**	**49,509**
Additions	5,718	5,721
Write-offs	(5,269)	(5,272)
Amortization	(4,879)	(8,115)
Balances in 2016	**18,219**	**41,843**

14 Loans and financing

Breakdown of loans and financing is as follows:

				Company		Consolidated	
Local currency	**Charges**	**Internal Rate of Return (IRR) p.a.**	**Final maturity**	**2016**	**2015**	**2016**	**2015**
BNDES (a) (i)	TJLP + 1.8% p.a.	9.9%	03.15.2029	231,010	246,316	231,010	246,316
BNDES (a) (i)	3.5% p.a.	4.8%	01.15.2024	72,291	82,538	72,291	82,538
BNDES (a) (i)	TJLP	8.6%	03.15.2029	1,918	-	1,918	-
BNDES (a) (ii)	TJLP + 2.1% p.a.	8.9%	02.15.2028	-	-	6,005	6,451
BNDES (a) (ii)	3.5% p.a.	3.8%	04.15.2023	-	-	11,471	13,282
BNDES (a) (iii)	TJLP + 2.6% p.a.	9.4%	05.15.2026	-	-	33,965	37,132
BNDES (a) (iii)	5.5% p.a.	5.8%	01.15.2021	-	-	41,043	51,092
BNDES (a) (iv)	TJLP + 1.9% p.a.	8.8%	05.15.2026	-	-	35,577	38,796
BNDES (a) (iv)	TJLP + 1.5% p.a.	8.4%	05.15.2026	-	-	30,743	33,525
BNDES (a) (v)	TJLP + 2.4% p.a.	9.1%	04.15.2023	-	-	32,786	37,425
BNDES / Finame PSI	4.0% p.a.	4.1%	08.15.2018	128	204	128	204
BNDES / Finame PSI (b)	6.0% p.a.	6.0%	11.18.2019	6,723	9,029	6,723	9,029
Eletrobras	8.0% p.a.	8.0%	11.15.2021	154	196	154	196
Finance lease agreements				337	323	337	323
Total in local currency				**312,561**	**338,606**	**504,151**	**556,309**
Current				**32,872**	**32,530**	**71,679**	**71,070**
Noncurrent				**279,689**	**306,076**	**432,472**	**485,239**

(a) BNDES

(i) On December 23, 2013, CTEEP entered into a loan agreement with the Brazilian Development Bank (BNDES), as amended on December 30, 2014, to borrow R$391,307, R$284,136 of which at the cost of TJLP + 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 for modernization of the electric power transmission system, system improvements, reinforcement and implementation of new systems, as well as implementation of social investments within the community. The amounts of R$124,124, R$26,900, R$89,000, R$30,000, R$73,877, R$660 and RS$1,253 were released on January 29, June 26, and December 26, 2014, on April 14 and December 18, 2015, and on June 21 and December 9, 2016, respectively.

Interest is charged on a quarterly basis and then monthly as of April 2015. The principal of this debt will be amortized in 168 equal and consecutive monthly installments beginning April 2015. The Company offered bank surety to guarantee the loan.

For 2016, the agreement has the following maximum financial indicators, calculated on an annual basis: Net debt/Adjusted EBITDA $\leq$ 4.5 and Net Debt / (Net Debt + Equity) $\leq$ 0.6.

For calculation and evidence of said ratios, the Company consolidates all subsidiaries and jointly-controlled subsidiaries (proportionally to the interest held), provided it holds interest equal to or higher than 10%.

On November 18, 2008, subsidiary CTEEP entered into a loan agreement of R$329,137 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, CTEEP entered into a loan agreement with BNDES of 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.

(ii) On August 13, 2013, subsidiary Pinheiros entered into a loan agreement with BNDES of R$23,498. The funds are intended to finance the construction of the transmission lines and substations specified in Service Concession Arrangement No. 021/2011. Repayment is in 168 monthly installments from March 15, 2014 onwards. Over repayment and after giving the bank sureties, the Debt Coverage Ratio (ICSD) determined annually must be at least 1.3. Bank sureties were waived by BNDES on June 23, 2015.

(iii) On December 30, 2010, subsidiary Pinheiros entered into a loan agreement with BNDES of R$119,886. The funds are intended to finance the construction of the transmission lines and substations specified in Service Concession Arrangements No. 012/2008, No. 015/2008 and 018/2008. Repayment is in 168 monthly installments from September 15, 2011 onwards. Over repayment and after giving the bank sureties, the Debt Coverage Ratio (ICSD) determined annually must be at least 1.3. Bank sureties were waived by BNDES on June 23, 2015.

(iv) On October 28, 2011, subsidiary Serra do Japi entered into a loan agreement with BNDES of R$93,373. The funds are intended to finance the transmission lines and substations specified in the service concession arrangement. Repayment is in 168 monthly installments from June 15, 2012. 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 (ICP), defined by the Equity to Total Assets ratio, 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, subsidiary IEMG entered into a loan agreement with BNDES of R$70,578. The funds are intended to finance approximately 50% of the Transmission Line (LT) between Neves 1 and Mesquita substations. Repayment is in 168 monthly installments from May 15, 2009. Bank sureties were waived by BNDES on March 15, 2011. Over repayment, the Debt Coverage Ratio (ICSD) determined annually must be at least 1.3.

(b) BNDES/Finame PSI

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

Costs incurred in the operations totaled R$1,997. The balance of costs to be appropriated at December 31, 2016 is R$1,134.

The maturity of noncurrent portions is as follows:

	Company		**Consolidated**	
	2016	**2015**	**2016**	**2015**
2017	-	31,258	-	57,637
2018	31,604	31,102	57,984	57,481
2019	31,300	30,829	57,680	57,209
2020	29,132	28,711	55,512	55,091
2021	29,131	28,711	47,230	46,810
2022	29,116	28,695	46,463	46,042
2023 to 2027	105,729	103,620	143,843	141,734
2028 to 2032	23,677	23,150	23,760	23,235
	279,689	**306,076**	**432,472**	**485,239**

Changes in loans and financing are as follows:

	Company	Consolidated
Balances in 2014	**327,809**	**572,630**
Additions	103,877	103,877
Payment of principal	(93,715)	(120,211)
Payment of interest	(23,431)	(41,190)
Interest and monetary and foreign exchange variation	24,066	41,203
Balances in 2015	**338,606**	**556,309**
Additions	2,137	2,137
Payment of principal	(31,549)	(58,045)
Payment of interest	(27,355)	(43,798)
Interest and monetary and foreign exchange variation	30,722	47,548
Balances in 2016	**312,561**	**504,151**

The Company is guarantor to loan agreements of its subsidiaries and jointly-controlled subsidiaries, limited to the interest held, as shown below:

Subsidiary	Interest held in subsidiary	Bank	Type of debt	Debt balance at 12/31/2016	Type of guarantee	Balance guaranteed by CTEEP	Guarantee termination date
IEMG	100%	BNDES	FINEM	32,786	None	32,786	-
Serra do Japi	100%	BNDES	FINEM	66,320	None	66,320	-
Pinheiros	100%	BNDES	FINEM and PSI	17,476	None	17,476	-
Pinheiros	100%	BNDES	FINEM and PSI	75,008	None	75,008	-
IESul	50%	BNDES	FINEM and PSI	10,828	Bank surety	5,414	09.24.2018
IESul	50%	BNDES	FINEM and PSI	16,444	Bank surety	8,222	07.31.2017
IENNE	25%	Banco do Nordeste	FNE	191,959	Bank surety	47,990	06.01.2017
IENNE	25%	Banco do Brasil	Overdraft facilities	15,632	None	3,908	-
IEMadeira	51%	Banco da Amazônia	Bank Credit Bill	310,899	Bank surety	158,558	06.30.2017
IEMadeira	51%	BNDES	FINEM and PSI	1,510,013	Bank surety	770,107	06.30.2017
IEMadeira	51%	Itaú/BES	Infrastructure debentures	497,022	Counter guarantee	253,481	06.30.2017
IEGaranhuns	51%	BNDES	FINEM and PSI	313,777	Bank surety	160,026	09.20.2018

Financing agreements between subsidiaries and BNDES require recognition and maintenance of a reserve account for debt services in an amount corresponding to, at least, three to six times the last financing installment fallen due, including principal and interest, classified under “Restricted cash” in the consolidated statement of financial position.

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

At December 31, 2016, there is no accelerated maturity of the debt relating to covenants.

15 Debentures

					Company and Consolidated	
	Maturity	**Number**	**Charges**	**IRR p.a.**	**2016**	**2015**
2nd series (i)	12.15.2017	5,760	IPCA + 8.1% p.a.	15.3%	22,306	41,608
Single series CTEEP (ii)	12.26.2018	50,000	116.0% of CDI p.a.	14.7%	334,546	498,747
Single series CTEEP (iii)	07.15.2021	148,270	IPCA + 6.04%	11.4%	149,447	-
					506,299	**540,355**
Current					**192,368**	**180,782**
Noncurrent					**313,931**	**359,573**

(i) In December 2009, CTEEP issued 54,860 debentures in two series amounting to R$548,600. The first series was settled in December 2014. As for the second series, the first maturity was on June 15, 2014, and the second on December 15, 2016. The last maturity will occur on December 15, 2017. Remuneration was paid on the following dates: June 15, 2011, 2012, 2013, 2014, 2015 and 2016, and next payment will be made on December 15, 2017.

Financial ratios established in the deed are as follows: Net Debt/Adjusted EBITDA $\leq$ 3.5 and Adjusted EBITDA/Financial Income/Expenses $\geq$ 3.0 determined quarterly.

(ii) In December 2013, 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. Remuneration is paid on a semiannual basis in June and December each year, beginning June 26, 2015 and ending December 26, 2018.

(iii) In August 2016, the Company issued 148,270 single series infrastructure debentures as approved under paragraph 1, article 2, of Law No. 12431/2001, totaling R$ 148,270, for the purpose of reimbursing capital contributions and investments in its jointly-controlled subsidiaries IEMadeira and IEGaranhuns. The debentures will mature on July 15, 2021, and remuneration will be paid in July of each year, beginning July 15, 2017.

Financial ratios established in the deed are as follows: Net Debt/Adjusted EBITDA ≤ 3.5 and Adjusted EBITDA/Financial Income/Expenses ≥ 1.5 up to determination carried out on June 30, 2017, and ≤ 2.00 for determination carried out as from September 30, 2017.

All requirements and covenants established in the agreements have been duly observed and met by CTEEP and its subsidiaries to date.

Costs incurred in the operations totaled R$7,703. The balance of costs to be appropriated at December 31, 2016 is R$5,220.

The maturity of noncurrent portions is as follows:

	2016	**2015**
2017	-	193,621
2018	166,785	165,952
2019 to 2021	147,146	-
	313,931	**359,573**

Changes in debentures are as follows:

Balances in 2014	**619,245**
Payment of principal	(21,425)
Payment of interest	(149,440)
Interest and monetary and foreign exchange variation	91,975
Balances in 2015	**540,355**
Addition	148,270
Payment of principal	(187,806)
Payment of interest	(86,057)
Interest and monetary and foreign exchange variation	91,537
Balances in 2016	**506,299**

16 Taxes and social charges payable

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Income tax	6	1,557	462	2,163
Social contribution tax	757	1,696	1,365	2,124
COFINS	10,569	8,213	10,911	8,500
PIS	2,040	1,639	2,114	1,702
Social Security Tax (INSS)	5,451	5,032	5,494	5,107
ISS	2,767	3,115	2,779	3,182
Unemployment Compensation Fund (FGTS)	1,655	1,536	1,655	1,536
Withholding Income Tax (IRRF)	3,348	3,071	3,458	3,084
Other	1,780	966	1,815	1,019
	28,373	**26,825**	**30,053**	**28,417**

17 Taxes in installments - Law No. 11941 - Company and consolidated

Company 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 joined the Special Tax Installment Payment Program introduced by Law No. 11941 of May 27, 2009, and opted for the 180-month payment schedule ending October 2024. The installment of R$1,462 at December 31, 2016 is subject to monetary restatement based on the SELIC rate.

Changes in the years ended December 31, 2016 and 2015 are as follows:

	2016	**2015**
Opening balance	143,097	147,011
Monetary restatement on debt	11,226	11,689
Payments made	(16,926)	(15,603)
	137,397	**143,097**
Current	**17,540**	**16,200**
Noncurrent	**119,857**	**126,897**

18 Deferred PIS and COFINS

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Deferred PIS	168,653	19,219	176,483	26,570
Deferred COFINS	776,827	88,522	812,962	122,452
	945,480	**107,741**	**989,445**	**149,022**

Deferred PIS and COFINS refer to infrastructure implementation revenue and remuneration of concession asset calculated on financial assets and recorded on an accrual basis. Taxes are paid based on monthly billings, as defined in Law No. 12973/14.

19 Regulatory charges payable

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Research and development - R&D (i)	39,256	40,875	41,492	42,356
Energy Development Account (CDE)	1,109	1,157	1,109	1,157
Global Reversion Reserve (RGR) (ii)	548	6,421	1,600	7,730
Alternative Energy Source Incentive Program (PROINFA)	1,059	1,772	1,059	1,772
	41,972	**50,225**	**45,260**	**53,015**
Current	**12,598**	**21,442**	**12,751**	**21,821**
Noncurrent	**29,374**	**28,783**	**32,509**	**31,194**

(i) The Company and its subsidiaries recognize liabilities related to amounts billed through tariffs (1% of Net Operating Income), applied to the Research and Development Program (R&D), which are restated on a monthly basis 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 Circular Memorandum No. 0003/2015 of May 18, 2015, the amounts invested in R&D are accounted for under assets and upon completion of projects, they are recognized as settlement of the obligation and then submitted to ANEELS's audit and final evaluation. The total amount invested in projects not completed by December 31, 2016 amounts to R$4,206 (R$11,075 at December 31, 2015).

(ii) Pursuant to article 21 of Law No. 12783, beginning January 1, 2013, concession operators of electric power transmission services with extended service concession arrangements under such Law are released from paying the annual RGR amount. This applies to the Company only in connection with contract No. 059/2001. At December 31, 2016, RGR balance payable at the Company refers to additional charge for 2010, as provided in ANEEL Order No. 2513/2012, which was revoked by Order No. 034/2013.

20 Provisions

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Vacation pay, 13th monthly salary and social charges	24,340	22,709	25,052	23,365
Profit sharing (PLR)	8,222	6,119	8,558	6,392
Contingencies (a)	153,035	189,320	153,035	189,612
	185,597	**218,148**	**186,645**	**219,369**
Current	**32,562**	**28,828**	**33,610**	**29,757**
Noncurrent	**153,035**	**189,320**	**153,035**	**189,612**

(a) Provision for contingencies

Contingencies are assessed and classified periodically as regards the likelihood of an unfavorable outcome for the Company and its subsidiaries. Provisions are set up for all contingencies referring to legal 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:

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Labor (i)	118,537	164,308	118,537	164,528
Civil (ii)	16,343	14,230	16,343	14,302
Tax - Real Estate Tax (IPTU) (iii)	16,839	9,722	16,839	9,722
Social security - INSS (iv)	1,316	1,060	1,316	1,060
	153,035	**189,320**	**153,035**	**189,612**

(i) Labor

The Company is a defendant in certain lawsuits at different courts, mainly arising from labor claims for salary parity, overtime and health exposure premiums, among others. CTEEP has labor-related judicial deposits totaling R$53,913 (R$54,695 at December 31, 2015), according to Note 10.

(ii) Civil

The Company is involved in civil proceedings relating to real estate issues, indemnifications, collections, annulment issues and class actions, arising from the ordinary course of business, i.e., operate and maintain transmission lines, substations and equipment under the terms of concession arrangements for public electric power transmission services.

(iii) Tax - IPTU

Company recognizes provision to cover debts with various São Paulo state local governments, related to lawsuits for regularization of areas.

(iv) Social security - INSS

On August 10, 2001, the National Institute of Social Security (INSS) served the Company a notice for non-payment of social security tax on compensation paid to employees from April 1999 to July 2001. Management began the defense procedures and the corresponding judicial deposit currently amounts to R$3,531 (R$3,261 at December 31, 2015 (Note 10).

(v) Changes in provisions for contingences:

					Company
	Labor	Civil	Tax - IPTU	Social security - INSS	Total
Balances in 2014	**114,353**	**9,656**	**5,501**	**1,989**	**131,499**
Set-up	76,721	5,937	5,584	-	88,242
Reversal/payment	(46,271)	(2,148)	(1,858)	(1,028)	(51,305)
Restatement	19,505	785	495	99	20,884
Balances in 2015	**164,308**	**14,230**	**9,722**	**1,060**	**189,320**
Set-up	79,921	11,940	1	195	92,057
Reversal/payment	(143,433)	(11,504)	(218)	(651)	(155,806)
Restatement	17,741	1,677	7,334	712	27,464
Balances in 2016	**118,537**	**16,343**	**16,839**	**1,316**	**153,035**

					Consolidated
	Labor	Civil	Tax - IPTU	Social security - INSS	Total
Balances in 2014	**114,446**	**9,656**	**5,501**	**1,989**	**131,592**
Set-up	76,885	6,009	5,584	-	88,478
Reversal/payment	(46,308)	(2,148)	(1,858)	(1,028)	(51,342)
Restatement	19,505	785	495	99	20,884
Balances in 2015	**164,528**	**14,302**	**9,722**	**1,060**	**189,612**
Set-up	79,921	11,945	1	195	92,062
Reversal/payment	(143,653)	(11,581)	(218)	(651)	(156,103)
Restatement	17,741	1,677	7,334	712	27,464
Balances in 2016	**118,537**	**16,343**	**16,839**	**1,316**	**153,035**

(b) Proceedings whose likelihood of loss is assessed as possible - Company and consolidated

The Company and its subsidiaries are parties to tax, labor and civil proceedings assessed by management as possible loss, based on the opinion of its legal advisors, for which provisions are not recorded. Company and consolidated contingencies total R$680,306 and R$682,081, respectively, at December 31, 2016 (R$483,801 and R$484,363 at December 31, 2015).

	Company		Consolidated	
Classification	**Number**	**Total**	**Number**	**Total**
Labor	177	24,268	178	24,373
Civil	49	33,163	57	34,833
Social security	61	2,912	61	2,912
Civil - Merger of EPTE into CTEEP declared null (i)	1	159,709	1	159,709
Civil - Ace Seguradora (ii)	1	11,849	1	11,849
Tax - social contribution tax loss (iii)	1	22,891	1	22,891
Tax - goodwill amortization (iv)	4	366,396	4	366,396
Tax - IRPJ and CSLL (v)	1	9,836	1	9,836
Tax - other	147	51,828	147	51,828
Regulatory – Authorizing Resolution for reinforcement (vi)	1	60,000	1	60,000
Plan of Law No. 4819/58 (Note 33)	1	-	1	-
		742,852		**744,627**

(i) Merger of EPTE into CTEEP declared null

Lawsuit filed by non-controlling shareholders seeking to declare the merger of Empresa Paulista de Transmissão de Energia Elétrica (EPTE) into Companhia de Transmissão de Energia Elétrica Paulista (CTEEP) null and void, or alternatively, to exercise their right of withdrawal and determine the payment of share refund amounts. Currently, this action is at the execution stage, and the challenge filed to determine the grounds for its execution is pending final appreciation. 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) Ace Seguradora

Collection lawsuit filed by the insurers of CESP - Companhia Energética de São Paulo, alleging CTEEP´s responsibility in the claim incurred in Generating Unit No. 5 – "UG-05" of Hydro Power Plant Três Irmãos, resulting in serious damage to its generator and transformer on June 21, 2013. The amount charged refers to the amount received by CESP and its insurers, totaling R$8.8 million on July 27, 2015, for repair of the generator and transformer allegedly damaged in the event.

(iii) Tax - social contribution tax loss

Proceeding arising from tax deficiency notice drawn in 2007 referring to the composition of CSLL tax loss, arising from the statement of financial position of CESP's spin-off. This proceeding is pending judgment by the Administrative Board of Tax Appeals (CARF).

(iv) Tax - goodwill amortization

Proceedings arising from notices drawn from 2013 to 2016 by the Brazilian IRS, referring to the period from 2008-2013, in connection with goodwill paid by ISA on the acquisition of the ownership control of CTEEP (Note 28). These proceedings are pending judgment by CARF at different levels.

(v) Tax - IRPJ and CSLL

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

(vi) Regulatory – Authorizing Resolution (REA) for reinforcement

Action to annul REAs in order to ensure the fair compensation for reinforcements made in transmission lines, requesting that the prices determined by ANEEL be updated in relation to the market. The request for advance relief of the claim was partially granted, determining that ANEEL initiate the administrative process to update the Reference Price Bank, and that it issue new Authorizing Resolutions.

(c) Proceedings whose likelihood of loss is assessed as remote - Company and 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 a financing agreement balance. Eletropaulo did not agree with the criterion for monetary restatement of said financing 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, sentencing Eletropaulo to pay the balance determined by ELETROBRAS.

Under Eletropaulo's spin-off agreement dated December 31, 1997 that resulted in the establishment of EPTE and other companies, Eletropaulo is solely liable for obligations of any kind referring to acts occurring until the spin-off date, except for contingent liabilities for which provisions have been allocated to the acquirers. In the case at issue, at the time of the spin-off, there was no allocation to EPTE of any provision for such purpose, making 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, recorded 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 Eletropaulo's spin-off agreement, EPTE would own the assets transferred and Eletropaulo would be responsible for the contingent liability related to the amount claimed by ELETROBRAS. In October 2001, ELETROBRAS executed the decision related to such financing agreement, collecting R$429 million from Eletropaulo and R$49 million from EPTE, based on the understanding that EPTE would pay its share with the restated funds of the judicial deposit. Subsidiary CTEEP merged EPTE on November 10, 2001, becoming the successor of its 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 an Appeal to the High Court of Justice (STJ) and an Appeal to the Supreme Court (STF), with a view to maintaining the aforementioned collection regarding Eletropaulo. Appeals similar to those of ELETROBRAS were filed by CTEEP.

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

As a result of the above-mentioned appeal granted by STJ, on December 4, 2006, Eletropaulo filed a motion for clarification, which was denied according to appellate decision published on April 16, 2007, as well as the Appeals to STJ and STF that upheld the decision of STJ, which became final on October 30, 2008. Accordingly, the

execution action filed by ELETROBRAS follows its ordinary course as originally proposed, in view of the mentioned decisions, which understood that the challenges prior to procedures to determine grounds for execution filed by Eletropaulo are unreasonable.

In December 2012, a decision was published not granting the provision of evidence required by the parties, dismissing the liquidated claim procedure, 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 Company, Eletropaulo and Eletrobrás have presented their responses to the expert report, which have not yet been analyzed. Also in 2016, Eletropaulo filed accounting and legal opinions defending its thesis.

The proceeding is pending decision as regards the responses and conclusion of the expert examination.

(ii) PIS/COFINS

Company is a defendant in the proceedings arising from PIS and COFINS notices for the years 2003 to 2011, based on the understanding that it would be subject to the cumulative taxation regime. The Company adopted the cumulative taxation regime until 2003. As the legislation changed, non-cumulative taxation became the general rule as of October 2003, except for revenues falling under these 4 conditions: i) from contracts executed before October 2003, ii) effective for more than one 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 conditions, and also to comply with ANEEL's guidance, CTEEP requested to offset the taxes overpaid in the period under the non-cumulative taxation regime, and started to subject the SE revenue to PIS and COFINS cumulative taxation. The administrative proceedings at the highest CARF level (involving the years 2003 to 2010) total R$1,373.0 million, the collection of which is suspended through writ of mandamus issued whereby the Company intends that the report prepared by external advisors be analyzed at the administrative level. The proceeding referring to 2011 in the updated amount of R$481.0 million is pending judgment at the first level of CARF. In the opinion of the Company's legal advisors, the likelihood of loss of these lawsuits is remote considering that the STJ has already voiced its position in favor of the thesis.

21 Payables - Funcesp - Company and consolidated

The Company sponsors supplementary retirement and death benefit plans maintained with FUNCESP, which, added to the fund's administrative costs, total R$5,495 at December 31, 2016 (R$6,144 at December 31, 2015) referring to monthly installments payable as contributions 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, this Plan establishes supplementary retirement and pension benefits, additional leave entitlement and family allowance. Funds required to cover liabilities assumed in this plan are full responsibility of the applicable São Paulo State Government authorities (Note 33).

(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 the Company itself and provides supplementary retirement and death benefits, and related reserves are computed using the fully funded system.

PSAP/CTEEP was created after the spin-off of PSAP/CESP B1 on September 1, 1999 and covers all Participants 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, and the actuarial asset-liability balance was obtained at the time.

The Defined Benefit ("DB") subplan defines contributions and related matching responsibilities between the Company and Participants on 70% of employees' Actual Contribution Salary in order to obtain the plan's actuarial asset-liability balance. This subplan ensures annuity post-retirement and 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 Participants, with limited matching contributions by the Company on 30% of employees' Actual Contribution Salary for purposes of additional supplementary benefits in case or retirement or death. On the vesting date, the Variable Contribution (VC) Subplan may turn into a Defined Benefit (DB) plan, in case the Participant 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, 2016, the PSAP/CTEEP recorded actuarial surplus of R$568,247. This surplus could not be recognized in accounting in view of CVM Resolution No. 695/2012, which determines that asset recognition is permitted only when the equity surplus represents a future economic benefit to the Company. Although the National Supplementary Pension Agency (PREVIC), through CGPC Ruling No. 26/2008, amended by CNPC Ruling No. 22/2015, addresses surplus-related matters, there is no provision concerning a specific PSAP/CTEEP characteristic: the existence of distinct submasses within a single plan. Given this specific characteristic and the absence of a more comprehensive legislation, any discussion about economic benefits in PSAP/CTEEP's P&L at December 31, 2016 is precipitated. Therefore, the actuarial report as of December 31, 2016 does not present actuarial assets or liabilities subject to accounting recognition.

The key economic and financial information, in compliance with CPC 33 (R1) and CVM Resolution No. 695 (IAS 19R), based on the actuarial reports, is as follows:

(i) Reconciliation of assets and liabilities

	2016	2015
Fair value of plan assets (ii)	3,428,206	3,043,161
Present value of defined benefit obligation (iii)	(2,859,959)	(2,247,458)
Actuarial surplus	568,247	795,703
Asset recognition restriction	(568,247)	(795,703)
Net assets	**-**	**-**

(ii) Changes in plan assets

	2016	2015
Fair value of plan assets at beginning of year	3,043,161	2,967,520
Employer contributions	1,195	2,609
Employee contributions	1,658	3,098
Return on investments	575,693	239,246
Benefits paid	(193,501)	(169,312)
Fair value of plan assets at end of year (i)	**3,428,206**	**3,043,161**

(iii) Changes in actuarial liabilities

	2016	2015
Present value of net actuarial obligation at beginning of year	2,247,458	2,397,911
Cost of current services	7,688	-
Cost of interest	273,240	261,002
Contribution of participants	1,658	3,098
Actuarial gain/loss	523,416	(245,241)
Benefits paid	(193,501)	(169,312)
Present value of net actuarial obligation at end of year (i)	**2,859,959**	**2,247,458**

(iv) Plan participants (number of individuals)

	2016	2015
Assets	1,360	1,375
Co-related	137	144
Inactive		
Retirees	2,227	2,169
Disability retirement	44	43
Pensioners	153	140
	2,424	2,352
	3,921	**3,871**

(v) Actuarial assumptions used

	2016	2015
Discount rate of present value of actuarial liability (statutory)	11.02%	12.61%
Future salary growth rate (statutory)	7.10%	7.10%
Rate of adjustment of benefits granted for continued provision	5.00%	5.00%
General mortality table	AT-00	AT-00
Disability table	Light	Light
Disabled mortality table	AT-49	AT-49

(vi) Breakdown of plan asset categories (ii)

	2016	2015
Fixed income	86.8%	85.5%
Variable income	7.8%	8.9%
Structured investments	1.5%	-
Foreign investments	1.8%	3.3%
Properties	1.2%	1.4%
Operations with participants	0.9%	0.9%
	100.0%	100.0%

(vii) Analysis of sensitivity of net actuarial obligation

	Base scenario	Sensitivity I	Sensitivity II
Present value of net actuarial obligation (iii)	2,859,959	2,576,435	3,197,740
Statutory discount rate	11.02%	12.02%	10.02%

(viii) Expected cash flow for the coming years

	2016
Expected contribution to be paid by the Company in 2017	433
Total estimated payment of plan benefits	
2017	190,679
2018	203,110
2019	215,315
2020	230,642
2021	246,578
From 2022 to 2026	1,448,976

22 Special obligations - reversal/amortization

The balance of R$24,053 in 2016 refers to funds arising from the reversion reserve, amortization and portion retained at CTEEP of the monthly quotas of the Global Reversion Reserve (RGR), related to investments of funds for expansion of the public electric power service and repayment of loans raised for the same purpose, up to December 31, 1971. Every year, according to an ANEEL order, 5% interest is applied to reserve, settled on a

monthly basis. The method for settlement of these obligations has not been defined by the Granting Authority.

23 Equity

(a) Capital

Authorized capital amounts to R$2,500,000 and R$2,300.000 in 2016 and 2015, of which R$978,693 and R$971,523 refers to common shares and R$1,521,307 and R$1,328,477 to preferred shares, respectively, all of which are book-entry registered shares with no par value.

Subscribed and paid-up capital at December 31, 2016 and 2015 totals R$2,372,437 and R$2,215,291, respectively, and is represented by common and preferred shares, as follows:

	2016	$ thousand	2015	$ thousand
red common shares	64,484,433	928,755	64,484,433	885,851
red preferred shares	100,236,393	1,443,682	96,775,022	1,329,440
	164,720,826	**2,372,437**	**161,259,455**	**2,215,291**

Common shareholders are entitled to one vote per share at the general meetings.

Preferred shares are nonvoting, but have priority upon capital reimbursement and payment of noncumulative dividends of 10% over the year, calculated on paid-in capital corresponding to this type of share.

The Board of Director's meeting held on June 2, 2016 approved (i) capital increase of CTEEP, which had been approved at the Board of Director's meeting held on April 5, 2016, in the amount of R$157,146, through issue of 3,461,371 preferred shares. The controlling shareholder was responsible for payment of R$59,773 through partial amortization of the Special Goodwill Reserve on Merger; and (ii) cancellation of 78,835 preferred shares, of which 5,063 were not subscribed and 73,772 were subscribed under the condition ("conditional actions") of subscription of total capital increase, which did not take place.

(b) Dividends and interest on equity

In 2015, the Board of Directors decided on the distribution of interim dividends, as follows:

	Interim dividends		
Board meeting date	**Total**	**Per share**	**Payment**
05.25.2015	110,765	0.686875	06.08.2015
11.24.2015	224,100	1.3896860	12.07.2015
	334,865	**2.076561**	

Dividends paid in 2015 totaled R$364,901, of which R$333,961 refers to resolutions in 2015 and R$30,940 to

resolutions in 2014.

In 2016, the Board of Directors decided on the distribution of interim dividends, as follows:

	Interim dividends		
Board meeting date	**Total**	**Per share**	**Payment**
06.16.2016	110,000	0.667797	06.30.2016
11.29.2016	137,500	0.834746	01.20.2017
	247,500	**1.502543**	

Total dividends paid in 2016 is R$109,710.

The Company's articles of incorporation defined the payment of mandatory minimum dividends corresponding to 10% of capital, equivalent to R$237,244, limited to profit balance after the legal reserve is set up.

	2016	**2015**
Net income for the year	**4,932,312**	**504,430**
Legal reserve	(196,234)	(25,222)
Unclaimed dividends and interest on equity	-	1,595
Dividend calculation base	4,736,078	480,803
Interim dividends paid	(247,500)	(334,865)
Statutory reserve	(15,715)	(29,623)
Retained profits reserve	(148,639)	(116,315)
Special unearned income reserve	(4,324,224)	-
Allocation to proposed additional dividends	**-**	**-**

(c) Capital reserves

	2016	**2015**
Investments grants - CRC (i)	426,710	426,710
Remuneration of construction in progress (ii)	633,053	633,053
Donations and investment grants	150,489	150,489
Tax incentives - FINAM	6,743	6,743
Special goodwill reserve on merger (Note 28)	588	60,361
	1,217,583	**1,277,356**

(i) Investments grants - CRC

The Recoverable Rate Deficit (CRC) account was introduced by Decree No. 41019/1957 and by Law No. 5655/1971 to remunerate electric power utilities for certain investments made thereby. Law No. 8631/1993 discontinued the CRC, and Law No. 8724/1993 subsequently established that CRC credits be recorded in equity as an investment grant, under "Capital Reserve".

As permitted by Accounting Pronouncement CPC 13, the Company elected to maintain the existing CRC balance at December 31, 2007, as well as other donations and investment grants recorded as capital reserve in equity, until these amounts are fully used as provided in the Brazilian corporation law.

(ii) Remuneration of construction in progress

These are credits resulting from capitalization of remuneration calculated on equity funds used for construction of fixed assets, applied to construction in progress and that may only be used for capital increase. The Company does not adopt this practice since 1999, as permitted by the Accounting Manual of the Public Electric Power Utility sector.

(d) Income reserves

	2016	2015
Legal reserve (i)	474,488	278,254
Statutory reserve (ii)	237,244	221,529
Retained profits reserve (iii)	1,491,748	1,343,109
Special unearned income reserve (iv)	4,324,224	-
	6,527,704	**1,842,892**

(i) Legal reserve

The legal reserve is set up at 5% of net income for the year, limited to 20% of capital, before allocation. At December 31, 2016, the legal reserve reached the limit of 20% of capital.

(ii) Statutory reserve

The Company's articles of incorporation provide for the recognition of an investment reserve for expansion of operations up to 20% of annual net income, limited to the balance after deduction of the legal reserve and mandatory minimum dividends, capped at 10% of total capital. At December 31, 2016, the legal reserve reached the limit of 10% of capital.

(iii) Retained profits reserve

Management proposes to keep previous years' retained earnings in equity, under retained profits reserve, in order to meet the capital budget, as approved at the General Shareholders' Meeting held in the periods at issue.

(iv) Special unearned income reserve

Considering that the impacts of the SE amounts, adjustments from application of ICPC01 (R1) and equity pickup are not a realized portion of net income for the year, management proposes to allocate income from these operations in the special unrealized profits reserve. Allocation in this reserve occurs to reflect the fact that realization of income from these operations will take place in future years. Once realized, should the reserve not be absorbed by subsequent losses, the Company will allocate the balance, in accordance with article 19 of CVM Ruling No. 247/1996, to increase capital, distribute dividends or set up other income reserves, as proposed by the Company management. Dividends related to 2016 were fully paid with available Company resources, so that the Special Unearned Income Reserve balance will not be allocated to such dividends.

(e) Earnings per share

Basic earnings (or loss) per share are calculated by reference to the Company's P&L, based on the weighted average number of outstanding common and preferred shares in the corresponding period. Diluted earnings (loss) per share are calculated using the average number of outstanding shares adjusted by instruments potentially convertible into shares. In this case, the Company considered shares that could be issued through capitalization of the special goodwill reserve upon merger on behalf of the controlling shareholder.

As provided in CVM Ruling No. 319, to the extent that the tax benefit from the special goodwill reserve upon merger is realized, included in the Company's equity, this benefit may be capitalized on behalf of its parent company, and the other shareholders are entitled to participation in this capital increase, thus maintaining their interest in the Company.

The shares issued according to realization will be considered dilutive for calculation of the Company's earnings (loss) per share, if all the conditions necessary for their issue have been met. In 2016 and 2015, the conditions for issue of shares related to goodwill amortization were met.

The table below shows P&L data and shares used to calculate basic and diluted earnings per share:

	2016	2015
Basic and diluted earnings per share		
Net income - R$ thousand	4,932,312	504,430
Weighted average number of shares		
Common shares	64,484,433	64,484,433
Preferred shares	98,785,462	96,775,022
	163,269,895	161,259,455
Adjusted weighted average number of shares		
Common shares	65,035,958	65,975,801
Preferred shares	99,301,051	98,231,290
	164,337,009	164,207,091
Basic earnings per share	30.20956	3.12807
Diluted earnings per share	30.01340	3.07192

24 Net operating revenue

24.1 Breakdown of net operating revenue

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Gross revenue				
Infrastructure (a) (Note 7)	164,290	239,101	171,902	278,685
Operation and maintenance (a) (Note 7)	809,280	797,930	835,786	829,551
Remuneration of concession assets (b) (Note 7)	7,557,589	170,419	7,743,248	311,647
Rent	18,069	16,826	14,581	17,063
Provision of services	8,819	8,817	8,819	5,125
Total gross revenue	8,558,047	1,233,093	8,774,336	1,442,071
Taxes on revenues				
COFINS	(764,049)	(90,728)	(770,587)	(97,127)
PIS	(165,879)	(19,699)	(167,295)	(21,086)
ISS	(427)	(428)	(427)	(428)
	(930,355)	(110,855)	(938,309)	(118,641)
Regulatory charges				
Energy Development Account (CDE)	(16,057)	(11,541)	(16,057)	(11,541)
Global Reversion Reserve (RGR)	(186)	(962)	(3,621)	(3,713)
Research and Development (R&D)	(8,270)	(7,840)	(9,618)	(8,438)
Alternative Energy Source Incentive Program (PROINFA)	(17,491)	(12,608)	(17,491)	(12,608)
	(42,004)	(32,951)	(46,787)	(36,300)
	7,585,688	**1,089,287**	**7,789,240**	**1,287,130**

(a) Infrastructure implementation and operation and maintenance services

Revenue from infrastructure implementation for provision of electric power transmission services under a service concession arrangement is recognized according to costs incurred. Revenues from operation and maintenance services are recognized in the period in which the services are provided by the Company, as well as the adjustment portion (24.3). When the Company provides more than one service under a service concession agreement, the consideration received is allocated by reference to the fair value of the services delivered.

(b) Remuneration of concession assets

Interest income is recognized at the effective interest rate on the outstanding principal amount, and the effective interest rate is the one that exactly equals the estimated future cash receipts determined over the estimated life of the financial asset to the initial book value of such asset.

24.2 Periodic review of Annual Revenue Allowed (RAP)

In accordance with the concession contracts, every four and/or five years following their execution date, ANEEL will conduct a periodic review of the RAP for electric power transmission, so as to promote tariff efficiency at affordable rates.

In 2013, the Company started recognizing revenue and costs from implementation of infrastructure to improve electric power facilities, which will be considered in the base of the next periodic tariff review, as defined in ANEEL Order No. 4413 of December 27, 2013 and Regulatory Resolution No. 443 of July 26, 2011, as amended by Regulatory Resolution No. 463 of December 16, 2014.

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

The tariff review includes adjustment of revenue by determining:

a) the regulatory remuneration base for the Base Grid - New Facilities (RBNI);
b) efficient operating costs;
c) optimal capital structure and definition of remuneration of transmission companies;
d) identification of the amount to be considered as tariff reducer - Other Revenues.

Information on the latest periodic tariff reviews is as follows:

Concession operator	Approval Resolution (REH)	Date of REH	Effectiveness
IEMG	1299	06.19.2012	07.01.2012
IENNE	1540	06.18.2013	07.01.2013
Evrecy	1538	06.18.2013	07.01.2013
Pinheiros	1755/1762	06.24 and 07.09.2014	07.01.2014
Serra do Japi	1901	06.16.2015	07.01.2015
IESul	1755	06.24.2014	07.01.2014
IEMadeira (i)	1755	06.24.2014	07.01.2014

(i) The first periodic tariff review of IEMadeira was defined by REH No. 1755, reducing RAP by 4.5% for Service Concession Arrangement No. 013/2009, and by 3.81% for Service Concession Arrangement No. 015/2009. 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, 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. IEMadeira originally claimed an effective RAP increase of 26.8% in RAP. However, IEMadeira reviewed its position, suggesting alternatives of (i) effective RAP increase of 29.7% as from July 1, 2016; (ii) increase in the concession term of 238 months, without effective increase in RAP; or (iii) effective RAP increase of 19.4% as from July 1, 2016 plus increase of 54 months in the concession term. IEMadeira is awaiting the final position of ANEEL on the conclusion of this proceeding.

The next periodic tariff reviews of RAP for CTEEP, its subsidiaries and jointly-controlled entities are described in Note 1.2.

24.3 Variable Portion (PV), Additional RAP and Adjustment Portion (PA)

Regulatory Decision No. 270 of July 9, 2007, regulates Variable Portion (PV) and Additional RAP. The Variable Portion is a discount in RAP of transmission companies due to unavailability or operating restriction of the facilities that integrate the Basic Grid. Additional RAP corresponds to the amount to be added to RAP of transmission companies as an incentive to improve service availability of transmission facilities. These are recognized as revenue and/or reduction in revenue from operation and maintenance services in the period in which they occur.

Regulatory Decision (REN) No. 512 of October 30, 2012 amended REN No. 270/07, including paragraph 3, article 3, which eliminates additional RAP for transmission activities covered by Law No. 12783/2013.

The Adjustment Portion (PA) is the portion of revenue that arises from applying a contractual mechanism used in the periodic annual adjustments. Said portion of revenue is added to or subtracted from the RAP, so as to offset over or under collection in the period preceding the adjustment.

24.4 Annual revenue adjustment

On June 28, 2016, Approval Resolution No. 2098 was published establishing the Annual Revenue Allowed (RAP) for the Company and its subsidiaries, with availability of transmission facilities that integrate both the Basic Grid and the Other Transmission Facilities, for the 12-month cycle, comprising the period from July 1, 2016 to June 30, 2017.

According to Approval Resolution No. 2098, the RAP and the amounts corresponding to the Company's adjustment portion (Service Concession Arrangement No. 059/2001), net of PIS and COFINS (denominated Regulatory Revenue), which amounted to R$836,611* on July 1, 2015, changed to R$893,452* on July 1, 2016, representing an increase of R$56,841 equivalent to 6.8%. Of this increase 9.2% (R$76,106)** refers to the IPCA/IGPM adjustment, negative 6.5% (-R$54,220) to the variation in the adjustment portion, and 4.1% (R$34,955) to additional RAP for new investments that became operational and investments expected to become operational over the cycle.

The Company's Annual Regulatory Revenue, net of PIS and COFINS, is broken down as follows:

Concession arrangement	Basic Grid			Other Transmission Facilities (DIT)			Total
	Existing assets	New investments	Adjustment portion	Existing assets	New investments	Adjustment portion	
059/2001	499,508	113,271	(24,873)	211,436	102,436	(8,326)	893,452
	499,508	**113,271**	**(24,873)**	**211,436**	**102,436**	**(8,326)**	**893,452**

The consolidated Annual Regulatory Revenue of R$963,348* on July 1, 2015 changed to R$1,035,328* on July 1, 2016, representing an increase of R$71,980 or 7.5%. Of this increase, 9.3% (R$89,339)** refers to the IPCA /IGPM adjustment, negative 5.5% (-R$53,141) to the variation in the adjustment portion, and 3.7% (R$35,782) to additional RAP for new investments that became operational and investments expected to become operational over the cycle.

*These amounts comprise revenue from authorized investments that will become operational over the next cycles.
** These amounts comprise variation in revenue from Existing Assets (R$60,187 thousand) and variation in revenue from New Investments that received energy before the annual adjustment (R$15,919 and R$29,151, Company and consolidated, respectively).

The Regulatory Revenue of the Company and its subsidiaries, net of PIS and COFINS, is broken down as follows:

Concession arrangement	Basic Grid				Other Transmission Facilities (DIT)				Total
	Existing assets	New investments	Bid	Adjustment portion	Existing assets	New investments	Bid	Adjustment portion	
059/2001	499,508	113,271	-	(24,873)	211,436	102,436	-	(8,326)	893,452
143/2001	-	-	21,994	(1,610)	-	-	-	-	20,384
004/2007	-	-	18,121	(1,260)	-	-	-	-	16,861
012/2008	-	1	8,568	(340)	-	889	1,292	-	10,410
015/2008	-	13,720	16,265	(2,964)	-	4,031	398	350	31,800
018/2008	-	50	4,219	(302)	-	1,540	51	19	5,577
021/2011	-	-	4,509	(192)	-	-	1,654	-	5,971
026/2009	-	4,860	27,112	(632)	-	-	6,166	-	37,506
020/2008	-	11,373	-	(498)	-	2,490	-	2	13,367
	499,508	**143,275**	**100,788**	**(32,671)**	**211,436**	**111,386**	**9,561**	**(7,955)**	**1,035,328**

25 Costs of infrastructure implementation, operation and maintenance services and general and administrative expenses

	Company			
			2016	2015
	Costs	Expenses	Total	Total
Personnel	(225,985)	(59,536)	(285,521)	(267,255)
Services	(124,967)	(48,350)	(173,317)	(193,445)
Depreciation	-	(8,313)	(8,313)	(7,776)
Materials	(84,700)	(1,008)	(85,708)	(119,826)
Lease and rent	(9,240)	(4,490)	(13,730)	(13,201)
Contingencies	-	(1,761)	(1,761)	(76,319)
Other	(29,714)	(11,902)	(41,616)	(40,406)
	(474,606)	**(135,360)**	**(609,966)**	**(718,228)**

				Consolidated
			2016	2015
	Costs	Expenses	Total	Total
Personnel	(234,460)	(61,489)	(295,949)	(279,111)
Services	(133,524)	(49,882)	(183,406)	(212,895)
Depreciation	-	(9,061)	(9,061)	(8,525)
Materials	(85,624)	(1,016)	(86,640)	(142,799)
Lease and rent	(10,029)	(4,661)	(14,690)	(14,313)
Contingencies	-	(1,689)	(1,689)	(76,530)
Other	(31,336)	(13,061)	(44,397)	(43,135)
	(494,973)	**(140,859)**	**(635,832)**	**(777,308)**

Of the aforementioned costs, the Company's infrastructure implementation costs totaled R$149,017 in 2016 and R$216,888 in 2015, while the consolidated infrastructure implementation costs totaled R$156,379 in 2016 and R$254,982 in 2015. The calculation of the related infrastructure implementation revenue, shown in Note 24.1, includes PIS, COFINS and other charges to the investment cost.

The contingencies balance for 2015 was reclassified, as shown in Note 2.2.

26 Financial income (expenses)

	Company		Consolidated	
	2016	2015	2016	2015
Revenues				
Gains from short-term investments	41,870	47,972	67,084	65,404
Interest receivable	915	21,294	947	21,552
Monetary variation	5,311	50,177	5,590	50,184
Other	3,010	14,392	3,063	14,571
	51,106	133,835	76,684	151,711
Expenses				
Interest on loans	(27,218)	(24,191)	(44,043)	(41,927)
Interest payable	(12,361)	(13,103)	(12,396)	(13,110)
Charges on debentures	(87,360)	(86,009)	(87,360)	(86,009)
Monetary variation	(39,300)	(30,406)	(39,492)	(30,457)
Other	(3,019)	(5,332)	(3,322)	(5,564)
	(169,258)	(159,041)	(186,613)	(177,067)
	(118,152)	**(25,206)**	**(109,929)**	**(25,356)**

The monetary variation balance for 2015 was reclassified, as shown in Note 2.2.

27 Other operating income (expenses), net

Other operating income (expenses) refers substantially to recognition of the liability to cover the Eletrobras collection suit for repayment of part of the NI amounts, totaling R$24,513 (note 7). In 2015, the amount refers to amortization of the parent company's merged goodwill (Note 28), of R$29,887 in 2015.

28 Income and social contribution taxes

Corporate Income Tax (IRPJ) and Social Contribution Tax on Net Profit (CSLL) are provisioned on a monthly basis, under the accrual method, calculated based on Law No. 12973/14.

The Company computes taxable profit based on monthly accounting records ("*lucro real*") and the subsidiaries compute taxable profit based on quarterly gross revenue ("*lucro presumido*").

(a) Reconciliation of effective rate

Income and social contribution tax expenses for the year are reconciled with accounting profit as follows:

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Income before IRPJ and CSLL	7,256,455	589,700	7,283,246	609,582
Current statutory rates	34%	34%	34%	34%
Estimated IRPJ and CSLL	(2,467,195)	(200,498)	(2,476,304)	(207,258)
IRPJ and CSLL on permanent differences				
Loss realized	(529)	(518)	(529)	(518)
Reversal of Provision for Maintenance of Equity Integrity*	24	19,725	24	19,725
Equity pickup	145,120	95,800	91,020	54,844
Effect of adoption of taxable profit based on gross revenue - subsidiaries	-	-	53,440	40,590
Other	(1,563)	221	(1,563)	221
Effective IRPJ and CSLL	**(2,324,143)**	**(85,270)**	**(2,333,912)**	**(92,396)**
IRPJ and CSLL				
Current	(71,797)	(80,523)	(79,301)	(85,804)
Deferred	(2,252,346)	(4,747)	(2,254,611)	(6,592)
	(2,324,143)	**(85,270)**	**(2,333,912)**	**(92,396)**
Effective rate	**32.0%**	**14.5%**	**32.0%**	**15.2%**

(*) The acquisition of the Company's control by ISA generated goodwill totaling R$689,435 at December 31, 2007, substantially amortized through December 2015 in monthly installments, as permitted by ANEEL Resolution No. 1164. In order to prevent the amortization of goodwill from adversely affecting the flow of dividends to shareholders, a Provision for Maintenance of Equity Integrity (PMIPL) of the merging company and a Special Goodwill Reserve on Merger were recognized, as set forth in CVM Ruling No. 349 of March 6, 2001. The remaining balance at December 31, 2016 is R$550 (R$586 at December 31, 2015).

(b) Breakdown of deferred income and social contribution taxes

	Company		Consolidated	
Assets/(Liabilities)	**2016**	**2015**	**2016**	**2015**
Accounts receivable - Law No. 12783 – SE (i)	(2,211,229)	-	(2,211,229)	-
Service Concession Arrangement (ICPC 01) (ii)	(86,906)	(35,342)	(124,972)	(71,143)
First-time adoption of Law No. 12973/14 (iii)	(23,005)	(23,890)	(23,005)	(23,890)
Provision - SEFAZ-SP (iv)	175,527	175,527	175,527	175,527
Provision for contingencies	52,032	64,369	52,032	64,369
Other temporary differences	25,044	3,145	25,044	3,145
Net	**(2,068,537)**	**183,809**	**(2,106,603)**	**148,008**
Assets	**-**	**183,809**	**-**	**183,809**
Liabilities*	**(2,068,537)**	**-**	**(2,106,603)**	**35,801**

* In 2015, the consolidated balance of liabilities refers to the balance of subsidiaries; for this reason, it is not on a net basis.

(i) As described in Note 7 (d)
(ii) This refers to IRPJ and CSLL on revenue from implementation of infrastructure for provision of electric power transmission services and remuneration of concession assets (ICPC 01 (R1)), recognized on an accrual basis, subjected to taxation upon receipt, as defined in articles 83 and 84 of Revenue Procedure No. 1515/14.
(iii) Reflects amounts subject to IRPJ and CSLL upon first-time adoption of Law No. 12973/14.
(iv) As described in Note 8 (c).

The Company management considers that deferred income and social contribution tax assets arising from temporary differences should be realized proportionally to legal proceedings, accounts receivable and occurrence of events giving rise to provisions for losses.

29 Transactions with related parties

Significant balances and transactions with related parties are as follows:

		2016		2015		2016	2015
Nature of transaction	**Related party**	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Revenue/ (expense)**	**Revenue/ (expense)**
Short-term benefits	Management	-	-	-	-	(5,227)	(4,595)
		-	-	-	-	(5,227)	(4,595)
Dividends	ISA Capital	-	49,964	-	-	-	-
	IEMadeira	15,810	-	29,170	-	-	-
		15,810	49,964	29,170	-	-	-
Sublease	ISA Capital	14	-	23	-	335	337
	IEMG	4	-	7	-	77	96
	Pinheiros	4	-	18	-	101	238
	Serra do Japi	10	-	13	-	126	162
	Evrecy	2	-	4	-	40	47
	IENNE	6	-	18	-	91	112
	IESul	14	-	12	-	72	64
		54	-	95	-	842	1,056
Future capital contribution	IESul	2,211	-	-	-	-	-
Provision of services	ISA Capital	16	-	15	-	182	147
	IEMG	12	-	11	-	144	132
	Pinheiros	108	-	100	-	1,395	1,958
	Serra do Japi	87	-	80	-	1,383	843
	Evrecy	72	-	67	-	829	759
	IEGaranhuns	-	-	-	-	-	345
	Internexa	-	7	-	13	103	(53)
		295	7	273	13	4,036	4,131

*Refers to management fees, as disclosed in the Company's income statement, with balances of R$5,227 and R$5,661, Company and consolidated, respectively (R$4,595 and R$4,991 in 2015).

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

The sublease agreement encompasses the area occupied by the Company's head office, as well as apportionment of condominium and maintenance expenses, among others.

The Company has a service rendering agreement with ISA Capital including, among others, provision of bookkeeping, tax calculation and payroll processing services.

The Company provides operation and maintenance services in connection with the facilities of IEMG, Pinheiros, Serra do Japi and Evrecy.

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

On June 27, 2016, the Company and Cymi Holding S.A. entered into an agreement for advance of funds in the amount of R$6,082 to the jointly-controlled subsidiary IESul, proportionally to the interest held therein. The conversion of the advance into capital should occur within 120 days from the date of transfer of funds from shareholders to IESul, subject to approval by the Board of Directors. In 2016, the amount of R$1,660 was converted into capital and the Company contributed with R$830.

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

30 Financial instruments

(a) Identification of significant financial instruments

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Financial assets				
Fair value through profit or loss				
Cash and cash equivalents	1,609	3,120	4,524	6,135
Short-term investments	124,479	230,855	336,138	440,054
Restricted cash	-	-	12,002	12,059
Loans and receivables				
Accounts receivable				
Current	1,091,764	220,566	1,221,016	319,961
Noncurrent	9,222,081	2,569,403	10,225,808	3,526,968
Receivables - SEFAZ				
Noncurrent	1,150,358	965,920	1,150,358	965,920
Receivables from subsidiaries	18,340	29,500	18,041	29,200
Pledges and restricted deposits	70,166	66,252	70,175	66,268
Financial liabilities				
Amortized cost				
Loans and financing				
Current	32,872	32,530	71,679	71,070
Noncurrent	279,689	306,076	432,472	485,239
Debentures				
Current	192,368	180,782	192,368	180,782
Noncurrent	313,931	359,573	313,931	359,573
Trade accounts payable	39,279	31,824	41,482	34,950
Interest on equity and dividends payable	139,946	2,156	139,946	2,156

Book values of asset and liability financial instruments, when compared with amounts that could be obtained in their trading in an active market or, in the absence thereof, and adjusted net present value based on market interest rate in force, substantially approximate their corresponding market values. The Company classifies financial instruments under Level 1 and Level 2, as required by the CPC pronouncement in force:

Level 1 - Quoted prices (unadjusted) in active, liquid and visible markets for identical assets or 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 approximate market value.

- **Debt-to-equity ratio**

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

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Loans and financing				
Current	32,872	32,530	71,679	71,070
Noncurrent	279,689	306,076	432,472	485,239
Debentures				
Current	192,368	180,782	192,368	180,782
Noncurrent	313,931	359,573	313,931	359,573
Total debt	818,860	878,961	1,010,450	1,096,664
Cash equivalents and short-term investments	126,088	233,975	340,662	446,189
Net debt	692,772	644,986	669,788	650,475
Equity	10,118,390	5,336,205	10,297,123	5,515,001
Net debt-to-equity ratio	6.8%	12.1%	6.5%	11.8%

CTEEP and its subsidiaries have loan and financing agreements with covenants based on debt-to-equity ratios (Notes 14 and 15). The Company complies with the covenant requirements.

(c) Risk management

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

(i) Credit risk - The Company and its subsidiaries have agreements containing a bank guarantee clause with Brazil's National Electric System Operator (ONS), concession operators and other agents, governing the provision of services to users of the basic grid. The Company and its subsidiaries have agreements governing the provision of their services to Other Transmission Facilities (DIT), entered into with concession operators and other agents, which also contain bank guarantee clause minimizing the risk of default.

(ii) Price risk - Under the terms of the service concession arrangements, revenues of CTEEP and its subsidiaries are adjusted annually by ANEEL, based on IPCA and IGP-M variation, and part of the revenue is subject to periodic tariff reviews (Note 24.2).

(iii) Interest rate risk - Financing agreements are monetarily restated based on TJLP, IPCA and CDI variation (Notes 14 and 15).

(iv) Funding risk - 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 guarantor, to the extent of its interest held in subsidiaries and jointly-controlled subsidiaries, in their financing agreements (Note 14).

(vi) Liquidity risk - The primary cash sources of the Company 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. Cash, represented by RAP related to Basic Grid facilities and Other Transmission Facilities (DIT) is defined by ANEEL, pursuant to current legislation.

The Company is compensated for the transmission system availability, and energy rationing, if any, will have no impact on revenue or receipts.

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

(d) Sensitivity analysis

Pursuant to CVM Ruling No. 475 of December 17, 2008, the Company conducts interest rate and currency risk sensitivity analysis. Company management considers its exposure to the other risks described above insignificant.

In order to define a probable scenario for the sensitivity analysis of the interest rate and price index risks, the Company used the same assumptions established for its long-term financial and economic planning. These assumptions are based on the Brazilian macroeconomic scenario and the opinion of market experts, among other aspects.

As such, in order to assess the effects of the Company's cash flow variation, the sensitivity analysis presented below for items pegged to variable indices considers:

- Base scenario - the interest rates at March 31, 2017 (fixed DI interest rate curve determined at December 31, 2016, according to BM&FBovespa), reported in the interest rate risk tables; and
- Such rates were appreciated and depreciated by 25% (scenario I) and 50% (scenario II).

			Interest rate risk - effects on cash flow - Company				
				Risk of increase in indices		Risk of decrease in indices	
Transaction	**Risk**	**Balances in 2016**	**Base scenario**	**Scenario I**	**Scenario II**	**Scenario I**	**Scenario II**
Financial assets							
Short-term investments	101.67% of CDI	125,583	3,877	4,794	5,692	2,940	1,983
Financial liabilities							
Debentures – 2nd series	IPCA+8.10%	22,306	826	920	1,013	731	635
Debentures – single series (ii)	116.0% CDI p.a.	334,546	11,711	14,461	17,147	8,895	6,007
Debentures – single series (iii)	IPCA+6.04%	149,447	4,791	5,417	6,035	4,157	3,515
FINEM BNDES (i), (ii) and (iii)	TJLP + 1.80% to 2.60%	232,928	5,301	6,333	7,352	4,255	3,196
Net effect of variation			**(18,752)**	**(22,337)**	**(25,855)**	**(15,098)**	**(11,370)**
Reference for financial assets and liabilities							
100% CDI (March 2017) (*)			12.72% p.a.	15.90% p.a.	19.08% p.a.	9.54% p.a.	6.36% p.a.

			Interest rate risk - effects on cash flow - Consolidated				
				Risk of increase in indices		Risk of decrease in indices	
Transaction	**Risk**	**Balances in 2016**	**Base scenario**	**Scenario I**	**Scenario II**	**Scenario I**	**Scenario II**
Financial assets							
Short-term investments	93.5% to 102.00% CDI	339,091	10,457	12,929	15,351	7,930	5,347
Financial liabilities							
Debentures – 2nd series	IPCA+8.10%	22,306	826	920	1,013	731	635
Debentures – single series (ii)	116.0% CDI p.a.	334,546	11,711	14,461	17,147	8,895	6,007
Debentures – single series (iii)	IPCA+6.04%	149,447	4,791	5,417	6,035	4,157	3,515
FINEM BNDES (i), (ii) and (iii)	TJLP + 1.80% to 2.30%	232,928	5,301	6,333	7,352	4,255	3,196
BNDES (Subsidiaries)	TJLP + 1.55% to 2.62% p.a.	139,076	3,652	4,270	4,881	3,026	2,391
Net effect of variation			**(15,824)**	**(18,472)**	**(21,077)**	**(13,134)**	**(10,397)**
Reference for financial assets and liabilities							
100% CDI (March 2017) (*)			12.72% p.a.	15.90% p.a.	19.08% p.a.	9.54% p.a.	6.36% p.a.

(*) source: http://www.bmfbovespa.com.br/pt_br/servicos/market-data/consultas/mercado-de-derivativos/precos-referenciais/taxas-referenciais-bm-fbovespa/. Reference date: December 29, 2016.

31 Commitments - operating lease agreements

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

	Company and Consolidated	
	2016	**2015**
Within 1 year	6,511	6,762
From 1 to 5 years	893	4,563
	7,404	**11,325**

32 Insurance

Breakdown of insurance lines and effective period is as follows:

Company

Type	Effectiveness	Amount insured – thousands of reais	Premium – thousands of reais
Property (a)	11/30/16 to 06/01/18	2,448,262	6,621
General civil liability (b)	09/01/16 to 09/01/17	21,648	121
National transport (c)	09/30/16 to 09/30/17	411,919	38
Personal accidents - Group (d)	05/01/16 to 05/01/17	74,000	4
Automobile (e)	03/02/16 to 03/02/17	Market value	245
Court-ordered guarantee (f)	11/29/13 to 11/30/18	278,571	2,885
			9,914

Consolidated

Type	Effectiveness	Amount insured – thousands of reais	Premium – thousands of reais
Property (a)	01/23/16 to 06/01/18	2,866,808	6,752
General civil liability (b)	09/01/16 to 09/01/17	25,000	140
National transport (c)	09/30/16 to 09/30/17	411,919	38
Personal accidents - Group (d)	05/01/16 to 05/01/17	74,000	4
Automobile (e)	03/02/16 to 03/02/17	Market value	245
Court-ordered guarantee (f)	11/29/13 to 11/30/18	278,571	2,885
			10,064

(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 take out insurance 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 personal and/or property damage caused to third parties as a result of the Company's operations.

(c) **National transport** - Coverage against damage caused to the Company's items and equipment transported throughout the Brazilian territory.

(d) **Personal accidents - Group** - Coverage against personal accidents to officers and trainees.

(e) **Automobile** - 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 damage in transmission lines against fire, lightning, explosions, short-circuits and power outages.

Given their nature, the assumptions adopted to take out insurance are not part of the audit scope. Accordingly, they were not audited by our independent auditors.

33 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 Welfare Fund, is applicable to employees of government agencies, of corporations in which the State held the majority of shares with controlling rights, and of industrial services owned and administered 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 the full responsibility of the applicable São Paulo State Government authorities, implemented under an agreement between SEFAZ-SP and 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 CTEEP. From January 2004, SEFAZ-SP started to directly process those payments, without the intervention of CTEEP and Funcesp, at amounts historically lower than those paid until December 2013.

(a) Civil Class Action in progress at 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 Public Finance Court in June 2005, whereby the claim was deemed unfounded, allowing the payroll processing and retirement and pension payouts according to Law No. 4819/58, by SEFAZ-SP. FUNCESP Retiree Association (AAFC), which represents FUNCESP retirees and pensioners, 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). Subsequently, in August 2008, the Higher Court of Justice (STJ) recognized the jurisdiction of the Regular Legal Court, 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 the last decision was handed down on October 7, 2015, becoming final on November 24, 2015, maintaining the jurisdiction of the Regular Legal Court. This proceeding was received by the 2nd Public Finance Court/SP on May 24, 2016 and taken to the Labor Prosecution Office so that it expresses its understanding, for

subsequent submission to São Paulo State Court of Justice (TJ/SP) for judgement of the appeal filed by AAFC against the decision that deemed such proceeding unfounded.

On June 27, 2016, a stay of decision was assigned to the Appeal filed by AAFC and after the parties expressed their understanding, on July 22, 2016, a new decision was handed down clarifying that the labor preliminary injunction should be maintained up to the appeal judgement.

The AAFC appeal awaits judgment since August 29, 2016.

(b) Class Action in progress at the 2nd Public Finance Court (former Labor Claim that was evaluated by the 49th Labor Court)

In contrast to the decision previously handed down, a decision issued by the 49th São Paulo State Labor Court 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 performed until December 2003, with CTEEP acting as an intermediary between SEFAZ-SP and Funcesp.

In order to fulfill the aforementioned court decisions, 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 class action resulted in an unfavorable decision against SEFAZ-SP, CESP, Funcesp and 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 action. 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.

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, the Supreme Labor Court (TST) ordered the case to be remanded to the 49th São Paulo Labor Court, which transmitted the records to the Regular Legal Court.

The Class Action was filed with the 2nd Public Finance Court/SP on May 20, 2016, and on May 30, 2016 a decision was handed down revoking the preliminary injunction that required CTEEP to pay the monthly installments, extinguishing the requests inherent in the payroll processing, and deeming unfounded the request for refund of any differences due to retirees and pensioners according to Law No. 4819/58.

SEFAZ-SP resumed payroll processing from June 2016, however, after lodging of appeal, AAFC requested to the TJ/SP assignment of stay of decision to the appeal, which was granted on June 27, 2016.

After the parties expressed their understanding, a new decision was handed down on July 22, 2016, clarifying that the labor preliminary injunction should be maintained until a decision on the AAFC appeal is handed down, which is awaiting judgment at TJ/SP since December 6, 2016.

(c) Conflict of jurisdiction

Upon judging the Conflict of Jurisdiction that involves the lawsuits informed in letters “a” and “b” above, the STF recognized the jurisdiction of the Regular Legal Court to process the lawsuits, voiding the decisions handed down by the Labor Court (decision published in April 2015). 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.

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

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

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 final on November 20, 2015.

(d) Collection lawsuit

Since September 2005, SEFAZ-SP has been transferring to CTEEP an amount lower than that required for the faithful compliance with such decision of the 49th Labor Court mentioned in item "(b)" above.

As a consequence of this decision, CTEEP transferred to Funcesp, from January 2005 to December 2016, R$3,928,363 for the payment of benefits under State Law No. 4819/58, having received from SEFAZ-SP R$2,515,845 for such purpose. The difference between the amounts transferred to Funcesp and refunded by SEFAZ-SP, totaling R$1,412,518 (Note 8 (a)), has been required by CTEEP for refund by SEFAZ-SP. In addition, there are amounts relating to labor claims settled by the Company which are the responsibility of State Government, amounting to R$254,095 (Note 8.(b)), thus totaling R$1,666,613.

In December 2010, CTEEP filed a collection lawsuit against SEFAZ-SP to recover the amounts until then not received with 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).

CTEEP filed a new appeal and SEFAZ-SP and Funcesp expressed their understanding. On August 31, 2015, the TJ/SP accepted the appeal of 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, CTEEP filed another appeal for clarification, accepted by the court on February 1, 2016, which 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.

On March 7, 2016, SEFAZ-SP filed an appeal that was dismissed in the judgement of July 4, 2016, upholding the decision unfavorable to SEFAZ-SP. Another appeal was filed, awaiting judgment by TJ/SP.

(e) Lawsuit from retirees' association

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

This lawsuit was dismissed without judgment on the merits, and AAFC filed an Appeal, which was not granted in decision dated July 26, 2016 by the São Paulo Court of Justice, resulting in a new appeal filed by AAFC.

The Company 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 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.

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 reverse such decision, unsuccessfully to date.

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

CTEEP's position

CTEEP remains committed to voiding the decision of the TJ/SP Reporting Justice who through a preliminary injunction upheld the payroll processing as determined by the Labor Court until the judgement on merits of the appeal, 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. CTEEP also confirms the understanding of its legal department and external legal advisors that the 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, CTEEP management reviewed its position, recognizing in 2013 a provision for losses on realization of part of receivables, whose realization term is expected to be extended, and it is yet not sure that these amounts are the sole responsibility of SEFAZ-SP.

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

34 Subsequent event

(a) Debentures

On February 10, 2017, the Company issued a notice to the market for the public offering of simple, non-convertible, single series, unsecured debentures, registered and book-entry debentures, with a par value of R$1,000.00, in the total amount of up to R$300,000. The updated nominal value of the debentures will be fully amortized, in a single installment, on the maturity date scheduled for February 15, 2024, and the remuneration will be paid annually, as of the issue date. The financial settlement is programmed for March 31, 2017.

(b) Accounts receivable - Concession asset

On February 21, 2017, the Board of Directors of ANEEL approved the result of Public Hearing No. 068/20166, created to incorporate the effects of Administrative Ruling MME No. 120/2016, which regulates Law No. 12783/2013. A preliminary analysis of this Public Hearing conducted by the Company indicates that there are no significant effects on the estimates recognized in accounting. Accordingly, no changes were accounted for in the financial statements as of December 31, 2016.

* * *

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Independent auditor's report on individual and consolidated financial statements

The Shareholders, Board of Directors and Officers
CTEEP - Companhia de Transmissão de Energia Elétrica Paulista S.A.
São Paulo - SP

Opinion

We have audited the individual and consolidated financial statements of CTEEP – Companhia de Transmissão de Energia Elétrica Paulista S.A. ("CTEEP" or "Company"), identified as Company and consolidated, respectively, which comprise the statement of financial position as at December 31, 2016 and the statements of income, of comprehensive income, of changes in equity, and of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting practices.
In our opinion, the individual and consolidated financial statements referred to above present fairly, in all material respects, the individual and consolidated financial position of CTEEP – Companhia de Transmissão de Energia Elétrica Paulista S.A. as at December 31, 2016, and its individual and consolidated financial performance and cash flows for the year then ended in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Basis for opinion

We conducted our audit in accordance with Brazilian and International standards on auditing. Our responsibilities, pursuant to these referred to standards, are described in the following section entitled "Auditor's responsibilities for the audit of individual and consolidated financial statements". We are independent in relation to the Company and its subsidiaries and comply with the relevant ethical principles set forth in the Code of Professional Ethics for Accountants and the Professional Standards issued by Brazil's National Association of State Boards of Accountancy (CFC), and we comply with the other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to support our opinion.

Emphasis of matter

Law No. 4819/58

As described in Notes 8 and 33, the Company records a net accounts receivable balance from the São Paulo State Government totaling R$1,150,358 thousand relating to the impacts from Law No. 4819/1958, which granted Company employees, when controlled by the São Paulo State Government, the same benefits granted to the other civil servants. The Company management has been monitoring new events relating to the legal and business aspects of this matter, as well as evaluating, on a continuous basis, any impacts on its financial statements. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the current year´s financial statements. These matters were addressed in the context of our audit of the individual and consolidated financial statements as a whole, and in forming our opinion thereon, and, as such, we do not provide a separate opinion on these matters. In addition to the matter described under the section "Emphasis of matter - Law No. 4819/58", the key matters described below are also to be reported in our report.

Accounts receivable – Concession assets (IFRIC 12) and Indemnification of the Existing Service Basic Grid (RBSE)

According to ICPC 01 (R1) and OCPC 05, which address accounting for concessions of utilities to private entities, the Company carries out analyses that involve management's judgment, substantially as regards the applicability of the interpretation of concession contracts, determination and classification of the expenses of infrastructure implementation, expansion, reinforcements and improvements as financial assets.

As disclosed in Note 7, the Company´s accounts receivable comprises amounts referring to O&M services, infrastructure implementation services, indemnification and Law No. 12783/13 - "SE". We highlight accounts receivable related to Law No. 12783, which refers to the amount receivable concerning investments of concession contract No. 059/2001, which was extended under Law No. 12783, whose right to receive was subdivided into NI and ES, totaling R$8,809,488 thousand at December 31, 2016 (R$1,490,996 thousand at December 31, 2015).

This matter was considered significant for our audit, considering the materiality of the amounts involved and the possible impacts that may result from the ongoing discussions between the Granting Authority and the Company, regarding certain improvements in the criteria used to determine the indemnification amount.

How our audit addressed the matter:

Specifically in relation to accounts receivable from the ES facilities, our audit procedures included, among others, review of indemnification calculations, discussion with the Company's key officers, analysis of various Orders, Administrative Rulings and Laws on the issue, and review of the technical memorandum issued by an external law firm, regarding interpretation of taxes on financial assets. We also analyzed Technical Note No. 23/2017-SGT/ANEEL, issued on February 16, 2017, and confirmed approval by ANEEL's Executive Board of the results of Public Hearing No. 068/2016, which took place on February 21, 2016.

As regards the remaining accounts receivable, our audit procedures included, among others: testing of short-term and long-term segregation; validation of the Annual Revenue Allowed (RAP), comparing with ANEEL approvals; comparison between the analytical controls of projects x financial balance x book balance; analysis of RAPs received in the current year x reducing IFRIC 12 in the year's P&L; analysis of financial income recorded in P&L for the year; and analytical review with analysis of monthly progress.

We also focused on the adequacy of disclosures made by the Company.

Provision for contingencies

Pursuant to CPC 25 - Provisions, Contingent Liabilities and Contingent Assets, the Company records a provision based on assessment and qualification of the risks for which the likelihood of loss is considered probable. This assessment is supported by management's judgment, together with its legal advisors, considering case law, decisions at initial and higher levels, the history of possible agreements and decisions, the experience of management and legal advisors, as well as other applicable aspects. Proceedings whose outcome is assessed as possible or remote loss are only disclosed in an explanatory note.

At December 31, 2016, the Company records the amounts of R$153,035 thousand (R$189,320 thousand and R$189,612 thousand at December 31, 2015), Company and consolidated, respectively, related to provision for contingencies for which the outcome is assessed as probable loss, and discloses in an explanatory note the amounts of R$680,306 thousand and R$682,081 thousand (R$483,801 thousand and R$484,363 thousand at December 31, 2015), respectively, related to those assessed as possible loss. This matter is disclosed in Note 20 to the financial statements.

This matter was considered significant for our audit given the materiality of the amounts involved, particularly in relation to the proceedings assessed as possible loss, the level of judgment that had to be exercised by the Company management to determine whether a provision should be recorded, as well as the complexity of the Brazilian legal environment. Assessment of the proceedings as regards their amounts and the likelihood of financial disbursement also involves a level of judgment by management and its external legal advisors.

How our audit addressed the matter:

Our audit procedures included, among other aspects, confirmation letters sent to outside lawyers as of December 31, 2016, legal opinions from the Company's external legal advisors regarding more complex matters, as well as discussions with external and internal legal advisors on cases pending in court, cross-referencing contingency reports and confirmation letter responses. We also checked the changes in the balance of provision for

contingencies in the year, analyzing the changes in the prognosis of losses for significant proceedings and the reasonableness of these changes. Furthermore, we analyzed the adequacy of the disclosures made by the Company about each class of provision and other requirements in accordance with CPC 25.

Revenue recognition

Revenues are recognized in accordance with ICPC 01 (R1) (IFRIC 12 and OCPC 05). The Company must record and measure service revenue according to accounting pronouncements CPC 17 (R1) (IAS 11) - Construction Arrangements and CPC 30 (R1) (IAS 18) - Revenues (operation and maintenance services). The Company's revenues are classified into the following groups: Infrastructure revenue, remuneration of concession assets (including financial income and indemnification) and revenue from operation and maintenance.

For operating in a regulated environment, the Company is subject to a number of variables that may have an impact on its revenues, such as Periodic Review of Annual Revenue Allowed (RAP), Variable Portion (PV) additional RAP and Adjustment Portion (PA) and Annual Revenue Adjustment. These variables affect the amounts related to accounts receivable and, consequently, the revenue from concession asset, and are governed by regulatory resolutions and other acts issued by the granting authority, which directly impact the Company's business.

The recognition criteria and amounts allocated in the financial statements are disclosed in Notes 2.4 and 24. At December 31, 2016, the Company records R$7,585,688 thousand and R$7,789,240 thousand (R$1,089,287 thousand and R$1,287,130 thousand at December 31, 2015), Company and consolidated, respectively, related to Net operating revenue.

This matter was considered significant for our audit considering the materiality of the amounts involved and also due the possible impacts of regulatory matters on the Company's business.

How our audit addressed the matter:

Our audit procedures included, among others, validation of the analytical controls of financial assets IFRIC12, prepared by the Company management, to perform tests on book balances of operation and construction revenue, financial income (current financial income, financial income from services, financial income from improvements) and IFRIC 12 revenue reduction. We also tested additions, write-offs and transfers of infrastructure and intangible assets that generate impact on the cash flows of the Company's financial assets (projects).
Experts assisted us in the review of projected cash flows, as well as in evaluating the assumptions and methodology used by the Company, including the effective interest rate of financial assets.

We also focused on the adequacy of disclosures made by the Company.

Other matters
Statements of value added

The individual and consolidated statements of value added (SVA) for the year ended December 31, 2016, prepared under the responsibility of Company management and presented as supplementary information under IFRS, were subject to audit procedures conducted jointly with the audit of the Company's financial statements. To form our opinion, we assessed whether these statements are reconciled with the financial statements and book records, as applicable, and if their form and content are in accordance with the criteria set forth in Accounting Pronouncement CPC 09 - Statement of Added Value. In our opinion, these statements of value added have been adequately prepared, in all material respects, in accordance with the criteria set forth in this Accounting Pronouncement, and are consistent with the overall individual and consolidated financial statements.

Other information accompanying the individual and consolidated financial statements and the auditor’s report

Company management is responsible for such other information that is included in the Management Report.

Our opinion on the individual and consolidated financial statements does not cover the Management Report and we do not express any form of audit conclusion on this report.

In connection with the audit of the individual and consolidated financial statements, our responsibility is to read the Management Report and, in so doing, to consider whether this report is materially inconsistent with the financial statements or with our knowledge obtained in the audit or otherwise appear to contain material misstatements. If, based on our work, we conclude that there is a material misstatement in the Management Report, we are required to report this fact. We have nothing to report in respect of this matter.

Responsibilities of management and those charged with governance for the individual and consolidated financial statements

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

In preparing the individual and consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company and its subsidiaries or to cease operations, or has no other realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and its subsidiaries' financial reporting process.

Auditor's responsibilities for the individual and consolidated audit of financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International standards on auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if they could reasonably be expected to influence, individually or in the aggregate, the economic decisions of users made on the basis of these financial statements.

As part of the audit conducted in accordance with Brazilian and International standards on auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess risks of material misstatements of the individual and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve override of internal controls, collusion, forgery, intentional omissions or misrepresentations.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and its subsidiaries' internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast substantial doubt as to the ability of the Company and its subsidiaries to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's

report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the corresponding transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the individual and consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Of the matters that were subject matter of communication with those charged with governance, we determined the ones that were considered most significant in the audit of the financial statements for the current year and, as such, are considered the key audit issues. We describe these matters in our audit report, unless law or regulation has prohibited public disclosure of the matter, or when, in extremely rare circumstances, we determine that the matter should not be disclosed in our report because the adverse consequences of such disclosure could, within a reasonable perspective, exceed the benefits of communication for the public interest.

São Paulo, February 22, 2017

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

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

Supervisory Board’s Opinion

The Supervisory Board of CTEEP - Companhia de Transmissão de Energia Elétrica Paulista (“Company”), in the exercise of its legal and statutory responsibilities and in compliance with the provisions of article 163 of Law No. 6404/76 and subsequent amendments, has examined the Management´s Report and the Company´s Financial Statements for the year ended December 31, 2016. In the opinion of the Supervisory Board, based on the examinations carried out and on the independent auditor´s report on the financial statements, issued by Ernst &Young Auditores Independentes, the mentioned documents are qualified to be submitted to appreciation and approval of the Company´s shareholders.

São Paulo, February 22, 2017

Manuel Domingues de Jesus e Pinho

Antonio Luiz de Campos Gurgel

Flávio Cesar Maia Luz

Egídio Schoenberger

Rosangela da Silva

Executive Board's Representation on the Independent Auditor's Report

The Company's Executive Board hereby represents that it has reviewed, discussed and agrees with the opinions expressed in the Independent Auditor's Report.

São Paulo, February 22, 2017

Reynaldo Passanezi Filho
CEO

Rinaldo Pecchio Junior
Chief Financial and Investor Relations Officer

Celso Sebastião Cerchiari
Chief Technical Officer

Weberson Eduardo Guioto Abreu
Chief Project Officer

Carlos Ribeiro
Chief Institutional Relations Officer

Executive Board´s Representation on the Financial Statements

The Company's Executive Board hereby represents that it has reviewed, discussed and agrees with the information contained in the Financial Statements for the year ended December 31, 2016, and agrees with the opinion expressed in the Independent Auditor's Report issued by Ernst & Young. It further represents that all the significant information relating to the Financial Statements, and only such information, is being evidenced and corresponds to the information used under its management. Accordingly, the Executive Board hereby approves the issue of the Financial Statements for the year ended December 31, 2016.

São Paulo, February 22, 2017

Reynaldo Passanezi Filho
CEO

Rinaldo Pecchio Junior
Chief Financial and Investor Relations Officer

Celso Sebastião Cerchiari
Chief Technical Officer

Weberson Eduardo Guioto Abreu
Chief Project Officer

Carlos Ribeiro
Chief Institutional Relations Officer