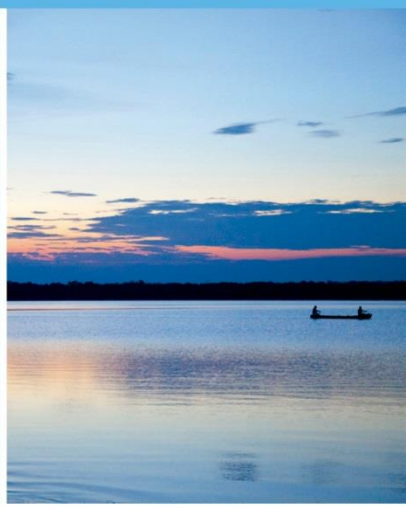
Management Report and Financial Statements for Fiscal Years **2016** and **2015**

CNPJ 02.474.103/0001-19 NIRE 42 3 0002438-4
R. Paschoal Apóstolo Pítsica, 5064
Agronômica - Florianópolis - SC - CEP 88025-255











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ANEFAC 2016

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MANAGEMENT REPORT

Dear Shareholders,

The Management of ENGIE Brasil Energia S.A. ("ENGIE Brasil Energia" or "Company") is pleased to submit for your examination the Management Report and the corresponding Financial Statements for fiscal years 2016 and 2015 in accordance with international as well as accounting practices adopted in Brazil. The Management Report is accompanied by the reports of the Independent Auditors and the Fiscal Council for the year ending December 31, 2016. The data shown in the Management Report is stated in millions of Reais and is on a consolidated basis, unless otherwise stated.

This Management Report complies with the requirements of Law 6404/76 and is in line with the recommendations of CVM Guidance Opinion 15 of December 28, 1987 of the Brazilian Securities and Exchange Commission (CVM) and the Accounting Manual of the National Electric Energy Agency (Aneel). While the Report is aimed primarily at the Company's shareholders, it can be accessed by the public at large from ENGIE Brasil Energia's, CVM's and BM&FBovespa's website. It is also published in the press of the city and the state in which the Company's head offices are located (Florianópolis, state of Santa Catarina) pursuant to the requirements of Brazilian legislation.

Complementary to the information published in this document, the Company also publishes the Sustainability Report according to the Global Reporting Initiative (GRI) framework. As the Sustainability Report involves more comprehensive content, it is usually published after the Management Report at the end of April. ENGIE Brasil Energia's practice is to incorporate the content of the Management Report in the Sustainability Report to ensure that communication with our different stakeholders is consistent and thus in alignment with the recommendations of the International Integrated Reporting Council (IIRC).

MESSAGE FROM THE MANAGEMENT

"To transform people's relationship with energy aiming at a sustainable world". With this vision as its yardstick, ENGIE Brasil Energia reached the end of 2016 commemorating a series of achievements despite a constantly challenging scenario. In a year marked in Brazil, by political instability and economic recession, the Company continued to pursue the process of strategic integration proposed by its controlling company — ENGIE.

As part of this process, in 2016, the Company adopted a new name and consequently a new logo. A bold and symbolic initiative representing adjustment to the structural changes that the sector is undergoing throughout the world. Changes, which have an impact on both energy generation as well as consumption, characterizing the so-called energy transition, shaping the sector's future based around three key axes: decarbonization, decentralization and digitization.

Aware of the opportunities stemming from these transformations, ENGIE Brasil Energia's has successfully met the challenge of maintaining and improving centralized energy generation and commercialization activities — which it has successfully executed since the beginning of its operations in Brazil —, while at the same time adapting its structure and organizational culture. The key objective of this adaptation is to reach and develop new markets, with greater proximity to clients and consumers through the synergies existing between products and services.

Reformulated in 2016, the Company's mission statement transmits precisely what we are aiming for: "Provide innovative and sustainable solutions in energy to people, companies and territories". It was with this vision and in alignment with the new moment in business strategy that in July the succession process for ENGIE Brasil Energia's Chief Executive Officer's position was completed entirely according to plan. It was in this context that we obtained some important results, which signal the Company's capacity to connect with the future as well as reiterating our corporate resilience built up over the years.

On the economic-financial front, we were able to report a 3.1% increase in net income to R$ 1,548.3 million in 2016, which following adjustments, will be distributed in full to the Company's shareholders, subject to ratification by the Annual General Shareholders' Meeting. Despite the continuing downturn in the Brazilian economy overall during the year, EBITDA margin widened by 1.5 p.p. from 47.8% in 2015 to 49.3% in 2016. This performance is due in large part to the combined effect of the Company's strategy of long-term contracting - which sustained sales revenue in the face of a critical economic scenario - with low net debt during the year. Other factors contributing to the result were a reduction in fuel consumption for power generation - a reflection of reduced thermoelectricity dispatch; the drop in the volume of energy purchases for resale; and recognition of impaired thermal generation-related assets. It is worth pointing out that the GSF – Generation Scaling Factor – continued to affect ENGIE Brasil Energia's results. Among other factors, this is due to the startup of commercial capacity at new plants under the Energy Reallocation Mechanism (MRE) - but where energy delivery capacity is still inadequate, - the reduction in load and of thermoelectricity generation for replenishing the reservoirs and finally, to the supply of the Northeast submarket in the light of restrictions on energy exchange with other submarkets.

In order to respond more efficiently to current and future challenges, we upgraded our organizational structure, remodeling areas and teams. An example of this was the Strategy and Regulation Officer, encompassing activities focused on synergetic improvements between our corporate objectives and the development of innovative solutions in energy. Under this new structure, initiatives involving Research and Development and Information Technology and Digitization of our products and processes become increasingly more relevant.

In 2016, we saw a practical example of innovation in practice with the unveiling of the Generation Operations Center (GOC) in Florianópolis (SC), a structure which allows us to control the Company's plants on an automated and remote basis. Initially, we began operating three plants located in the Center-West region out of this new center in Santa Catarina: the Ponte de Pedra Hydroelectric Power Plant (HPP) and the José Gelázio da Rocha and Rondonópolis small hydroelectric plants (SHP). The outlook for the next few years is that other plants will be controlled eventually via GOC, thus reinforcing the automation of internal processes with a view to innovation and reduction in costs.

On another front and aligned with the strategy of decentralization, ENGIE Brasil Energia made its debut in the market for distributed generation by acquiring 50% of the equity of GD Brasil Energia Solar S.A. From this acquisition, ENGIE Geração Solar Distribuída was created, now one of the leaders in the segment in Brazil. Through the new subsidiary, an agreement was signed in November with the Santa Catarina energy distributor for the installation of photovoltaic systems in a thousand households in the state. Project feasibility is ensured under a program, which involves the distributor subsidizing part of the consumer's investment. This action represents one more important step towards the Company taking a position in the vanguard of developments in the segment for distributed photovoltaic generation.

In the process of seeking greater proximity to the clients, we explored further the opportunities in the free market, increasing the number of agreements, dispersed among companies of different sizes and sectors. As a result, we added 83 new clients to the portfolio, representing an increase of 36.4% compared with 2015, and among them Rio de Janeiro's Light Vehicle on Tracks (VLT), a modern and sustainable urban mobility project to which we supply renewable energy.

Another landmark event for the ENGIE Group in Brazil was the inauguration of the Jirau HPP on the Madeira River in the state of Rondônia. The largest hydroelectric project ever developed by ENGIE in the world, this operation has a total installed capacity of 3,750 MW and will produce enough energy for the consumption of approximately 10 million households. ENGIE Brasil Participações, the parent company of ENGIE Brasil Energia, holds a 40% stake in the operation. The process involving the eventual transfer of this stake to the Company is expected to begin in 2017 with the Special Independent Committee for Transactions with Related Parties playing a key role in the operation.

A further key achievement with respect to renewable energy was the startup in commercial operations of the Santa Mônica and Cacimbas wind farms, the latter on a partial basis, and both located in Trairi, state of Ceará. The outlook is that before the end of the first quarter of 2017, the other two wind farms comprising the Complex will go into production with 97.2 MW of installed capacity.

Investment in complementary sources underscores ENGIE Brasil Energia's commitment to the energy transition, key to sustainable development - especially with respect to climate change and consequently, decarbonization. Our controlling company's decision not to construct further coal-fired plants is in line with global awareness as to the need to produce more energy but at the same time, to reduce carbon emissions. This is a question of survival for the planet and for future generations.

ENGIE Brasil Energia's commitment to sustainable development is reflected in our socio-environmental practices. Driven by the results achieved so far, we have continued to pursue a strategy of installing Sustainability and Cultural Centers in regions where the Company has its operations. In 2016, we opened a center in Concórdia (SC), the fifth such project with the objective of offering cultural and educational activities to the local communities. Again, in 2016, we signed a partnership with the Museu do Amanhã in Rio de Janeiro, a symbol of urban renewal of the downtown port area of the city in a context of innovation and sustainability.

In an emerging future, the Company will seek to establish a balance between current challenges and those of tomorrow, between global demands and local realities and between economic growth and sustainability. We continue alert to the transformations taking place in the world and the opportunities associated to this revolution of which we are a part. ENGIE Brasil Energia stands ready to make an increasingly important contribution to the relationship between people and the environment in which our society is inserted.

Maurício Stolle Bähr

Chairman of the Board of Directors

Eduardo Antonio Gori Sattamini

Chief Executive Officer

1. AWARDS AND RECOGNITION RECEIVED IN 2016

√ **Fritz Müller Award (the State of Santa Catarina Environmental Protection Agency - FATMA)**

Project winner: Environmental Educators Training Program - Itá Consortium

√ **Environmental Brazil Award (the Rio de Janeiro American Chamber of Commerce – Am Cham Rio)**

Winning projects:

- Sustainability and Cultural Center
- Cidade Azul Photovoltaic Plant

√ **Época 360 Award - *Época* Magazine**

- Best company in the Energy sector

√ **Ethics in Business Award**

Winning project: Headwaters Conservation Program

√ **Institutional Investor Magazine Ranking – Latin America Executive Team 2016**

- Best annual meeting with electric energy analysts, best program and best investor relations professional (sell side) and best CFO (sell side).

√ **Component company of BM&FBovespa's Corporate Sustainability Stock Index (ISE)- 2017 Portfolio**

- For the 12th consecutive year since the inception of the ISE, the Company is a component part of the Index, which includes companies recognized for their policies and practices with respect to economic efficiency, environmental equilibrium, social justice and corporate governance.

√ **Transparency Trophy of the National Association of Executives in Finance, Administration and Accounting (Anefac) in the Companies of the Energy Sector category.**

2. THE COMPANY

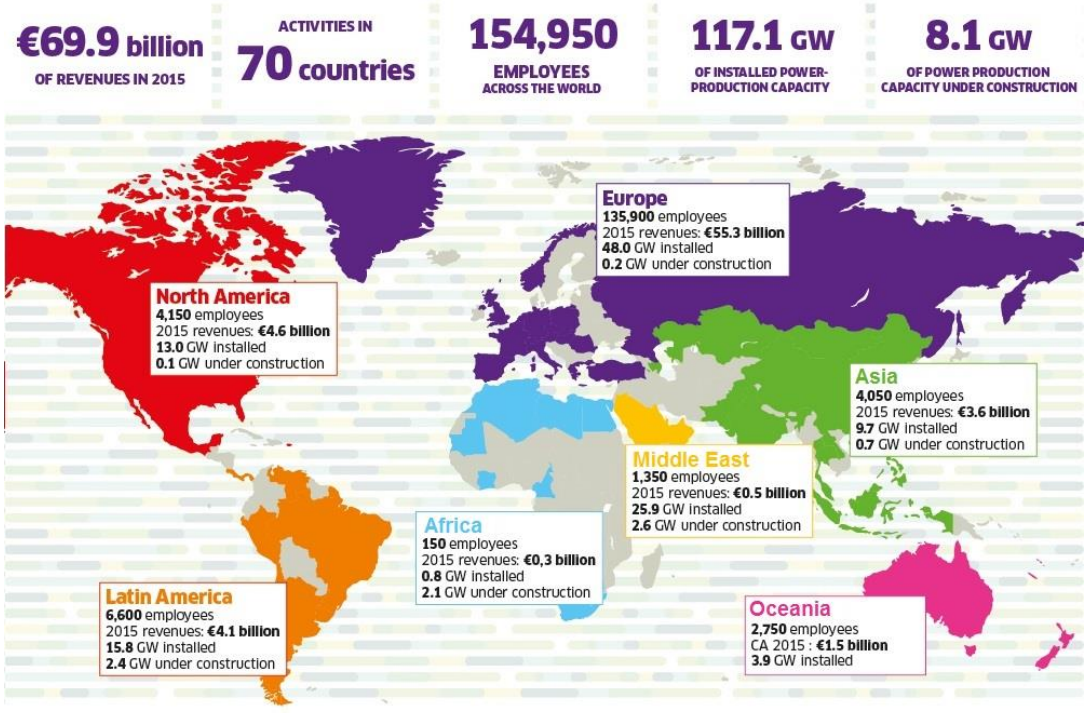
With registered office in the city of Florianópolis (SC), ENGIE Brasil Energia operates in the generation as well as the commercialization of electric energy. In the generation segment, it installs and operates plants fired from conventional energy sources such as hydroelectric, thermoelectric and complementary units — small hydroelectric plants and wind, biomass and photovoltaic plants. In 2016, the Company also made its debut in the distributed generation segment. In the commercialization area, ENGIE Brasil Energia buys and sells conventional and incentivized energy, its clients being located throughout the country.

At the end of 2016, ENGIE Brasil Energia's capital stock stood at R$ 2,829.1 million with a total of 652,742,192 common shares trading regularly on the BM&FBovespa - Securities, Commodities and Futures Exchange. The Company also trades Level 1 American Depositary Receipts (ADRs) in the American over-the-counter market under the EGIEY symbol with a ratio of one ADR for each common share.

2.1 Controlling Company

Present in Brazil since 1998, the year in which it acquired Gerasul, ENGIE Brasil Energia is controlled by ENGIE, a company with operations in some 70 countries across five continents and a world leader in independent energy production. Electricity, natural gas and services are the principal operational pillars supporting ENGIE, which through ENGIE Brasil Participações Ltda., holds 68.75% of the Company.

ENGIE worldwide
(as at 12.31.2015)



ENGIE's activities are focused on sustainable development as a means of meeting the challenges of the energy transition to a low carbon economy: access to renewable energy, mitigation of and adaptation to climate change, security of supply and the rational use of natural resources. To this end, the Company seeks to offer innovative solutions to people, cities and companies.

Having the generation of long-term value in both consolidated and emerging markets as an underlying principle, ENGIE has established two key strategic objectives on a global basis:

1. **To become a bellwether in energy services in emerging market countries through:**

√ leveraging its strong positions in independent energy production;

√ development of its footprint in the gas value chain; and

√ globalization of its position of leadership in energy services.

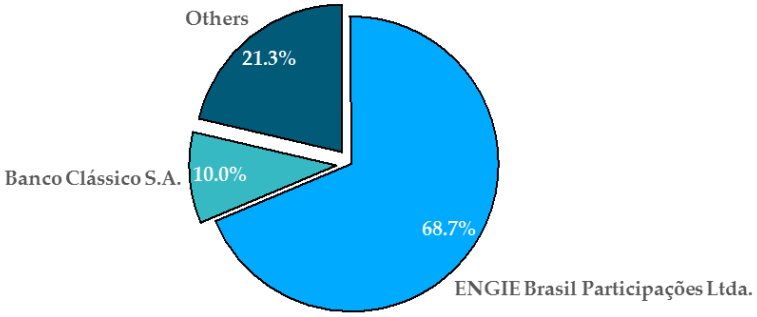
2. **To lead the energy transition in Europe with the following aspirations:**

√ to become the partner in energy for its clients, incentivizing energy efficiency;

√ to be an element in the process of energy decarbonization through renewable sources; and

√ to develop new businesses and digitization.

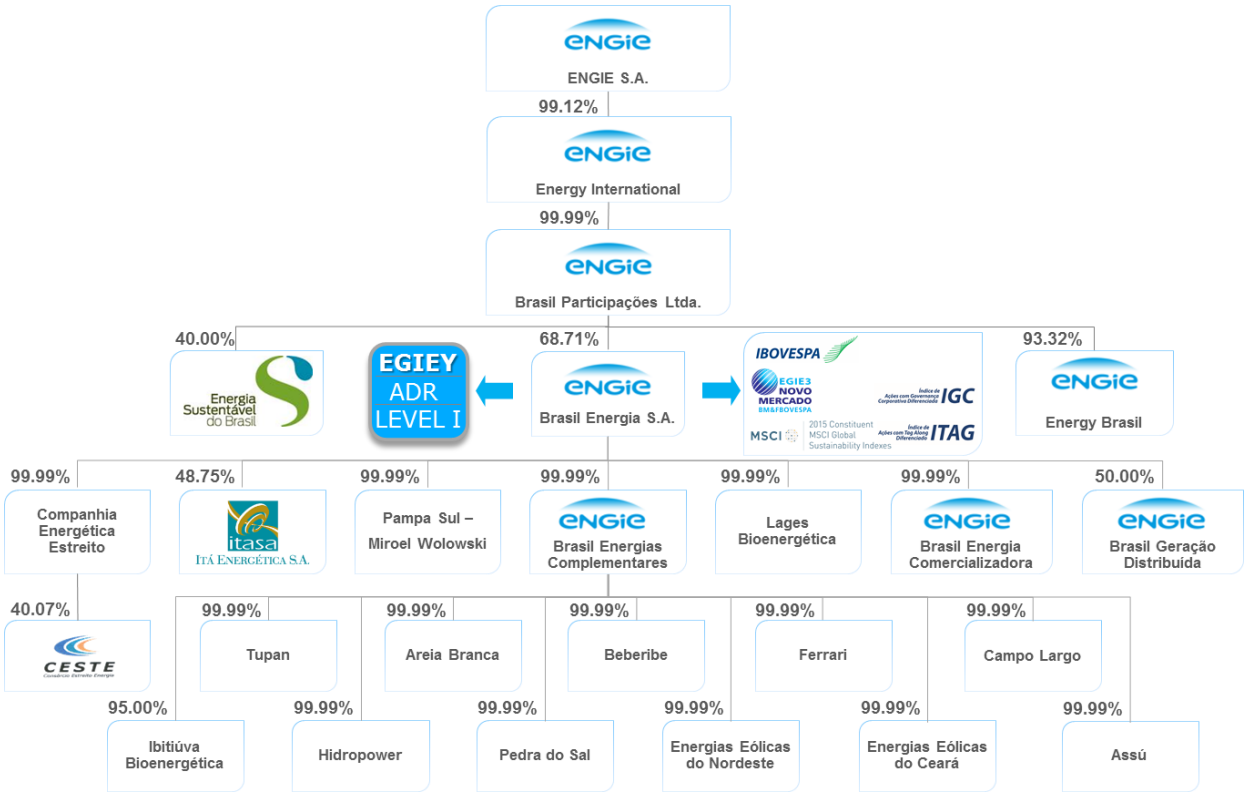
Shareholding structure
(as at 12.31.2016)



2.2 Corporate structure

As following infographic shows, ENGIE Brasil Energia controls subsidiaries and maintains stakes in concession consortia of plants in its generating complex. On making its debut in the distributed solar generation market in 2016, the Company created ENGIE Geração Distribuída, a subsidiary with a focus on decentralized solar generation in residences and companies.

Corporate structure*
(as at 12.31.2016)

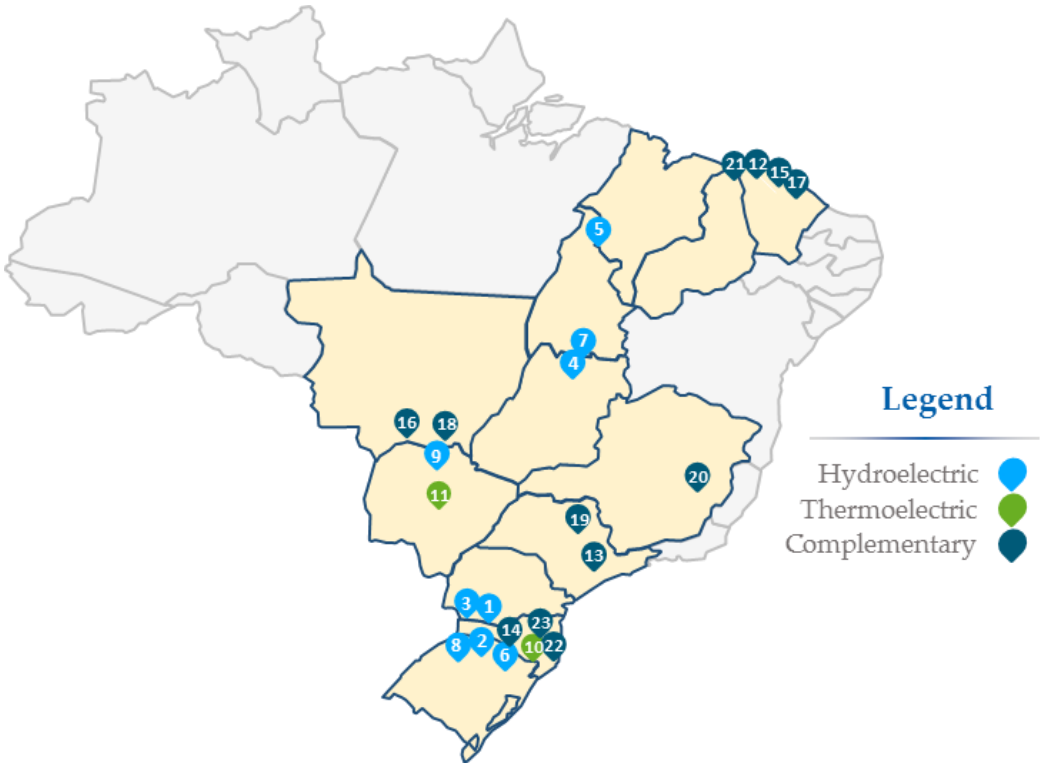


** Simplified structure.*

2.3 Generating complex

On December 31, 2016, ENGIE Brasil Energia was operating a generating complex with an installed capacity of 8,720.0 MW comprising 29 plants: nine hydroelectric plants, four thermoelectric conventional thermoelectric plants and 16 complementary energy-sourced units: three Small Hydroelectric Plants (SHPs), nine wind-powered, three biomass and one photovoltaic. The Company has full control of 25 of these plants and for the remainder it is a participant in the consortia, which hold the concession rights. Thus, total proprietary installed capacity was 6,999.3 MW in a matrix formed preponderantly of renewable sources (85.0%).

Geographical distribution of the generating complex
(as at 12.31.2016)



Composition of the generating complex
(as at 12.31.2016)

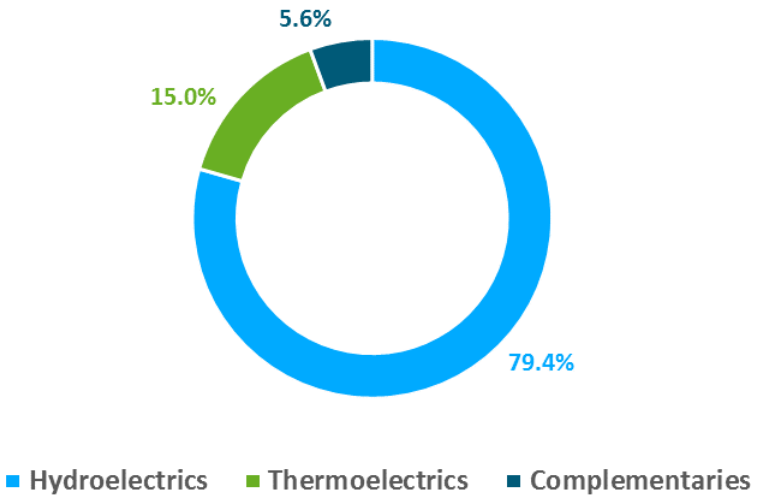
	Hydroelectric power plants	Total installed capacity (MW)	Total physical guarantee (MWm)	Owner-ship	Own installed capacity (MW)	Own physical guarantee (MWm)	Expiration of concession/ authorization
1	Salto Santiago	1,420.0	735.2	100%	1,420.0	735.2	09.27.2028
2	Itá	1,450.0	720.0	69.0%	1,126.9	544.2	10.16.2030
3	Salto Osório	1,078.0	522.0	100%	1,078.0	522.0	09.27.2028
4	Cana Brava	450.0	273.5	100%	450.0	273.5	08.26.2033
5	Estreito	1,087.0	641.1	40.1%	435.6	256.9	11.26.2037
6	Machadinho	1,140.0	529.0	19.3%	403.9	147.2	07.14.2032
7	São Salvador	243.2	151.1	100%	243.2	151.1	04.22.2037
8	Passo Fundo	226.0	119.0	100%	226.0	119.0	09.27.2028
9	Ponte de Pedra	176.1	133.5	100%	176.1	133.5	09.30.2034
	Total	**7,270.3**	**3,824.4**		**5,559.7**	**2,882.6**	
	Thermoelectric power plants	**Total installed capacity (MW)**	**Total physical guarantee (MWm)**	**Owner-ship**	**Own installed capacity (MW)**	**Own physical guarantee (MWm)**	**Expiration of concession/ authorization**
10 [1]	Jorge Lacerda Complex	857.0	649.9	100%	857.0	649.9	09.27.2028
11	William Arjona	190.0	136.1	100%	190.0	136.1	04.28.2029
	Total	**1047.0**	**786.0**		**1,047.0**	**786.0**	
	Complementary power plants	**Total installed capacity (MW)**	**Total physical guarantee (MWm)**	**Owner-ship**	**Own installed capacity (MW)**	**Own physical guarantee (MWm)**	**Expiration of concession/ authorization**
12 [2]	Trairi Complex (Wind)	115.4	63.9	100%	115.4	63.9	09.28.2041
13	Ferrari (Biomass)	80.5	35.6	100%	80.5	35.6	09.28.2041
14	Lages (Biomass)	28.0	25.0	100%	28.0	25.0	10.28.2032
15 [3]	Santa Mônica Complex (Wind)	27.0	14.4	100%	27.0	14.4	02.04.2045
16	Rondonópolis (SHP)	26.6	10.1	100%	26.6	10.1	07.26.2042
17	Beberibe (Wind)	25.6	7.8	100%	25.6	7.8	10.29.2032
18	José G. da Rocha (SHP)	23.7	9.2	100%	23.7	9.2	12.18.2032
19	Ibitiúva (Biomass)	33.0	20.0	69.3%	22.9	13.9	08.03.2033
20	Areia Branca (SHP)	19.8	10.4	100%	19.8	10.4	12.18.2032
21	Pedra do Sal (Wind)	18.0	5.7	100%	18.0	5.7	04.05.2030
22	Cidade Azul R&D (Solar)	3.0	not applicable	100%	3.0	not applicable	05.02.2030
23	Tubarão R&D (Wind)	2.1	not applicable	100%	2.1	not applicable	10.01.2032
	Total	**402.7**	**202.1**		**392.6**	**196.0**	
	General total	8,720.0	4,812.5		6,999.3	3,864.6	

1 - Complex is made up of three plants

2 - Complex is made up of four wind farms

3 - Considering the startup in commercial operations of the Santa Mônica and Cacimbas wind farms, the latter on a partial basis. A further two wind farms in the Complex (Estrela and Ouro Verde), in addition to some wind turbines at Cacimbas, were still under construction on 12.31.2016

ENGIE Brasil Energia – Energy matrix*
(as at 31.12.2016)



**Based on proprietary installed capacity.*

The Company began its planned decommissioning of Charqueadas Thermoelectric Plant (TPP) in the state of Rio Grande do Sul. After more than 50 years of operations and with an installed capacity of 72 MW, the plant was deemed obsolete. The investments required for its eventual modernization, as well as being economically unfeasible, would not have been compatible with the Company's business model given the emphasis placed on decarboniztion. Consequently, the Plant ceased operations on November 25, 2016 and the effective deactivation of its installations is scheduled for 2017.

On November 23, 2016, ENGIE Brasil Energia's Board of Directors approved the sale of the Beberibe wind farms (25.6 MW) in the state of Ceará and Pedra do Sal (18 MW) in the state of Piauí as well as the Areia Branca SHP (19.8 MW) in the state of Minas Gerais, to Companhia Energética de Petrolina. The operation is an integral part of the Company's strategy of prioritizing expansion in assets offering a greater degree of synergy one with the other. The sale will be finalized during the course of 2017 and is subject to the fulfillment of certain conditions precedent in the sale agreement as well as the prior approval of the Brazilian Antitrust Authority (CADE), the National Development Bank (BNDES) and the National Electric Energy Agency (Aneel).

3. CORPORATE GOVERNANCE

ENGIE Brasil Energia's operations are aligned to the best market practices of corporate governance including the requirements of the Sarbanes-Oxley Act. The Company conducts its businesses based on ethics and integrity, committed to guaranteeing the rights of the shareholders and transparency of its actions.

The Company is part of BM&FBovespa's Novo Mercado, a segment destined for the trading of shares of companies, which voluntarily adopt corporate governance practices additional to those required by the Brazilian legislation. A listing on this segment requires the adoption of corporate rules, which expand investors' rights, as well as a comprehensive policy for disclosing information to the market.

With the purpose of protecting the interests of all shareholders, ENGIE Brasil Energia guarantees them the following rights:

- Voting in General Meetings, both annual and extraordinary.
- Submitting recommendations to the Board of Directors through a specific channel in the website's Investors Portal.
- Receiving dividends and participating in the distribution of earnings or other distributions.
- Supervising the management activities and withdrawing from the Company should specific situations enshrined in the Joint Stock Company Law arise.
- Receiving at least 100% of the price paid per common share of the controlling bloc in the event of a public offering of shares as a result of the sale of a controlling stake (100% tag along) in accordance with Novo Mercado listing regulations.

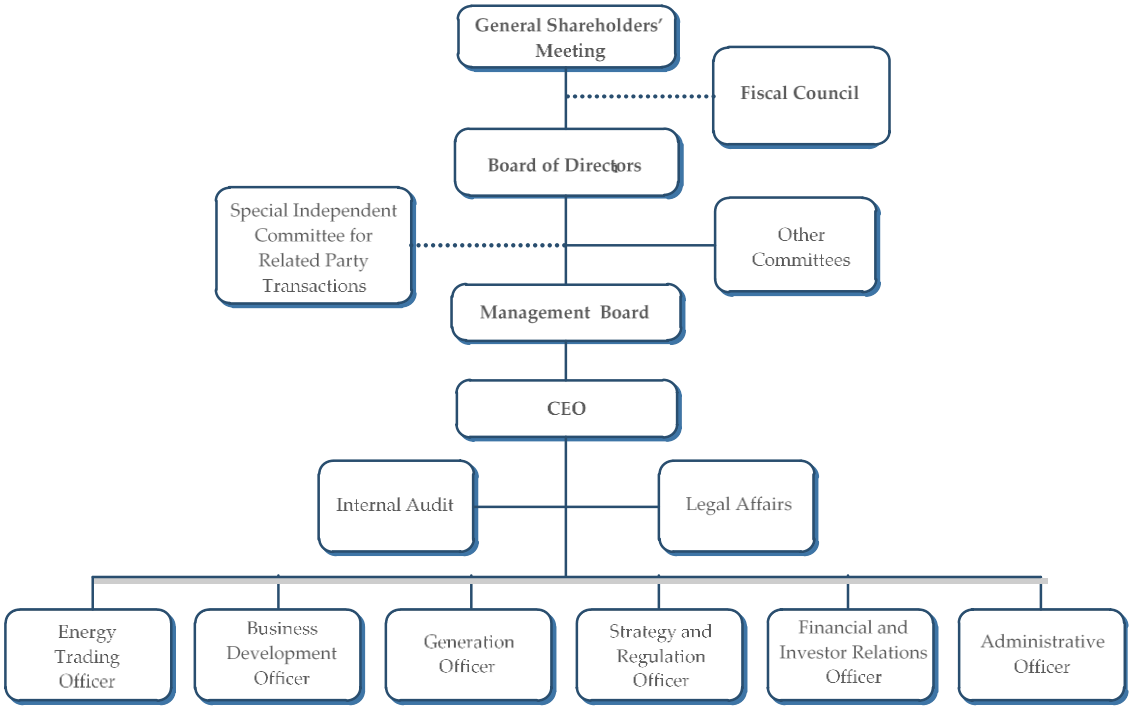
ENGIE Brasil Energia's corporate bylaws establish that any dispute between shareholders especially related to the capital markets and to corporate law must be settled through the independent and confidential Market Arbitration Panel – a body under the auspices of the BM&FBovespa - for the solution of disagreements.

These and other guidelines on the relationship established between ENGIE Brasil Energia and its shareholders may be consulted in the Company's Bylaws, available from its website (www.engieenergia.com.br).

3.1 Management Structure

The General Shareholders' Meeting is the most senior deliberative body in ENGIE Brasil Energia's governance structure, followed by the Board of Directors and the Management Board.

Management Organization Chart
(as at 12.31.2016)



Board of Directors

ENGIE Brasil Energia's Board of Directors has the duty of establishing policies, strategies and general guidelines for the conducting of the business. The analysis of economic, environmental and social aspects and impacts on the Company are also the responsibility of the directors who meet ordinarily for examining performance, to supervise management acts and provide guidance to the Management Board.

As provided in the Bylaws, the Board must be made up of at least five and at the most, nine effective members, and an equal number of alternates, all of them elected by the General Shareholders' Meeting. Their mandate runs for a period of two years, reelection being permitted. At least 20% of Board members must be independent, pursuant to Novo Mercado listing regulations.

At the Annual General Meeting held on April 14, 2016, on a multiple voting basis, shareholders' representatives elected the members of ENGIE Brasil Energia's Board of Directors for a two-year term of office (2016-2018)[1]. Out of the nine members, two represent the minority shareholders and one acts on behalf of the employees. In line with the best government practices, the Chairman of the Board of Directors exercises no executive function in the Company.

[1] *Elected in April, the director Shankar Krishnamoorthy was replaced by Paulo Jorge Tavares Almirante, pursuant to the decision of the Extraordinary General Meeting held on July 14, 2016.*

Board of Directors
(as at 12.31.2016)

Members	Alternates
Maurício Stolle Bähr *Chairman*	Natacha Marly Herero Et Guichard*
Manoel Arlindo Zaroni Torres *Vice Chairman*	José Luiz Jansson Laydner
Dirk Achiel Marc Beeuwsaert	Gil de Methodio Maranhão Neto
José Pais Rangel *Minority shareholders representative*	José João Abdalla Filho *Minority shareholders representative*
Luiz Leonardo Cantidiano Varnieri Ribeiro *Minority shareholders representative*	Antonio Alberto Gouvêa Vieira *Minority shareholders representative*
Paulo Jorge Tavares Almirante	Gustavo Henrique Labanca Novo
Pierre Jean Bernard Guiollot	Marcelo Fernandes Soares
Roberto Henrique Tejada Vencato *Representative of the employees*	Luiz Antônio Barbosa *Representative of the employees*
Willem Frans Alfons Van Twembeke	José Carlos Cauduro Minuzzo

** She has still not taken up the position, pending approval from the appropriate Brazilian authorities*

Fiscal Council

ENGIE Brasil Energia's Fiscal Council is permanently installed and responsible for examining the Company's Account Statements, supervising the acts of the Management Board and evaluating the risk management and internal controls' systems. In addition, it is incumbent on this body to analyze the proposals to be submitted to the Board of Directors in the event of engaging services complementary to the auditing of the Financial Statements.

The term of office of the three fiscal councilors, all of whom independent, is of one year, reelection being permitted. Shareholders at the Annual General Meeting of April 14, 2016 reelected the same fiscal councilors as those sitting on the Fiscal Council for the preceding term of office in 2015.

Fiscal Council
(as at 12.31.2016)

Members	Alternates
Carlos Guerreiro Pinto	Manoel Eduardo Bouzan de Almeida
Manoel Eduardo Lima Lopes	Ailton Pinto Siqueira
Paulo de Resende Salgado	Flávio Marques Lisboa Campos

Management Board

Nominated by the Board of Directors and elected by the General Meeting, the Management Board works on a collegiate basis, adopting a matricial approach to all matters within its perview, although respecting the specific duties of each executive officer on the Board. It is incumbent on the Chief Executive Officer to coordinate and provide guidance to the other officers, delegating tariffs and executing the strategies outlined by the Board of Directors.

In 2016, the Company restructured the responsibilities of the Management Board with the creation of three departments: Generation, incorporating the activities relating to energy generation and the installation of new projects, Business Development focused on the identification of opportunities and establishing the feasibility of implementing them in practice and Strategy and Regulation, responsible for coordinating the activities of planning, control and strategic initiatives.

This process also saw the completion of the succession of the Company's Chief Executive Officer. With the departure of Manoel Arlindo Zaroni Torres, who has assumed the position of Vice Chairman of the Board of Directors, Eduardo Antonio Gori Sattamini was elected the new Chief Executive Officer of ENGIE Brasil Energia, taking up his post on June 30, 2016.

Management Board
(as at 12.31.2016)

Name	Position
Eduardo Antonio Gori Sattamini	Chief Executive, Financial and Investor Relations Officer
Edson Luiz da Silva	Chief Strategy and Regulation Officer
Gustavo Henrique Labanca Novo	Chief Business Development Officer
José Luiz Jansson Laydner	Chief Generation Officer
Júlio César Lunardi	Administration Officer
Marco Antônio Amaral Sureck	Energy Commercialization Officer

Committees

ENGIE Brasil Energia has eleven committees, which act as consultative bodies in order to assist the directors and officers in decision making on specific themes. The committees are:

- **Strategy Committee**: examines specific matters raised by the Board of Directors and the Management Board such as the selection and monitoring of expansion projects involving the generating complex and the analysis of tendencies in the electric sector, among other aspects relative to Company strategy.
- **Human Performance Committee:** responsible for the analysis of issues involving safety and productivity of the employees and outsourced personnel as well as plant uptime and the reduction in operating costs and environmental impacts.
- **Financial Committee:** has the function of proposing and monitoring the application of policies and the development of activities related to corporate finance, treasury, insurance and financial risk.
- **Energy Committee:** deliberates on the strategy for energy sales and proposes actions for the management of client portfolio risk.

- **Risk Management Committee:** responsible for promoting awareness as to corporate risks, establishing goals and guidelines and suggesting management improvements as well as establishing procedures for controlling Company risks.
- **Innovation Committee:** strengthens the entrepreneurial culture in the Company, stimulating continual innovation of processes and business models.
- **Tax Governance Committee:** analyzes matters of a tax nature, proposing actions, which generate less exposure to risks relating to the question as well as for maximizing of tax break opportunities.
- **Sustainability Committee:** contributes to consolidating sustainability as part of the Company's organizational culture, proposing goals and actions for sustainable development. Stimulates initiatives and evaluates requests for support of actions benefiting communities in regions where ENGIE Brasil Energia has its operations.
- **Special Independent Committee for Transactions with Related Parties:** installed by the Board of Directors whenever the Company intends to negotiate any transaction with related parties. The Committee is predominantly made up of representatives of the minority shareholders with seats on the Board of Directors and has the responsibility of analyzing, negotiating and recommending (or otherwise) the execution of transactions with related parties.
- **Ethics Committee:** responsible for disclosing, applying and monitoring the pillars of ethical behavior established by the Company with a view to preventing ethical risk and fostering good professional practices in line with ENGIE Brasil Energia commitments.
- **Committee for Safety in Industrial Control Systems:** designed to guarantee the safety of the Company's industrial control systems by proposing, implementing and monitoring policies and action plans involving the various areas of ENGIE Brasil Energia.

Codes and Policies

ENGIE Brasil Energia's corporate codes and policies express corporate values and the organizational culture, establishing markers for the conduct of the businesses as well as the relationship with the different stakeholders with which the Company interacts. These documents are developed, reviewed and updated periodically to ensure their compatibility with external and internal scenarios.

In 2016, ENGIE Brasil Energia published its Ethics Policy, which is complementary to the Code of Ethics. The document establishes guidelines for the incorporation of ethical principles into the Company's strategy, management and professional practices for providing guidance for actions in all places and under all circumstances according to corporate values and in compliance with the current legislation and regulations. Again, in 2016, the Board of Directors approved a new Opportunities and Risk Management Policy.

The corporate policies and codes shared with the stakeholders and available from the website are:

- **Ethics Code:** a series of fundamental principles to be followed by all who directly or indirectly are involved in actions of responsibility at the Company.
- **Environmental Code:** establishes the Company's commitments with the environment and sustainable development.

- **ENGIE's Policy for Sustainable Management:** expresses the Company's guidelines with respect to quality, the environment, occupational health and safety, social responsibility and energy management.
- **ENGIE's Policy on Climate Change:** establishes commitments and actions for contributing to the mitigation of and adaptation to climate change.
- **Human Rights Policy:** establishes commitments and guidelines focusing on the Company's projects, operations and value chain.
- **Stakeholder Engagement Policy:** details the procedures to be adopted by the Company and its subsidiaries in the relationship with its stakeholders during the stages of development, implementation and operation of the projects under its responsibility.
- **Trading and Disclosure Policy:** lays down practices for disclosure and the use of corporate information as well as for the trading of securities issued by ENGIE Brasil Energia, such as shares and debentures.
- **Investments and Derivatives Policy:** establishes the criteria for investing available resources in the financial market and limits for the use of derivatives.

4. BUSINESS MODEL AND VALUE CREATION

ENGIE Brasil Energia's business model focuses on sustainability, its intention being to respond dynamically to the challenges and opportunities in the energy sector on both global and domestic levels. Starting from an understanding that the current transformations which the sector is undergoing are natural and necessary to the evolution of society, the Company shares the same objective as that proposed by ENGIE its parent company to all its business units: to be in the vanguard of the energy transition worldwide.

Consequently, ENGIE Brasil Energia's business model is aligned with the tendencies of decarbonization, decentralization and digitization, which are characterizing the future of the sector. This transition requires a broadening of the vision of the business in order to ensure the creation of value over the medium and long terms. Thus, the key operational areas of ENGIE Brasil Energia continue to be centralized generation, prioritizing renewable sources, and the commercialization of energy although at the same time, seeking increasingly to offer integrated and innovative solutions. In 2016, an important step in this direction was the Company's debut into the distributed solar energy generation segment through the ENGIE Geração Solar Distribuída subsidiary.

4.1 Strategy

ENGIE Brasil Energia's businesses are based on two key strategies related to energy commercialization and the responsible expansion of the generating complex.

Energy Commercialization

ENGIE Brasil Energia commercializes energy through the Regulated Contracting Environment (ACR) and the Free Contracting Environment (ACL). In the regulated market, sales take place through the intermediary of auctions, participation assuming that the price ceiling proposed by the National Electric Energy Agency (Aneel) is economically adequate for the viable operation of projects under development by the Company.

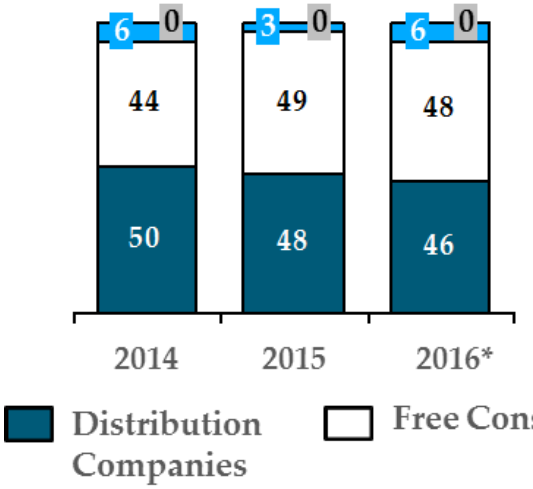
In the free consumer market through its trading company, ENGIE Brasil Energia seeks to gradually sell available energy at attractive prices, at the same time minimizing the risk of exposure to short-term prices (spot or Price for the Settlement of Differences — PLD). In addition, the Company endeavors to enhance client loyalty as well as diversifying the portfolio, whether by individual sector or between industrial sectors. This counterbalances eventual negative market effects in given sectors or adverse situations with specific clients, thus reducing the risks of revenue shortfalls.

In 2016, the Company intensified its commercialization initiatives with small and medium clients – in a consumption band equal or higher than 0.5 MW –, particularly those in the retailing segment. As a result, the Company successfully added 83 new agreements to the free consumer portfolio, a year-on-year increase of 36.4%.

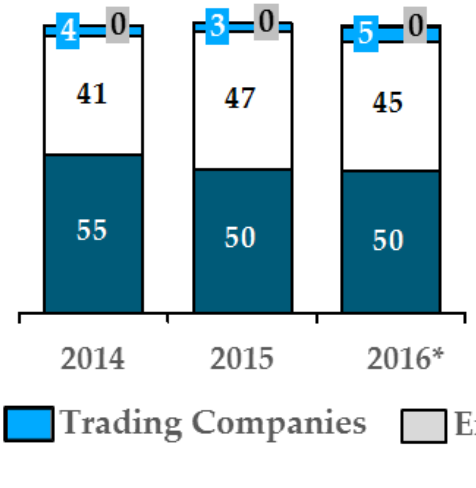
Commercialization activities are executed as and when opportunities arise, more especially when the markets show a greater buying propensity. However, due to the increase in the spot price and its greater volatility – in recent years a reflection of the hydrological crisis –, ENGIE Brasil Energia may choose to leave a larger volume of its commercial capacity uncontracted in the short-term market. Whenever necessary or opportune, operations for the acquisition of energy for resale are also undertaken.

In 2016, free consumers accounted for 47.9% of physical sales and 45.1% of net revenue from sales, decreases of 0.9 p.p. and 2.2 p.p., respectively compared with 2015.

Breakdown of clients by physical sales (%)



Breakdown of clients by contracted sales comprising Net Revenue from Sales (%)

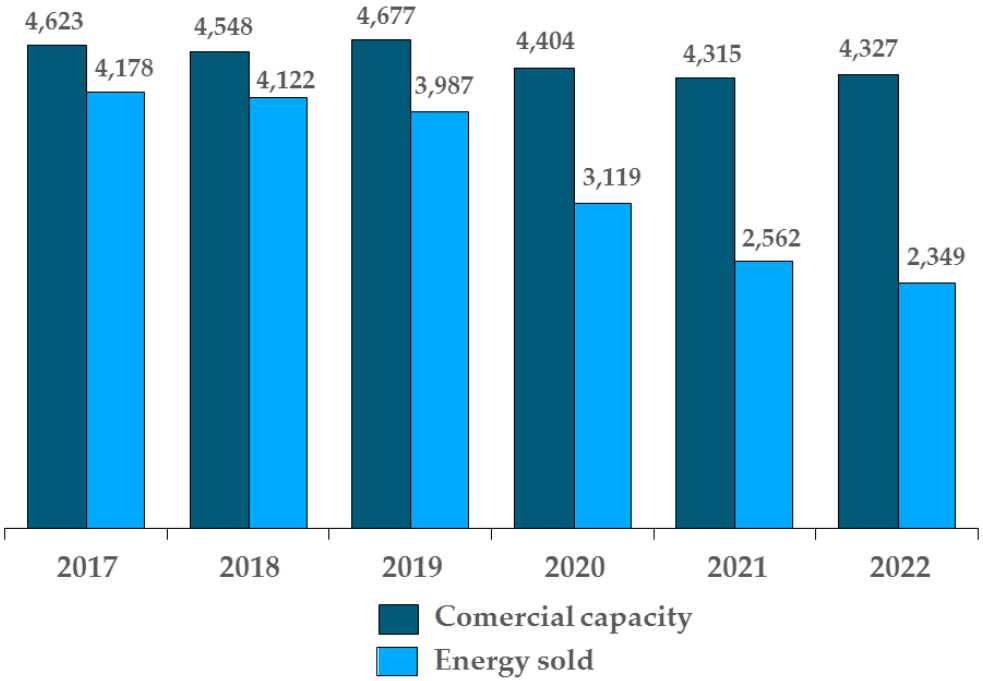


Distribution Companies | Free Consumers | Trading Companies | Exports

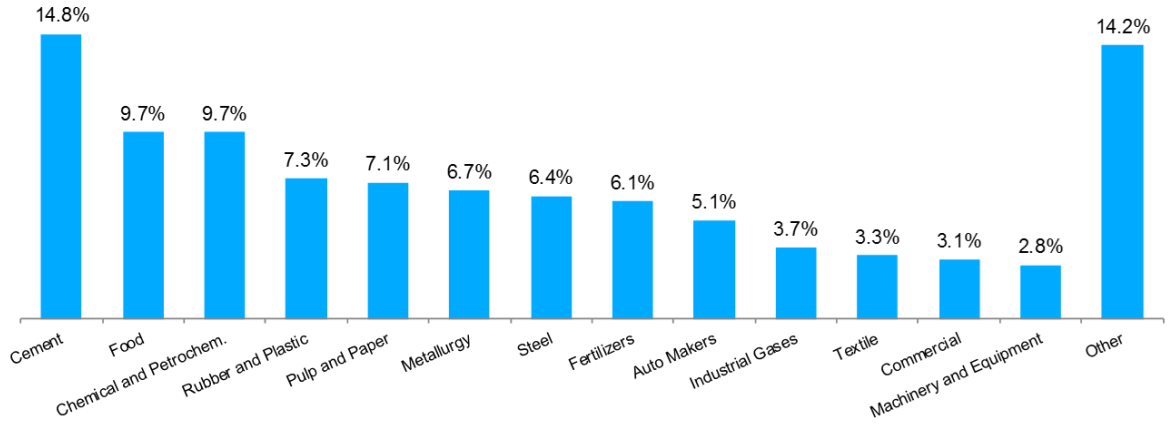
** In 2016, exports accounted for 0.2% of the physical sales and 0.3% of Net Revenue from Sales.*

The 2016 increase in the share of trading companies in physical sales and net revenue from sales compared with the preceding year reflected the sales of conventional energy concomitantly with the purchase of incentivized energy from trading companies, the later being destined for resale to free consumers.

Energy Balance
(average MW)



Diversification of the client portfolio
(as at 12.31.2016)



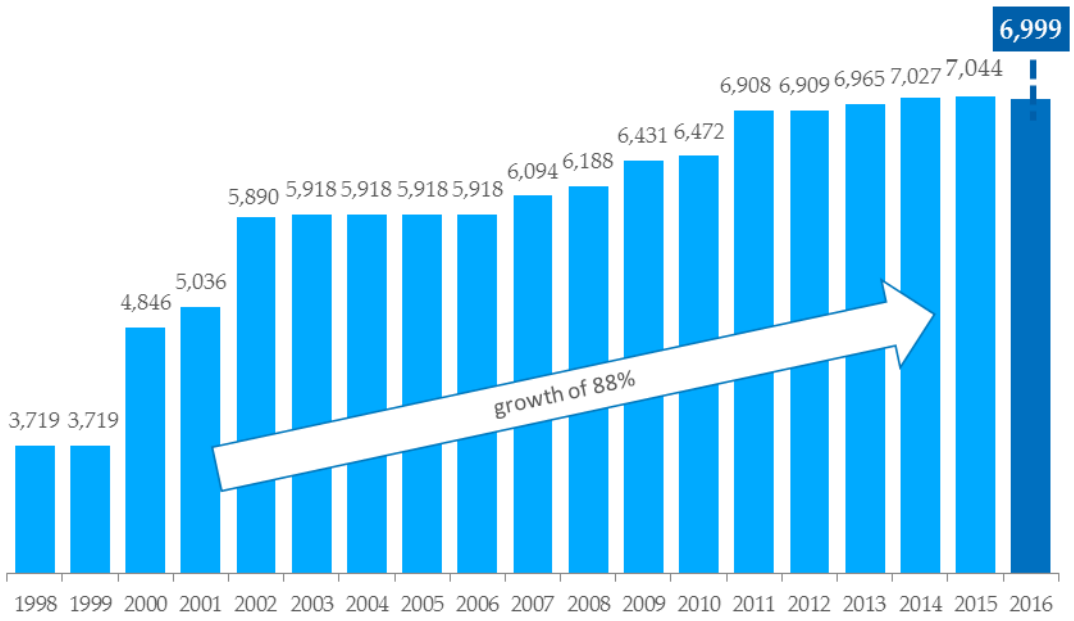
Responsible Expansion of the generating complex

Since the outset of its operations in Brazil in 1998, ENGIE Brasil Energia has expanded the installed capacity of its generating complex by 88%, an increase from 3,719 MW to 6,999 MW over 18 years. In 2016, the Company reported a slight drop (0.63%) in installed capacity in relation to the preceding year, a reflection of the decommissioning of Charqueadas TPP (72 MW).

Conversely, 27 MW was added to the Company's generating complex in the period. Of this total, 18.9 MW represent capacity from the first of the four wind farms making up the Santa Mônica Complex in Trairi in the state of Ceará and unveiled in September 2016. The remaining 8.1 MW is output from the Cacimbas I Wind Plant, which went into partial operations – with three of its seven wind turbines.

Evolution in own installed capacity in operation

(in MW)



The Company has been diversifying its energy matrix and the regional markets in which it operates, prioritizing renewable energy sources. Thus, it remains alert to opportunities for expansion in different regions of the country, conditional on such opportunities being compatible with the requisites of sustainability in economic, social and environmental dimensions.

As the Company expands the portfolio of energy available for commercialization, growth in the generating complex contributes to the longevity of the business and the increase in revenues. This expansion also creates value for Brazilian society as a whole by providing greater security to the national electricity grid and contributing to local sustainable development by creating employment and incomes, among other positive impacts in the regions where the Company's operations are installed.

In line with the strategic plan, the expansion in the Company's installed capacity is expected to continue over the next few years as work on construction of new plants is concluded. The following table shows the operations with work in progress.

Projects with work in progress
(as at 12.31.2016)

Project	Total installed capacity (MW)	Total physical guarantee (MWm)	Owner-ship	Own installed capacity (MW)	Own physical guarantee (MWm)	Expiration of concession/ authorization
Santa Monica Complex (Wind)[1]	70.2	33.0	100%	70.2	33.0	01.25.2045
Jirau (Hydro)[2]	3,750.0	2,184.6	40%	1500.0	882.0	08.13.2043
Pampa Sul (Thermical)	340.0	323.5	100%	340.0	323.5	03.30.2050
Campo Largo Complex - Phase I (Wind)	326.7	157.8	100%	326.7	157.8	08.03.2050
Assu V (Solar)	36.7	9.2	100%	36.7	9.2	-
Total	**4,523.6**	**2,708.1**		**2,273.6**	**1,405.5**	

1 - The Complex was already partially operational as at 12.31.2016 while the remainder (70.2 MW) continues under construction.

2 - The Company's controlling company, ENGIE Brasil Participações Ltda holds a 40% stake in Jirau HPP. The outlook is that the transfer of this stake to ENGIE Brasil Energia will take place in 2017.

- **Santa Mônica Wind Complex:** located in the municipal district of Trairi (CE), it comprises four plants, which when fully operational will add a total of 97.2 MW to the Company's generator complex. The Santa Mônica and Cacimbas wind farms began commercial operations in 2016 and the outlook is that the entire Complex will be in operation before the end of the first half of 2017.
- **Jirau HPP:** operating from a site on the Madeira River, it has its head offices in Porto Velho (RO) and was unveiled on December 16, 2016. With 50 turbines in operation, the project has a total installed capacity of 3,750 MW. ENGIE Brasil Participações, the controlling company of ENGIE Brasil Energia, holds a 40% stake in the project. It is mooted that the transfer of this stake to the Company will be examined in 2017, an event which will have the involvement of the Special Independent Committee for Related Party Transactions.
- **Pampa Sul TPP:** located in the municipal district of Candiota (RS), the plant will be fired from mineral coal extracted from a seam in the region. At the end of 2016, the project was 47% complete with the year notable for significant progress on the installation of the transmission line towers, work on 44 of the 53 units planned having been concluded. A company for erecting the metallic structure was also engaged during the period.
- **Campo Largo Complex - (Phase I):** made up of a series of wind generation projects located in the state of Bahia with the harnessing of potential capacity of 326.7 MW. In September 2016, the decree declaring the external access area to the Campo Largo Wind Complex site one of public utility for the purposes of expropriation was sanctioned and work on services in the accommodation area was begun. In November, the state of Bahia environmental protection agency, Instituto do Meio Ambiente e Recursos Hídricos (Inema), issued the Installation License for the final wind farm in the Complex. Partial commercial operations are scheduled to begin in 2018.

- **Assú V Photovoltaic Plant**: with an installed capacity of 36.7 MW, this plant is a component of the Assú Photovoltaic Complex to be installed in Assú (RN). The project is at the environmental licensing stage. Work is to begin in 2017 with startup in operations programmed for December of the same year.
- **ENGIE Geração Solar Distribuída:** in 2016, the Company debuted the distributed generation market by acquiring a 50% stake in the capital of GD Brasil Energia Solar S/A. This investment will enable ENGIE Brasil Energia to capture opportunities in a market with major growth potential in Brazil, responding to the challenges of a dynamic energy matrix and a segment close to the final consumer. In November 2016, an agreement was signed with the Santa Catarina energy distributor for the installation of photovoltaic systems in a thousand residences in the state. Feasibility of the project is assured through a program whereby the distributor subsidizes 60% of the final consumer's total investment.

  In addition to these operations, ENGIE Brasil Energia has other projects at an advanced stage of development as shown in the following table.

Projects under development
(as at 12.31.2016)

Projects under development	Total capacity (MW)	Type	Owner-ship	Location
Santo Agostinho Complex	600.0	wind	100%	Lajes and Pedro Avelino (RN)
Norte Catarinense	600.0	thermical	100%	Garuva (SC)
Campo Largo Complex - Phase II	330.0	wind	100%	Umburanas and Sento Sé (BA)
Alvorada	90.0	solar	100%	Bom Jesus da Lapa (BA)
Assú Complex - Units I, II, III e IV	146.8	solar	100%	Assú (RN)
Total	**1,766.8**			

- **Santo Agostinho Wind Complex:** located in the municipal districts of Lajes and Pedro Avelino in the state of Rio Grande do Norte, this project has a potential output of 600 MW. In June 2016, the state environmental protection agency, Instituto de *Desenvolvimento Sustentável e Meio Ambiente* (Idema), issued a Preliminary License. The entire project's documentation necessary to take part in the energy auctions has been prepared.
- **Norte Catarinense TPP:** located at a site in the municipal district of Garuva (SC), this is a natural gas combined cycle plant with an installed capacity of about 600 MW. In 2016, a Preliminary License was issued allowing the project to bid in future new energy auctions.
- **Campo Largo Wind Complex - (Phase II):** will add a further approximately 330 MW of installed capacity to the Campo Largo Wind Complex. Just as in the case of the Santo Agostinho Wind Complex, this operation has already prepared full documentation necessary to take part in energy auctions.
- **Alvorada Photovoltaic Complex:** located in the state of Bahia, this operation will be made up of four projects with a total estimated installed capacity of up to 90 MWp. The projects are currently at the solar radiation measurement phase. In all cases, the relevant Preliminary License was issued in August 2016, which permits bidding at the new energy auctions as from 2017.

- **Assú Photovoltaic Complex:** ENGIE Brasil Energia acquired a further two projects under the umbrella of the Assú Photovoltaic Complex. This will now be made up of five projects – with a total estimated capacity standing at 183 MWp – to be developed at the Assú (RN) site. All Assú I, II, III and IV Photovoltaic Plants are at the solar radiation measurement stage. They have all received a Preliminary License, which qualifies them to take part in new energy auctions.

  The Company is also examining the potential for parallel photovoltaic solar energy generation in the areas where it is installing its wind farms as well as establishing partnerships for accelerating the harnessing of this source of energy.

4.2 Competitive advantages

In tandem with the strategy for the business, ENGIE Brasil Energia creates value based on the aspects, policies and practices, which differentiate it from other market entities. Among the Company's principal competitive advantages, of particular importance are:

- **Operations in a strategic sector:** the energy sector is considered strategic to the development of Brazil given that energy constitutes a basic input for production and a large part of society's everyday activities.
- **Sector Leadership:** the Company ranks among the leaders of independent energy production in Brazil. Its parent company is the largest independent producer in the world, thus reinforcing ENGIE Brasil Energia's own potential for capturing business opportunities.
- **Clear commercial strategy:** ENGIE Brasil Energia maintains high levels of long-term contracting, thus reducing exposure to short-term market oscillations. In addition, its sales portfolio is a balanced mix of free consumers, different sectors and clients in the regulated market (distributors).
- **Predictability of cash flow:** in addition to the above-mentioned long-term contracting, energy sales agreements are indexed to inflation. Another factor, which contributes to greater predictability, is the diversified generation portfolio – encompassing hydroelectric, thermoelectric and complementary power plants. This diversity serves to reduce the impacts related to climatic events such as low rainfall or decreased sunlight and winds in certain regions.
- **High degree of operational performance:** the power generating units, which the Company operates, show a high level of uptime and reliability. Contributing to this result are NBR ISO 9001 (management of quality), NBR ISO 14001 (management of the environment) and OSHAS 18001 (occupational health and safety management) certification, which the majority of plants hold.
- **Stable financial performance:** the association of strong cash generation, high average EBITDA margin, consistent net income and the absence of currency exposure all contribute to the financial stability of the Company and its consequent resilience under inclement macroeconomic scenarios. Additionally, as a solid organization with a market value of R$ 22.8 billion at the end of 2016, ENGIE Brasil Energia has access to attractive lines of credit, thus enhancing its competitive edge.
- **Differentiated risk classification:** Fitch Ratings has assigned a Long-Term National Company Rating of 'AAA (bra)' and on the global scale, 'BB+(bra)', one notch above the sovereign rating.

- **Best practices of governance and sustainability:** just as with the Management Board, the Board of Directors is made up of experienced professionals with a broad-based knowledge of the sector and duly prepared to take decisions covering the interests of the shareholders and other stakeholders that may be involved. Thus, economic, social and environmental aspects are indissolubly part of the decision-making process.

4.3 Intangible assets

ENGIE Brasil Energia's principal intangible assets are human and intellectual capital, research, development and innovation activities and the corporate image as well as those considered in the Accounting Statements.

Human and intellectual capital

ENGIE Brasil Energia's work force is characterized by diversity of age group with a mix of young talent and experienced professionals. The Company fosters the continuing evolution of its employees, investing in actions directed towards career development and also focused on wellbeing and occupational health and safety.

Research, Development and Innovation

Research, Development and Innovation (RD&I) activities are becoming increasingly strategic to the Company's business model. In 2016, this trend gained traction with the creation of the Operating Unit for Strategy and Innovation, an area under the Strategy and Regulation Department. The Unit's objective is to create innovative solutions to meet the demands of society in the context of the energy transition. To assist this process, the Company intends to strengthen further the existing partnerships with Brazilian universities and research centers in order to consolidate the culture of open innovation, integral to its development strategy.

The Research and Development Program regulated under Law 9991/2010 is an important instrument for conducting these activities. The relevant legislation mandates that generation, transmission and distribution companies should apply 1% of their net annual revenues in R&D projects. It is the responsibility of the companies to establish the objectives of the projects to be developed and to submit them for Aneel's assessment.

ENGIE Brasil Energia's total investments in its 2016 R&D Program were R$ 32 million and allocated as follows:

- R$ 12.3 million to the National Scientific and Technological Development Fund (FNDCT);
- R$ 6.1 million to the Ministry of Mines and Energy (MME), as the Company's contribution to the funding of the Energy Research Company (EPE); and
- R$ 13.6 million for projects with work in progress involving aspects listed in the following table.

Areas of R&D projects - 2016

Area	Amount invested (R$)
Energy efficiency	490,850.51
Alternative sources of electric energy generation	8,581,132.64
Electric energy generation	11,405.33
Thermoelectric generation	404,957.87
Management of the R&D Program	756,659.08
Environment	1,374,318.43
Operation of electric energy systems	362,192.55
Planning of the electric energy system	671,886.34
Supervision, control and protection of electric energy systems	986,880.36
Total	**13,640,283.11**

The search for sustainable solutions for energy generation is among the main goals of R&D projects, which are focused on reducing environmental impacts and guaranteeing the reliability of the electricity system. In 2016, an example of these efforts was recognized with the triple award made to the Cidade Azul Solar Energy Plant project. This plant is the result of a research project initiated by the Company in 2011 in cooperation with the *Universidade Federal de Santa Catarina* (UFSC) and another 11 companies in the electric energy sector.

The project consists of the installation, operation and monitoring of eight trial modules, each one employing seven different photovoltaic technologies and solar monitoring stations at eight locations with different climates. The project also involves the installation and maintenance of the Cidade Azul Photovoltaic Plant - in operation since 2014. The plant has a 3.0 MWp power output and was installed in Tubarão (SC), adjacent to the Company's Jorge Lacerda Thermoelectric Complex (CTJL). The trial modules are recording preliminary results and have proved to be an important source of experimentation in the analysis of how different technologies work in distinct regions.

In the light of these results, the project won the Rio de Janeiro American Chamber of Commerce's Brazil Environmental Award and the *Expressão* Ecology Award presented by Editora Expressão, both awards in the Innovation category. The project was also a finalist in the Von Martius Award for Sustainability, Technology Category, sponsored by the Brazil-Germany Chamber of Industry and Commerce.

The Company also fosters a culture of innovation both with its own employees as well as with external stakeholders. It runs the in-house *Inove* Program, which awards innovative ideas and projects in five categories: Operation and Maintenance, Research and Development (R&D), Commercial and Business, Socio-environmental and Management. All employees are eligible to enter, except managers of the organizational units and members of the Innovation Committee.

The second ENGIE Brasil Award for Innovation was held in 2016. Sponsored by ENGIE Brazil Energia's controlling company, the initiative recognizes companies, startups and entrepreneurs that devise innovative solutions, either of a technological or commercial nature, for areas of Group interest. Among such areas, we would highlight decentralized energy, green mobility and smart city, energy storage, smart grids or social inclusion through energy efficiency and access to energy.

Image

ENGIE Brasil Energia's reputation is based on integrity, a hallmark of its relationship with different stakeholders. In this context, transparency and dialog constitute essential elements in the construction and maintenance of an image, which adheres to the values of the Company, as well as the commitments that it assumes.

ENGIE Brasil Energia maintains channels for permanent communication with stakeholders as a means of providing information on its initiatives and projects. The Company website is a particularly important medium in this respect for publishing policies, reports, news items and market announcements, among other information.

In 2016, ENGIE adopted a single corporate logotype for all its companies as a way of increasing Group visibility both in Brazil and worldwide. In the light of the change in the Company's corporate denomination and logo, several communication initiatives were run to consolidate the new corporate identity both internally and externally.

5. MANAGEMENT OF RISKS AND OPPORTUNITIES

The analysis of corporate risks and opportunities is conducted through a systemic process, which permeates all corporate activities and involves all employees and senior management. In 2016, the Board of Directors approved a new Policy for Management of Risks and Opportunities, an internal document that establishes guidelines for the conduct of the businesses with the following objectives:

- Creation and maintenance of value, reputation and internal motivation.
- Encouraging a certain degree of risk taking, deemed reasonable in relation to legal, economic and social aspects.
- Assurance of conformity of actions with legal and regulatory obligations as well as with ENGIE Brasil Energia's values.

As called for in the Policy, the analysis of business risks encompasses their identification and classification as to the probability of occurrence and significance in terms of financial, strategic and operational impact. Among the risks managed and handled, of particular importance are:

- **Market risk:** the supply of and demand for electricity can deviate from forecast so affecting energy prices and volume.
- **Regulatory risk:** adverse movements in electricity sector regulations. Historically, the Federal Government exercises a high degree of influence on the Company's businesses, including the industry's underlying business models, the terms and conditions of the power purchasing agreements, which ENGIE Brasil Energia is authorized to sign, as well as on production levels.
- **Taxation risk:** adverse evolution in the tax legislation and the actions taken by the internal revenue authorities.
- **Risk arising from economic factors:** alteration in the economic variables such as interest, currency rates, commodity prices, economic growth and inflation, with an impact on the Company's businesses.

- **Contractual default risk:** non-compliance with the provisions in the Company's power purchasing agreements and with the rules of the Electric Energy Trade Board (CCEE). Another key aspect in this context is the possibility of a concession contract signed with the Federal Government being rescinded unilaterally under unforeseen conditions.
- **Socio-environmental risk of the plants in operation:** unfavorable changes in the environmental regulations and the activities of organized social movements in relation to the plants in operation.
- **Risk in the development and installation of new projects:** occurrence of events in the development and installation of projects resulting in delays to the construction schedule or additional costs for installation or involving plant operations.
- **Risk of energy shortages:** shortfall in the physical guarantee of the Company's proprietary plants and in purchased energy. Among the factors influencing the availability of energy are drought and fuel shortages for conventional thermoelectric and biomass plants. A shortage of primary energy in conjunction with the obligation to deliver assured energy may result in the Company's exposure to the short-term market where prices tend to be high.
- **Risk of human resources:** labor shortages (own or third party employees) due to the failure to hire and train within a suitable period for meeting the Company's expansion needs and to replace vacancies on the payroll; increase in costs due to competition for human resources resulting from economic growth; strikes and stoppages as well work-related accidents.
- **Technological risk of information:** unavailability or lack of security of IT resources may negatively affect the Company's operations and image.
- **Risk of major loss:** major accidents and disasters due to natural or man-made causes, involving the implementation of projects, the operation of plants and the management of the Company. Payment of substantial costs of restoring the environment and for environmental indemnification may oblige ENGIE Brasil Energia to delay or reallocate investments to other areas, having a negative effect on the businesses.

6. MANAGEMENT OF QUALITY

The Integrated Management System (SIG) together with corporate policies provide the underlying guidance for the management of the Company's manufactured capital and covers five dimensions: quality, environment, occupational health and safety, social responsibility and energy management. In all, 14 of the 29 plants which ENGIE Brasil Energia operates are certified according to NBR ISO 9001 (quality), NBR ISO 14001 (environment) and NBR OHSAS 18001 (Occupational Health and Safety) standards. In 2016, Estreito HPP was certified under these standards, thus increasing the percentage of certified installed capacity from 83.6% to 95.3% – this discounting the non-renewal of Charqueadas TPP's certification in the light of the closure of plant activities.

The Jorge Lacerda Thermoelectric Complex, which has three plants among the 14 certified, has also certification according to the NBR ISO 50001 standard with respect to Energy Efficiency. The Company seeks to adhere to guidance under the NBR ISO 26000 standard (for which there is no certification) on social responsibility.

6.1 Operating performance

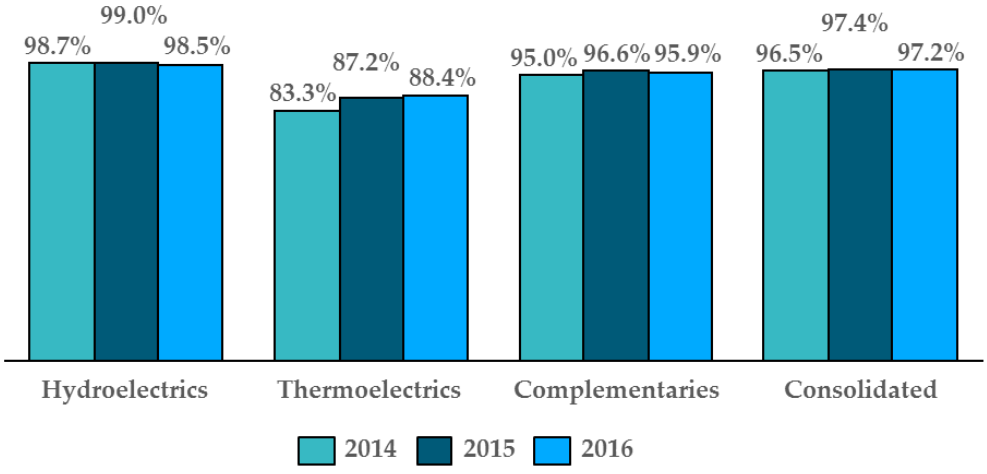
ENGIE Brasil Energia considers the reliability, uptime and safety of the generating complex as aspects essential to management of quality. These aspects are measured by the Company through the plant internal uptime indicator, which tracks the energy supply capacity of the installations and the hours of urgent and unscheduled downtime of the generator units.

For the full 12 months of 2016, excluding scheduled shutdowns, plants reported uptime of 97.2%, namely 98.5% at the hydroelectric plants, 88.4% at the thermoelectrics and 95.9% in the case of the units fired from complementary sources. If all scheduled shutdowns are taken into account, the aggregate uptime was 86.8% for the Company's plant complex, 88.5% for the hydroelectric operations, 75.0% for the thermoelectric units and 87.8% for the plants fired from complementary sources.

The key factors which affected hydroelectric uptime in 2016, when compared with the preceding year, were modernization work on the Generator Unit 3 of Ponte de Pedra HPP and on Units 3 and 4 of Salto Santiago HPP. Maintenance activity also took place on Unit 1 of the Passo Fundo HPP and on Units 1 and 2 of São Salvador HPP. Another factor impacting uptime ratios was the modernization of the velocity and voltage regulators on Generator Unit 1 of Cana Brava HPP.

As to the thermoelectric plants, uptime working was most affected by scheduled maintenance on Generator Units 2, 4 and 5 of the Jorge Lacerda Thermoelectric Complex and on Unit 3 of the William Arjona TPP. An additional impact came from the decommissioning of the Charqueadas TPP. In the case of the plants fired from complementary sources, uptime ratios were affected by maintenance on the Unit 3 turbine of the José Gelázio SHPP.

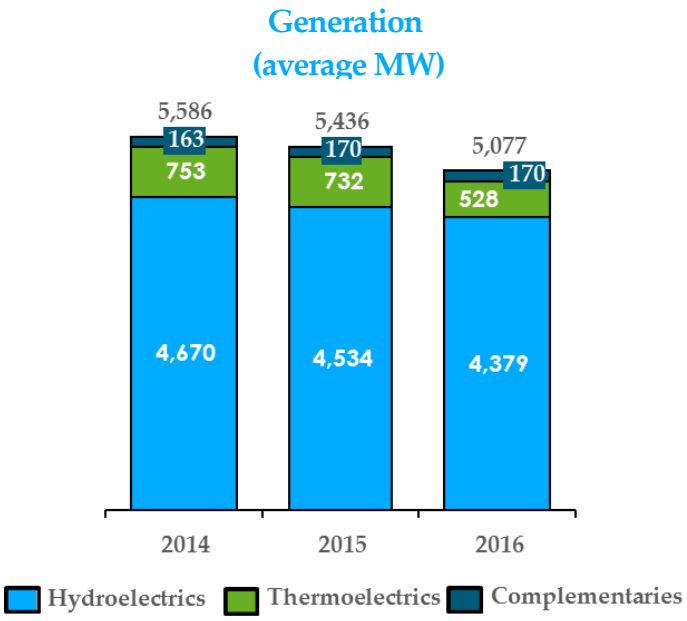
Plant uptime, excluding scheduled stoppages



In 2016, total electric energy output was 44,592 GWh (5,077 average MW): a year-on-year reduction of 6.6%. Out of total generation, the hydroelectric plants corresponded for 38,462 GWh (4,379 average MW), a 3.2% decrease; the thermoelectric plants for 4,638 GWh (528 average MW), a reduction of 27.6%; and the complementary-powered plants for 1,492 GWh (170 average MW), an increase of 0.2%.

There was no particular event at the hydro plants meriting specific mention other than the less favorable hydrological conditions prevailing in 2016. The decreased generation from thermoelectric sources is due to reduced generation by order of merit and also the temporary shutdown in operations at the William Arjona TPP for reasons of operating convenience and the decommissioning of the Charqueadas TPP, already mentioned.

Generation from complementary plants was virtually stable, the key factor in this case being reduced generation from the SHPs in the light of low rainfall, albeit offset by increased generation from the wind power plants with initial commercial operations at the Santa Mônica and Cacimbas wind farms.



In this context, it is worth pointing out that an increase in the Company's hydroelectric generation does not necessarily reflect an improvement in economic-financial performance. Conversely, a reduction in this type of generation does not inevitably imply a deterioration in economic-financial performance due to the adoption of the Energy Reallocation Mechanism (MRE), which defrays the risks of hydro generation among its participants. As to the Company's thermal generation, its increase might reduce (as a function of the Company's level of contracting) exposure to the Price for the Settlement of Differences (PLD), the opposite being the case when there is a decrease, all other variables being equal.

Remote operations

On October 10, 2016, the Company initiated remote operating at Ponte de Pedra HPP and at the José Gelázio da Rocha and Rondonópolis small hydroelectric power plants (SHPP). Located in the state of Mato Grosso, these operations are now controlled out of the Generation Operations Center (COG), installed at the Company's headquarters in Florianópolis (SC).

Projected with a focus on digitization and operating excellence, the infrastructure of the COG incorporates highly sophisticated technological resources allowing real time monitoring and ensuring the reliability of the system. To this end, several adaptations have been made to existing systems, equipment and procedures as well as intensive training of operators, the relative investment amounting to about R$ 4 million. The Company conducted all stages of planning, execution and management of the project with reduced recourse to outside hiring.

It is worth recalling that ENGIE Brasil Energia already has considerable experience in remote operations that had previously been adopted at the Cana Brava (GO) and São Salvador (TO) hydroelectric power plants and controlled from Salto Santiago HPP (PR), as well as Passo Fundo HPP (RS), operated remotely from Itá HPP (SC). In addition, before becoming an integral part of COG, the José Gelázio da Rocha and Rondonópolis small hydroelectric plants, both in the state of Mato Grosso, were controlled remotely from Ponte de Pedra HPP.

7. ECONOMIC FINANCIAL MANAGEMENT

7.1 Macro-economic scenario

In 2016, the slowdown in Brazilian economy continued following a similar deceleration recorded in 2015. Central Bank of Brazil (Bacen) forecasts in the final Focus Bulletin of 2016 were that the Gross Internal Product for the year would see a further decline of 3.5% compared with 2015. Should the Federal Government's statistics office (IBGE), responsible for the official calculation of GDP be confirmed, then this will be the first time that Brazil has registered two consecutive years of declining economic activity since the inception of the official historic series in 1948. In 2015, the GDP weakened by 3.8%, the worst result in 25 years.

IBGE data shows that the country ended the year reporting official inflation at 6.3% – at the ceiling of the government's inflation band and driven largely by food prices. The accumulated primary deficit for the public sector was R$ 154.3 billion – representing 2.4% of GDP, the worst result for the historic series[2]. The commercial US Dollar closed 2016 reporting a 17.7% devaluation against the Real at R$ 3.2497, the first annual decline in the US currency since 2010.

Industrial production posted a decrease of 6.6% in relation to 2015. The labor market was also affected: at the end of the year, jobless numbers in Brazil stood at 12.3 million – the average unemployed rate for 2016 as a whole was 11.5% and above the result of 8.5% for 2015.[3]

A study on competitiveness by the National Confederation for Industry (CNI) classified Brazil in 17th place in a ranking of 18 countries. The CNI found that due to the economic recession, the country lost ground in four of the nine items evaluated: availability and cost of labor, the macro-economic environment, competition and scale of the domestic market and technology and innovation. On the other hand, there was an improvement in the item for education.

[2] Source: Banco Central do Brasil.
[3] Source: IBGE

7.2 Electric Sector

An economy in recession reflected directly in demand for electric energy in Brazil. According to the Energy Research Company (EPE) data, electricity consumption amounted to 460,001 GWh in 2016, a decrease of 0.9% compared with 2015. The residential segment represented 132,893 GWh of this total and 1.4% year-on-year higher, the only segment to record an increase in consumption in the period. However, average residential consumption ended the year practically unchanged – 160 kWh/month relative to 161 kWh/month reported for 2015. Annual consumption for the commercial and industrial segments was 88,185 GWh (-2.5%) and 164,034 GWh (-2.9%), respectively.

Most notable in terms of consumption by region were decreases in the Southeast (-1.8%) and in the Center-West (-1.0%) of the country. The Northeast and South regions turned in almost stable results in relation to 2015, albeit both with a slight decline of 0.3%. The North region was the only one to register growth - 2.0%.

Consumption also reported growth in the free consumer market at 123.3 TWh – an increase of 6.8% compared with 2015. Meanwhile, consumption in the captive market fell 3.5% in the period.

The scenario in 2016 was an even more critical one than 2015 in relation to hydrology and corresponding hydroelectric plant inflows. Both the North and Northeast regions experienced their second worst year ever. Conversely, strong inflows in the Southeast and the Center-West region in January 2016 combined with regular inflows in the South for the best part of the year together with a significant decrease in energy consumption, resulted in the Price for the Settlement of Differences (PLD) remaining relatively low for the period.

Authorization was given to increase reservoir storage at the hydroelectric plants in relation to 2015. Although this in practice meant just a modest rise in water levels, the consequence was that plant efficiency rose with more energy being produced with less water. This increase was more intense in early 2016 due to stronger inflows reported for the Southeast and Center-West, permitting reduced dispatch from the hydro plants in the North and the Northeast. It was in this period that PLD values fell to their lowest point. The impact of restrictions on energy transmission combined with the reduced supply of hydroelectricity in the North and the Northeast meant that the PLD for these regions exceeded that for the remaining regions on several occasions.

Electric Energy Trade Board data reveals that the Generation Scale Factor - representing the percentage of physical guarantee generated by the hydroelectric plants - was 87.1% in 2016, higher than the 84.3% reported in 2015.

7.3 Economic-financial performance of the Company

The following table shows the leading indicators of the Company's economic-financial performance in 2016 compared with the results in the preceding two years.

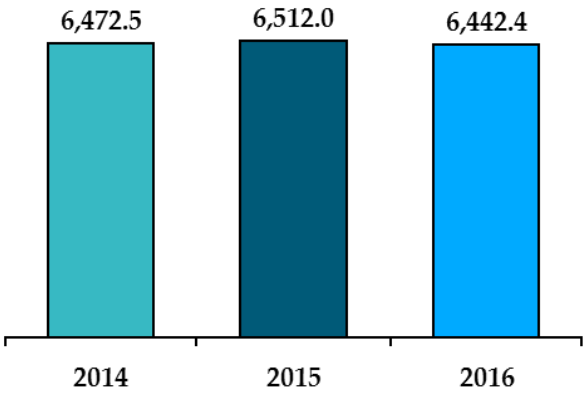
	2014	2015	2016	Variation 2016/2015
Financial Information (R$ million)				
Total assets	13,609.6	15,289.4	14,419.7	-5.7%
Shareholders' equity	5,654.9	6,642.1	6,614.4	-0.4%
Net revenue from sales	6,472.5	6,512.0	6,442.4	-1.1%
Gross income	2,497.7	2,708.9	2,740.9	1.2%
Income before financial result/taxes (EBIT) (1)	2,302.9	2,503.8	2,421.6	-3.3%
Income before taxes	1,956.6	2,033.2	2,066.7	1.6%
Net income	1,383.1	1,501.3	1,548.3	3.1%
EBITDA(2)	2,895.1	3,114.6	3,175.6	2.0%
Financial Indicators (R$ million)				
Total debt (loans, financing and debentures)	3,988.5	3,758.4	3,088.7	-17.8%
Cash and cash equivalents and restricted deposits	1,750.7	2,543.6	1,995.5	-21.5%
Net debt	2,237.8	1,214.8	1,093.2	-10.0%
ROCE (3) (%)	22.3	23.1	21.9	-1,2 p.p.
Gross Debt/EBITDA	1.4	1.2	1.0	-0,2 p.p.
Net debt/EBITDA	0.8	0.4	0.3	-0,1 p.p.
Participation of third party capital in relation to total assets (%)	58.4	56.6	54.1	-2,5 p.p.
Operational margin (%)	30.2	31.2	32.1	0,9 p.p.
Net margin (%)	21.4	23.1	24.0	0,9 p.p.
Shares				
Net earnings per share (R$)	2.1189	2.3000	2.3720	3.1%
Average price per share (4) – ON (R$)	30.30	31.72	35.99	13.5%
Dividends per share (R$)	1.1876	1.2789	2.2786	78.2%
Employee salaries and benefits	263.7	292.3	297.5	1.8%
Payments to government	1,681.3	1,858.7	1,814.5	-2.4%

(1) EBIT = operating income + financial result;
(2) EBITDA = net income + income tax and social contribution + net financial expenses + depreciation and amortization + provision for impairments;
(3) ROCE (return on employed capital) = results from the service/non-current assets; and
(4) Simple average of daily average prices adjusted for dividends.

7.3.1 Net revenue from sales

When comparing full years, net revenue from sales declined from R$ 6,512.0 million in 2015 to R$ 6,442.4 million in 2016, representing a reduction of R$ 69.6 million or 1.1%. This decline is essentially a reflection of the following combination of events: (i) +R$ 347.0 million due to the increase in average net selling price; (ii) -R$ 232.5 million due to lower volumes of energy sold; and (iii) -R$ 185.5 million, a reflection of the reduction in revenue from transactions conducted across the short-term market, more particularly those executed within the scope of the CCEE.

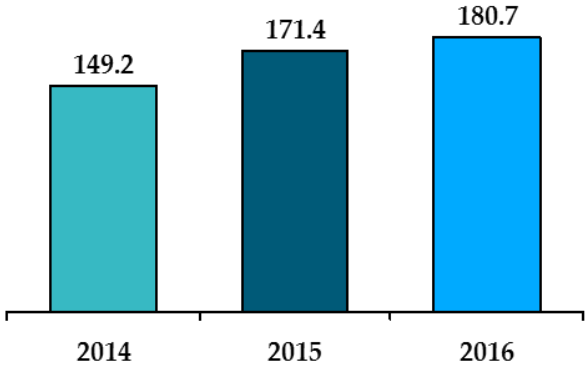
Net Revenue from sales
(R$ million)



Net average selling price

In the 12-month period of 2016, the average selling price of energy, net of taxes reached R$ 180.68/MWh, 5.4% higher than the price prevailing in 2015, which was R$ 171.37/MWh. Higher prices were largely due to monetary restatement of the existing agreements, partially mitigated by prices practiced for new sales at values below the average price for the portfolio.

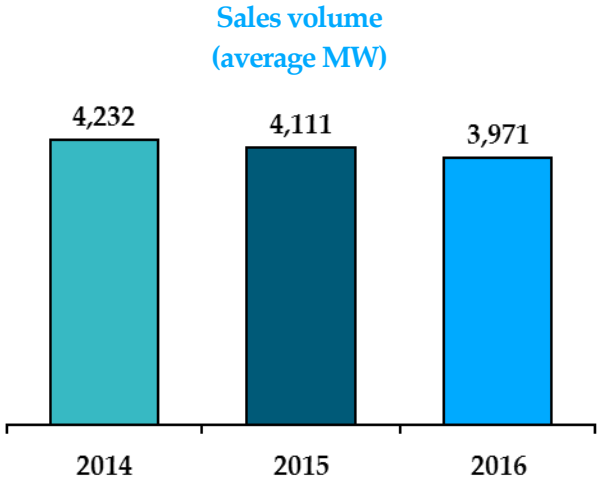
Net average selling price*
(R$ MW/h)



*Net from exports and sales taxes

Sales volume

In 2016, energy sales volume was 34,789 GWh (3,971 aMW) against 36,012 GWh (4,111 aMW) reported in 2015, a decrease of 1,223 GWh (140 aMW) or 3.5%. These variations are largely due to the expiry and renegotiation of existing agreements as well as the reduction in consumption under flexible supply agreements, partially offset by a growth in conventional energy sales to trading companies.



Comments on variations in net revenue from sales by client class

✓ **Distributors**

In 2016, revenue from sales to distributors was R$ 3,113.8 million, an increase of 2.2% in relation to fiscal year 2015, compared with R$ 3,046.6 million. This increase was driven by a series of factors as follows: (i) R$ 327.6 million – an increase of 11.2% in net average selling price; and (ii) R$ 260.4 million – a decline of 8.1%, or 1,397 GWh (164 aMW) of energy volume sold. The decrease in sales volume between the periods under analysis is largely a reflection of the expiry of the agreement under the Existing Energy Auction at the end of 2015, combined with the reductions arising from the Surplus and Deficits Compensation Mechanism (MCSD). In addition, the variation in average selling price in excess of inflation was due to the termination of the agreement under the aforementioned auction, the price of which was less than the average practiced for agreements prevailing in 2016.

✓ **Trading Companies**

In the full 12-month period 2016, revenue was R$ 319.7 million, 53.0% higher than the revenue recorded for 2015 – R$ 209.0 million. The increase is a reflection of the following aspects: (i) R$ 163.8 million – an increase of 86.0% or 1,013 GWh (115 aMW) in energy volume sold; and (ii) R$ 53.1 million – a decrease of 17.8% in net average selling prices.

The increased sales volume reported for the period under analysis is due largely to sales of conventional energy concomitantly with the purchase of incentivized energy from trading companies for resale to free consumers which migrated from the Regulated Contracting Environment (ACR) to the Free Contracting Environment (ACL).

✓ **Free Consumers**

In 2016, revenue amounted to R$ 2,834.2 million, 2.8% less than the R$ 2,915.7 million posted in 2015. This reduction reflects the following: (i) R$ 154.0 million – a decrease of 917 GWh (110 aMW) or 5.2% in energy volume sold; and (ii) R$ 72.5 million – growth of 2.6% in net average selling price of energy.

This decrease in sales volumes are related to reduced consumption under flexible supply agreements and the renegotiation of existing agreements partially attenuated by sales volume of incentivized energy in 2016 to clients migrating from the ACR to the ACL.

✓ **Electric Energy Exports**

In 2016 as a whole, exports amounted to 78 GWh (9 aMW) to Argentina, at the average price of R$ 232.28, generating net revenue of R$ 18.1 million. There was no exports in 2015.

✓ **Transactions in the short term market - especially those conducted through the CCEE**

On a 12-month comparative basis there was a decrease of R$ 185.5 million in revenue from short-term transactions from R$ 302.6 million in 2015 to R$ 117.1 million in 2016. A more detailed explanation of these variations is to be found in the item below "Details of Short Term Operations – especially Transactions on the Electric Energy Trade Board (CCEE)".

7.3.2 Costs of Electric Energy and Services

In 2016, the costs of the sale of energy and services reached R$ 3,701.5 million, 2.7%, or R$ 101.6 million lower than the figure for 2015, which was R$ 3,803.1 million. This variation largely reflects tendencies in the following components:

✓ **Electric energy purchased for resale:** reduction de R$ 139,2 million in 2016 in relation to 2015, reflecting above all the reduction of 886 GWh (104 aMW) in medium and long-term purchases, albeit partially offset by higher prices practiced for new agreements when compared to the preceding period. The reduction in purchase volumes is due largely to the acquisition in 2015 of energy from Jirau Hydroelectric Power Plant, to a degree compensated by higher incentivized energy purchase volumes in the period under analysis. In 2016, the Company's purchases of energy from Jirau HPP were zero.

✓ **Transactions in the short-term market - especially those conducted through the CCEE:** between the fiscal years 2015 and 2016, the increase in transaction costs was R$ 115.5 million. More details are to be found under the specific heading.

✓ **Charges for the use of and connection to the electricity grid:** an increase of R$ 34.3 million in 2016 against 2015, principally due to the annual readjustment in transmission tariffs.

✓ **Fuels for generation:** a decrease of R$ 109.0 million between the two fiscal years due to a reduction in consumption of natural gas at the William Arjona TPP (UTWA) due to zero dispatch from this plant by the National Electric System Operator (ONS) at the end of February 2016. This fall was partially offset by the following factors: (i) cost of mineral coal in 2016 when the Company ceased to be fully reimbursed under the Energy Development Account (CDE) for coal consumed in the Jorge Lacerda Thermoelectric Complex and the Charqueadas TPP and pursuant to new legislation establishing parameters for greater energy efficiency at coal-fired plants; and (ii) own unsubsidized mineral coal consumption in 2016 by virtue of exports of electricity to Argentina.

✓ **Financial compensation for the use of water resources (royalties):** In fiscal year 2016, there was an increase of R$ 12.9 million due largely to the annual price readjustment, offset by a small reduction in hydroelectric generation.

✓ **Personnel**: an increase of R$ 18.2 million between fiscal years, substantially the result of the annual agreement on employee salaries and benefits and due to further employees signing up to the Voluntary Severance Plan (PDV) following its resumption in 2016. Personnel costs were partially offset by the readjustment of head count in the light of voluntary termination of employees under the PDV.

✓ **Materials and third party services:** reduction of R$ 29.3 million when confronting comparative years, this principally due to lower demand for services relating to maintenance and conservation of the thermoelectric generator units as well as efforts to rationalize Company costs.

✓ **Depreciation and amortization:** an increase R$ 30.5 million in the compared years, due above all to a major review of the Company's thermoelectric complex at the end of 2015, modernization and new assets introduced into the generating complex.

✓ **Net operational provisions:** a positive impact of R$ 38.8 million for the full fiscal years under analysis. The principal factor contributing to the full year-on-year decrease of these costs was the constitution of a civil provision in 2015, in the light of a judicial dispute with a supplier. This arose from a disagreement on the application of the current legislation relating to the setting of the price of a raw material consumed by the Company. This positive effect was partially offset by (i) a provision for decommissioning the Charqueadas TPP; and (ii) a provision for reducing inventory to the net realizable value of the Charqueadas and Alegrete Thermoelectric Power Plants.

7.3.3 Details of Short Term Operations – especially Transactions on the Electric Energy Trade Board (CCEE)

Short-term operations are classified as energy purchase or sale operations, the principal objective being the management of exposure on the CCEE. Consequently, the price of these operations is characterized by the linkage with the Price for Settlement of Differences (PLD). This item also includes the transactions conducted through the CCEE, given their volatile and seasonal nature - and, therefore, short-term - of the results originating from accounting movement in the CCEE. Additionally, the long and short positions are settled at the PLD, thus, similar to the short-term operations described above.

In relation to the transactions conducted through the CCEE, the various monthly credit or debit entries to the account of a Board agent are summarized in a single billing as a receivable or a payable. This therefore requires an entry to either an income or an expense item. In this context, it is worth pointing out that due to adjustments in the Company's portfolio management strategy, changes have been taking place in the profile of the mentioned billings. Such fluctuations complicate the direct comparison of the elements comprising each billing for the periods being analyzed - the reason for including this specific topic. The strategy allows us to analyze the fluctuations of the principal elements involved in spite of allocation being either to an income or expenses account according to the credit or debit nature of the billing to which they relate.

Generically, these elements are revenues or expenses arising, for example, (i) from the application of the Energy Reallocation Mechanism (MRE); (ii) from the Generation Scaling Factor, triggered when generation of plants, part of the MRE, is greater or smaller (Secondary Energy) than the allocated energy; (iii) from the so-called "sub-market risk"; (iv) from dispatch triggered by the Risk Aversion Curve (CAR); (v) the application of System Service Charges (ESS), resulting in dispatch which diverges from the thermal plants order of merit; and (vi) naturally, exposure (a short or long position in the monthly accounting) and settled at the PLD.

For the full fiscal year 2016, the net result from short-term transactions – particularly those transacted across the CCEE, was negative at R$ 65.3 million against a positive result of R$ 235.7 million in 2015, representing a reduction of R$ 301.0 million between the two years under review.

This variation is a combination of the following factors: (i) greater thermoelectric exposure due to reduced dispatch from this generation source; (ii) a reduction in MRE revenue in the light of decreased hydroelectric generation in the period; and (iii) increased exposure to price differences between submarkets.

It is worth mentioning that there was a notable drop in average PLD during 2016 as shown below, thus contributing to a decrease in the negative effects arising from the application of the GSF and thermoelectric exposure and conversely the reduction from the positive effects of settling excess energy across the CCEE. Comparing the two years, PLD for South and Southeast/Center-West submarkets fell 67.4% from R$ 285.41/MWh in 2015 to R$ 93.18/MWh in 2016.

In line with the guidelines enshrined in Law 13.203/2015, and in order to mitigate the negative effects of the GSF as applied to plants which are members of the MRE, in December 2015, through formal declaration and in the light of resolutions published by Aneel, the Company signed up to the renegotiation of the hydrological risk for plants with energy sold through the Regulated Contracting Environment. As a condition of this agreement, the Company was obliged to cancel any legal injunctions that might prevent the application of the GSF at its plants.

As a consequence of this agreement, the Company has recognized in its cost base a risk premium of R$ 23.7 million for 2016, having at the same time avoided generating the cost of a deficit of R$ 92.5 million, both net of direct tax charges.

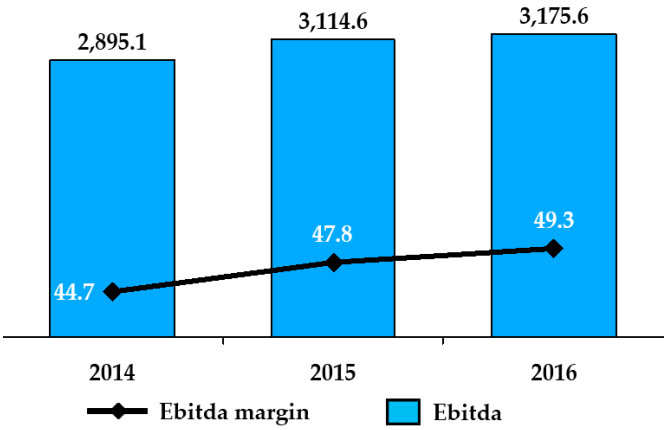
7.3.4 General and Administrative Expenses

On a full year-on-year basis, expenses increased from R$ 200.2 million to R$ 202.5 million, an increase of R$ 2.3 million or 1.1%. This increase was largely a reflection of the reversal of the civil provision in 2015, partially compensated by the reduction in staff and senior management expenses in the amount of R$ 7.2 million, for the same reasons as mentioned above.

7.3.5 Ebitda and Ebitda Margin

Reflecting the aforementioned effects, Ebitda posted an increase of R$ 61.0 million (or 2.0%) from R$ 3,114.6 million in 2015 to R$ 3,175.6 million in 2016. The Ebitda margin in 2016 was 49.3%, representing an increase of 1.5 p.p. in relation to 2015. These increases reflect principally a combination of factors: (i) the negative R$ 301.0 million in transactions executed in the short-term market – more specifically, those executed within the scope of the CCEE; (ii) a reduction of R$ 139.2 million in energy purchases for resale; (iii) a growth of R$ 114.5 million in net revenue from the sale of contracted energy; (iv) a decrease of R$ 109.0 million in fuel consumption; (v) an increase of R$ 34.3 million in charges for the use of the electricity network and connections; (vi) the positive effect of R$ 28.7 million in net operating provisions; and (vii) the decrease of R$ 4.9 million in other costs and operating expenses.

Ebitda* and Ebitda margin



** Ebitda represents: net income + income tax and social contribution + net financial expenses + depreciation and amortization*

The following table reconciles net income with Ebitda:

Reconciliation of net income with Ebitda

(In millions of R$)	2014	2015	2016	Chg. % 2016 / 2015
Net income	1,383.1	1,501.3	1,548.3	3.1
(+) Income tax and social contribution	573.5	531.9	518.4	-2.5
(+) Financial expenses, net	346.3	470.6	354.9	-24.6
(+) Depreciation and amortization	592.1	600.5	630.3	5.0
Ebitda	**2,895.0**	**3,104.3**	**3,051.9**	**-1.7**
(+) Impairment	0.0	10.3	120.9	1,073.8
(+) Equity loss	0.0	0.0	2.8	-
Adjusted Ebitda	**2,895.0**	**3,114.6**	**3,175.6**	**2.0**

7.3.6 Provision for Reduction in Recoverable Value

In 2016, the Company recognized a provision for a reduction in recoverable value (impairment) from assets amounting to R$ 120.9 million, of which R$ 76.0 million corresponds to non-operating assets pertaining to the Jacuí thermoelectric project and R$ 44.9 million in thermoelectric generation assets. By contrast, in 2015, the amount provisioned was R$ 10.3 million with respect to Charqueadas TPP.

Jacui's assets are represented by property pertaining to the Jacuí thermoelectric plant received subsequent to a court ruling in the Company's favor (in 2014) in an action taken against Elétrica Jacuí Ltda. for collection of receivables arising from the sale of the assets of the project given in guarantee.

In 2015, the Company signed an exclusive sale agreement with a potential buyer of the assets. The agreement provided for an option for the acquisition of the project valid until January 2016 but not however exercised by the eventual purchaser. During the course of 2016, attempts continued to sell the assets as operating assets, albeit unsuccessfully. In the light of this scenario, the Company engaged a company specialized in asset sales to draw up a viable divestment strategy and to provide an evaluation of the market value for the assets, prepared on the basis of the alternative sale proposal. With this evaluation, the Company constituted an impairment of R$ 76.0 million, corresponding to the book value exceeding the estimated sale value of the assets.

7.3.7 Financial Result

Financial income

Comparing the full 12 month periods 2015 x 2016, financial revenue increased R$ 117.1 million (or 41.7%) from R$ 280.8 million in 2015 to R$ 397.9 million in 2016. This is essentially explained as follows: (i) an increase of R$ 71.4 million in revenue from financial investments; (ii) growth of R$ 38.8 million in interest and monetary restatement as a result of a decision ruled in the Company's favor with respect to a legal dispute on the collection of restatement value on amounts receivable from a sector agent; (iii) an increase of R$ 17.7 million in interest and monetary restatement of accounts receivable due to defaulting on a financial settlement on the CCEE, the result of court injunctions preventing the application of the GSF; and (iv) a R$ 5.6 million reduction in monetary restatement of court escrow accounts.

Financial expenses

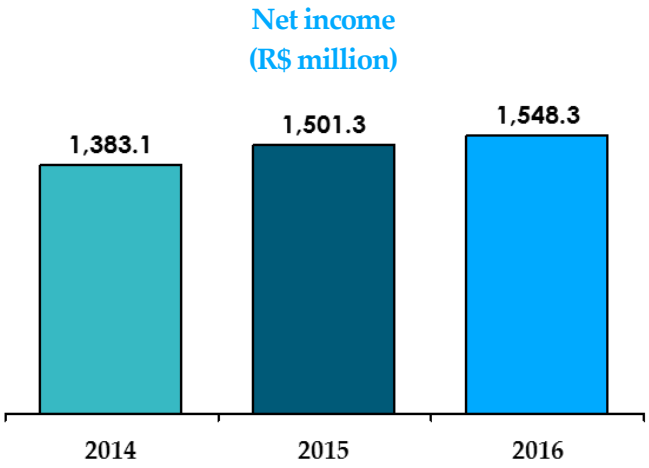
From an annual point of view, expenses increased from R$ 751.4 million to R$ 752.8 million, a difference of R$ 1.4 million (or 0.2%), the result of a combination of the following main variations: (i) recognition in 2016 of R$ 57.6 million in monetary restatement of amounts payable at the CCEE but pending due to court injunctions preventing the CCEE from applying the GSF; (ii) a decrease of R$ 56.0 million in interest and monetary restatement on debt; (iii) an increase of R$ 27.7 million in net interest on provisions and actuarial liabilities; (iv) a reduction of R$ 22.5 million in interest and monetary restatement of concession fees payable; and (v) a decrease of R$ 1.4 million of tax on financial operations.

7.3.8 Income Tax and Social Contribution on Net Income

Income Tax and Social Contribution on a full year basis decreased from R$ 531.9 million in 2015 to R$ 518.4 million in 2016: a decline of R$ 13.5 million. This variation is the result above all of higher interest on shareholders' equity credited in 2016, a variation partially attenuated by the following: (i) an increase in pre-tax profits in the period; and (ii) the end of tax breaks at the Ponte de Pedra HPP. The effective tax rates on profits in 2015 and 2016 were 26.2% and 25.1%, respectively.

7.3.9 Net Income

In 2016, net income increased from R$ 1,501.3 million in 2015 to R$ 1,548.3 million, an increase of R$ 47.0 million or 3.1%. This variation is due to the following factors: (i) growth of R$ 61.0 million in Ebitda; (ii) an increase of R$ 29.8 million in depreciation and amortization; (iii) growth in asset impairment of R$ 110.6 million; (iv) a reduction of R$ 115.7 million net financial expenses; (v) a decrease of R$ 13.5 million in Income Tax and Social Contribution; and (vi) a negative amount for the equity item of R$ 2.8 million.



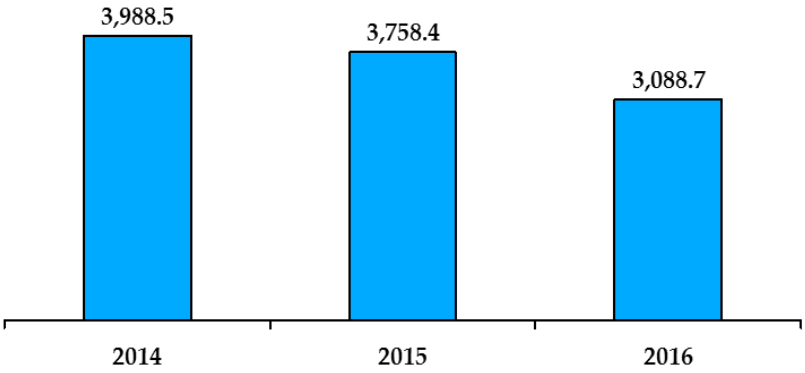
7.3.10 Debt

The Company's total gross consolidated debt as at December 31, 2016, represented mainly by loans, financing and debentures, net of hedge operations, totaled R$ 3,088.7 million, a decrease of 17.8% (R$ 669.7 million) compared to the position as at December 31, 2015.

Out of total debt at year-end 2016, there was no foreign currency denominated debt outstanding compared with 2015, when debt denominated in foreign currency was 34.2% of the total. Currency loans and their respective hedges were settled in December 2016 on due date.

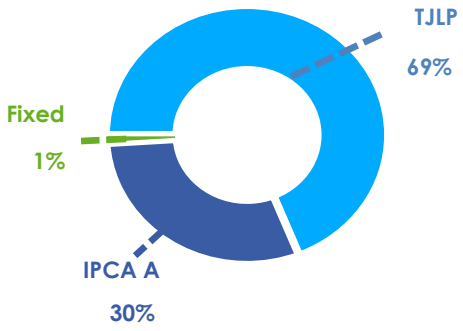
The variation in Company debt is largely related to a combination of the following factors occurring between 2015 and 2016: (i) drawdowns from the BNDES and its financial agents in the aggregate amount of R$ 35.3 million for investments in the modernization of the Salto Santiago and Passo Fundo HPPs, the Jorge Lacerda Thermoelectric Complex and for the expansion of Ferrari TPP; (ii) R$ 384.1 million in charges payable together with monetary restatement and currency translation effects; and (iii) 6th emission of non-convertible, simple debentures, in the aggregate net amount of R$ 585.8 million; (iv) R$ 1,524.2 million in amortization of loans, financing and debentures; and (v) R$ 150.7 million transfer of financing of subsidiaries and reclassified as assets held for sale.

Total debt
(R$ million)

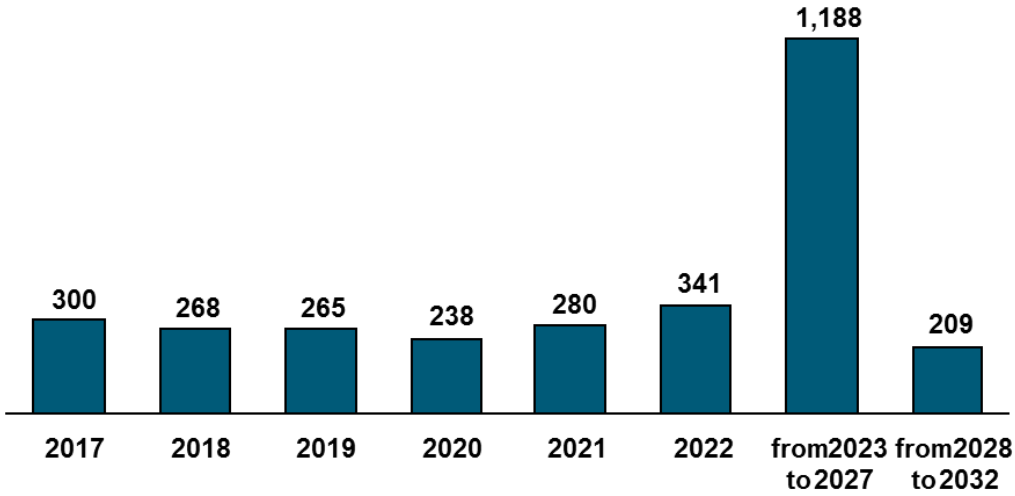


The average weighted nominal cost of debt in the end of 2016 was 10.5%.

Breakdown of debt
(as at 12.31.2015)



Loan maturity profile
(R$ million)



On December 31, 2016, the Company's net debt (total debt less derivative operations, deposits earmarked to the guarantee of debt servicing and cash and cash equivalents) was R$ 1,093.2 million, a reduction of 10.0% compared with the end of 2015.

Net debt
(R$ million)

	12/31/2014	12/31/2015	12/31/2016	Var. % 2016/ 2015
Gross debt	4,052.7	4,247.2	3,088.7	-27.3
Result of derivatives operations	(64.2)	(488.8)	0.0	-100.0
Deposits earmarked for the payment of debt	(146.0)	(146.8)	(180.2)	22.8
Cash and cash equivalents	(1,604.7)	(2,396.9)	(1,815.3)	-24.3
Total net debt	**2,237.8**	**1,214.8**	**1,093.2**	**-10.0**

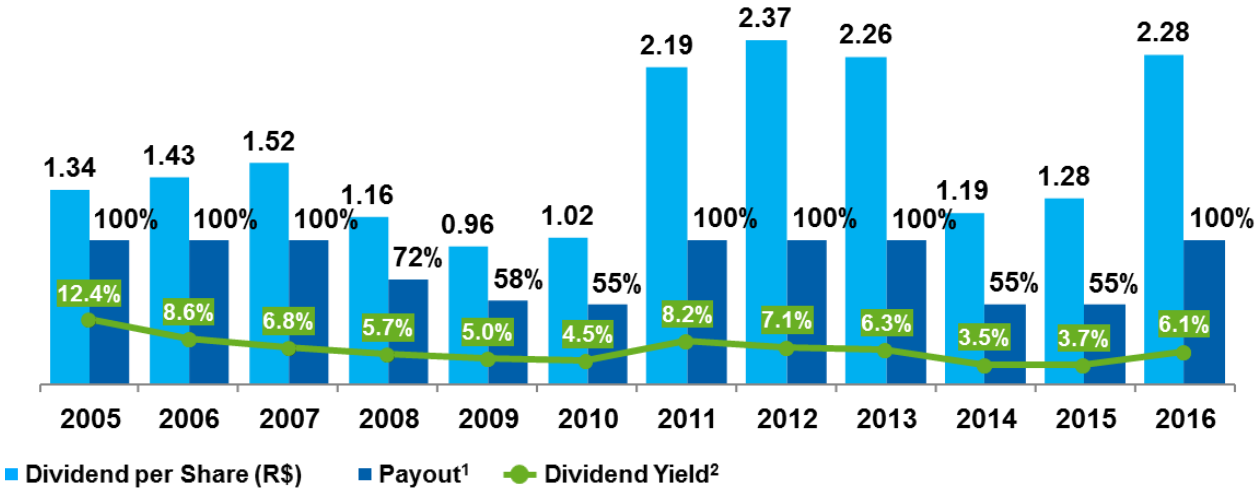
7.3.11 Capital Expenditures

In 2016, the Company invested a total of R$ 1,189.7 million in construction, maintenance and revitalization of its generating complex and in the acquisition of projects. Construction work at the Santa Mônica and Campo Largo Wind Parks, the Pampa Sul TPP and the Central Fotovoltaica Assú involved further investments of R$ 875.1 million. A further R$ 191.6 million was dedicated to investments in maintenance projects with a view to the continuation of a high plant uptime fator, this being 97.2% in 2016 as mentioned in the "Uptime" item. A total of R$ 97.8 million was invested in the modernization of Salto Santiago and Passo Fundo plants. During the year, the Company also acquired projects totaling R$ 25.2 million.

7.3.12 Proposed complemetary dividends

The total payout of earnings for the 2016 fiscal year as proposed by ENGIE Brasil Energia's Board of Directors, including interest on shareholders' equity, to be ratified by the Annual General Meeting, amounted to R$ 1,487.3 million, equivalent to R$ 2.278604 per share or 100% of net adjusted distributable income.

Track record of dividend distribution (payout)



[1] Considering adjusted net income for the fiscal year.
[2] Based on the closing price weighted for the volume of common shares in the period.

7.3.13 Capital markets

Since July 21, 2016 and in the light of the new corporate denomination, the Company's shares have been traded on the BM&FBOVESPA under the new stock exchange name of ENGIE BRASIL and EGIE3 replacing the former TBLE3 symbol. In addition to its presence in the Brazilian capital markets, Company's Level 1 American Depositary Receipts (ADRs) are traded on the United States over-the-counter market (OTC) under the EGIEY symbol at the ratio of one ADR to each common share.

The listing on the Novo Mercado – BM&FBovespa's highest level of corporate governance – enhances shareholders' rights and provides guarantees as to the quality of disclosed information in relation to the businesses. The following are the stock indices of which ENGIE Brasil Energia is a component:

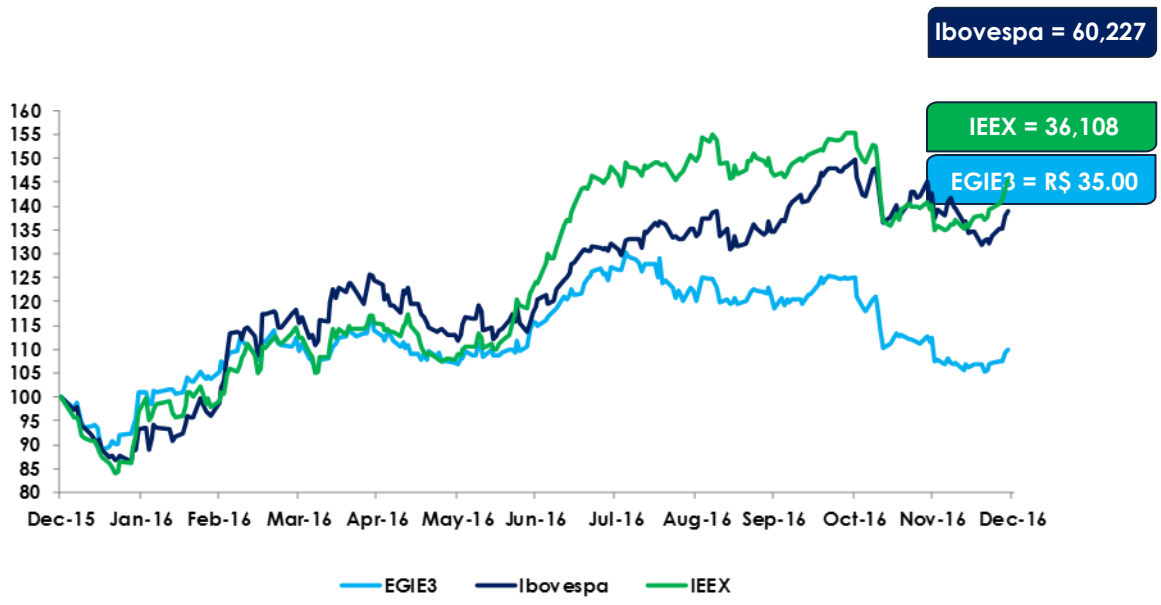
- Bovespa Stock Index (Ibovespa)
- Differentiated Corporate Governance Stock Index (IGC)
- Differentiated Tag Along Stock Index (ITAG)
- Corporate Sustainability Stock Index (ISE)
- Electric Energy Stock Index (IEE)
- Vigeo Eiris EM 70

Share performance

After three consecutive years, the Ibovespa, Brazil's benchmark stock index, reported a year-on-year appreciation of 38.9% in 2016 in spite of sharp volatility and set against the background of a tumultuous political scenario. The variation reflected essentially investor optimism in the light of the impeachment proceedings against the ex-president and the market outlook for greater political and fiscal stability. Abroad, the year was marked by the unexpected outcome to the Brexit referendum, losses in Deutsche Bank's market value, political uncertainty in countries such as France and Italy and by the election of Donald Trump in the United States.

In this scenario, ENGIE Brasil Energia's shares closed 2016 with an appreciation of 9.9% compared with 2015, less than the performance recorded for the Ibovespa and the Electric Energy Stock Index (IEEX), which reported increases in valuation of 38.9% and 45.6%, respectively. EGIE3's closing price for 2016 was R$ 35.0, equivalent to a market valuation of R$ 22.8 billion. For 2016 as a whole, the average daily trading volume was R$ 33.5 million, an increase of 20.2% in relation to 2015.

EGIE vs. Ibovespa vs. IEEX (Base 100 – 12.31.2015)



7.3.14 Ratings

The Company's risk classification rating suffered a downgrade in 2016 to 'brAA-' due to the downgrading of Brazil's sovereign rating. Fitch Ratings downgraded the Company's international foreign currency rating from BBB- to BB+ with a negative outlook.

ENGIE Brasil Energia's Long-Term National rating remained at 'AAA (bra)', with a stable outlook.

8. SOCIO-ENVIROMMENTAL MANAGEMENT

ENGIE Brasil Energia's approach to socio-environmental management incorporates a broad vision of the businesses involving the generation of value from natural, human and relationship capital. The sustainability concept is an inseparable part of the Company's strategy, reflected in the values and practices shared with the various stakeholders with which ENGIE Brasil Energia interacts.

8.1 Natural Capital

A key requisite of ENGIE Brasil Energia's operations, legal conformity requires continuous monitoring of changes in laws, norms and resolutions regulating the Company's activities. Preventive procedures are adopted to ensure that all plants in the generating complex maintain authorities and environmental licenses required by the appropriate organs fully regularized. Additionally, whenever necessary, the Company will evaluate and adjust operations and processes, which guarantee compliance with legal requirements and the voluntary commitments it has assumed.

In 2016, the operating licenses for the three plants in the Jorge Lacerda Thermoelectric Complex, the Ibitiúva Bioenergética TPP and the transmission lines serving the Trairi Wind Complex were renewed. Additionally, the Preliminary License for the Norte Catarinense TPP was issued.

Environmental programs

Among the several incentivized environmental programs implemented by the Company, of particular importance are:

- **Headwater protection:** ENGIE Brasil Energia is conducting a program for conserving headwaters in partnership with governmental and third sector organizations. In addition to protecting the natural resources, the program contributes to improving the quality of drinking water consumed by the community so helping to reduce disease due to pathogenic organisms. By December 2016, 1,358 headwater springs had been protected, 391 of these in 2016 alone, in the areas of influence of 12 of the Company's plants.
- **Environmental Parks:** ENGIE Brasil Energia supports the installation and maintenance of Conservation Units in the regions where it operates. Examples are Parque Estadual Fritz Plaumann located in Concórdia (SC) and Parque Natural Municipal Mata do Rio Uruguai Teixeira Soares in the municipality of Marcelino Ramos (RS), both in the area of influence of Itá HPP. Another example is the Parque Ambiental Encantos do Sul in Capivari de Baixo (SC).

8.2 Human capital

The objective of ENGIE Brasil Energia's Human Resources Policies is to strengthen management by results, sustained through an environment of ethical, fair and responsible work, which provides quality of life and satisfaction to the employees and ensuring the conditions for performance, development and recognition. At the end of 2016, the Company had a direct payroll of 1,044 (99 in managerial positions, 401 as analysts, engineers or specialists and 544 in operating, technical or administrative posts). A further 71 professionals were allocated among the subsidiaries: 26 at Companhia Energética Estreito, seven at Itá Energética S/A and 38 at Pampa Sul TPP. The Company also counted on a further contingent of 820 outsourced professionals.

Among the Company's principal objectives in human resource practices is to provide employees with an agreeable and productive working environment, which favors the development, safety and wellbeing of people. One of the highlights in 2016 in this respect was the Quality of Life Program, a pilot project for combating obesity. This program began with a group from the Jorge Lacerda Thermoelectric Complex, the initiative including nutritional monitoring and guidance on physical activities, among other aspects. The results of this project had a positive impact on the health and productivity of participants, encouraging the Company to extend the initiative to other units in the coming years.

ENGIE Brasil Energia conducts organizational climate surveys every two years to gauge the impact of people management programs on employee satisfaction. In the 2016 version of the survey, the favorability index among employees was 73%. In all, 78% of all employees answered the survey. Of this total:

- 95% recommended ENGIE Brasil Energia as a good place to work;
- 97% believed fully in the products and services which the Company offers;
- 96% believed that ENGIE Brasil Energia is a responsible company in relation to the environment; and
- 95% believed that the Company is socially responsible.

Based on the results of the survey, ENGIE Brasil Energia prepares specific action plans focused on the continuous improvement in policies and practices for managing the organizational climate.

The Company makes every effort to ensure the health and safety of its own and outsourced employees through specific and continuous preventive programs, which focus on both raising awareness and also managing risks. Thanks to these programs, the Company was able to report a zero accident rate in 2015. However, in 2016, despite the ongoing effort, Occupational Health and Safety (OH&S) indicators deteriorated with one fatal accident among the outsourced employees being reported.

Conscious of its responsibility, the Company has been intensifying its requirements with respect to OH&S among contracted companies. This includes in some cases economic sanctions in the event of non-compliance. Complementary to this enhanced discipline, an awareness campaign was begun for encouraging employees to register work-related incidents with the appropriate frequency and precision as a means of identifying vulnerabilities and correcting them.

Occupational Heath and Safety (OH&S) indicators	2014	2015	2016
Frequency Rate except for outsourced positions[1]	1.450	0.000	0.490
Severity Rate, except for outsourced positions[2]	0.062	0.000	0.002
Frequency Rate, including outsourced positions[1]	2.870	0.540	1.520
Severity Rate, including outsourced positions[2]	0.023	0.000	0.001

1) number of occupational accidents for every million hours of exposure to hazards
2) number of days lost due to occupational accidents for every one thousand hours of exposure to hazards

The closure of the Charqueados TPP in the state of Rio Grande do Sul is an example of the Company's respect and transparency in relation to the employees. Of the 72 professionals at the plant, five opted to rescind their contracts, 30 signed up to the Voluntary Severance Plan (PDV) proposed by the Company and 37 were approved in a selection process to work at Pampa Sul TPP - under construction in the municipal district of Candiota, also in the state of Rio Grande do Sul.

8.3 Relationship capital

Communities

The communities surrounding ENGIE Brasil Energia's head offices and plants represent agents critical to the Company's sustainability. Based on mutual respect, the relationship with this stakeholder group revolves around partnerships with local entities – such as universities, third sector organizations and class associations – in order to contribute effectively to local sustainable development.

One of the principal relationship initiatives with the communities in which the Company operates are the Sustainability and Cultural Centers. Installed with the support of ENGIE Brasil Energia since 2011, these spaces make a significant contribution to the sustainable development of small population centers.

The main objectives of these centers are to:

• encourage the appreciation and dissemination of local customs and traditions in the communities in which ENGIE Brasil Energia operates;

• stimulate young people to seek knowledge through social and digital inclusion, contributing to the creation of jobs, income and the reduction in rural depopulation;

• provide various spaces for enhancing intra-community relationships for all and any type of cultural manifestation, such as the performing arts, plastic arts, dance presentations, musical shows and cinematographic exhibitions; and

• make Sustainability and Cultural Center operations economically viable with a structured program, which both generates income and controls costs.

At the end of 2016, five centers were in operation: Centro de Cultura de Entre Rios do Sul (SC), Centro de Cultura de Alto Bela Vista (SC), Centro de Cultura e Sustentabilidade de Capivari de Baixo (SC), Centro de Cultura de Quedas do Iguaçu (PR) and Centro de Cultura de Concórdia (SC), installed in partnership with the local city government. In 2017, a futher center will be opened in Minaçu (GO).

The Company also supported the creation of REDE. This is an organization for managers of sustainability and cultural centers already in operation and in the process of installation. The aim is that through jointly promoting the exchange of good practices and the interchange of cultural activities, relations with public and private entities can be strengthened to achieve the sustainability of the enterprises. REDE's first meeting was held in September 2016 in the Sustainability and Cultural Center of Capivari de Baixo (SC).

Capacitar

The Company launched the Capacitar Program in 2016, its focus being on socio-cultural exchanges for improving the quality of life of the communities surrounding the plants. The program provides skills upgrading for leaders and community agents involving the management of projects made feasible through tax breaks granted under federal government schemes such as the Culture Incentive Law (Lei Rouanet), the Sport Incentive Law, the Infancy and Adolescence Fund, the Fund for the Elderly, the National Support Program for Oncological Care (Pronon) and the National Health Care Support Program for People with Special Needs (Pronas/PCD).

The program works along three principal axes: upgrading of skills through the distribution of printed material, onsite meetings and online courses. More information on this project can be found by accessing www.capacitar.vc. During 2016, three onsite meetings were held in Capivari de Baixo (SC), Minaçu (GO) and Florianópolis (SC).

The plant-visiting program is another important initiative for engaging local communities. In partnership with other entities, the Company operates structured programs for visits by students, researchers and tourists to the plants in the generating complex. During these visits, presentations are made on plant operations and the implementation of socio-environmental programs. Complementary to this program are the presentations made in schools and other community facilities with the focus on the same themes and an emphasis on environmental education. In 2016, a total of 92,154 people took part in the program.

During the year, the Company invested a total of R$ 26.6 million in social responsibility initiatives of which 18.9% was in the form of own resources and 81.1 %, incentivized funds as shown in the following table.

Investments in Social Responsibility (in thousands of R$)	2014	2015	2016	Var. 2016/ 2015
Non-incentivized investments	4,354.28	3,304.36	5,044.28	52.7%
Investments through the Infancy and Adolescence Fund (FIA)	1,887.43	1,709.01	2,544.27	48.9%
Investments through the Culture Incentive Law (Lei Rouanet)	9,396.10	7,465.44	10,184.72	36.4%
Investments through the Sport Incentive Law	1,319.04	1,420.00	2,565.29	80.7%
Investments through the National Support Program for Oncological Care (Pronon)	1,220.60	637.77	2,573.80	303.6%
Investments through the National Care Support Program for People with Special Needs (Pronas/PCD)		550.00	1.310.20	138.2%
Investments through the Municipal Fund for the Elderly	0.00	234.44	2,348.33	901.7%
Total	18,177.45	15,321.02	26,570.89	73.4%

8.4 Sustainability in the electricity sector

The energy sector on the global scale requires that sector entities work and plan their future actions based on the principals of sustainable development. Structural changes to energy systems characterizing the so-called energy transition have led companies and governments to direct their efforts towards making the supply of energy increasingly more comprehensive and efficient while at the same time reducing carbon emissions. The aim is to find the equilibrium between broadening the access to energy and the mitigation of climate change in order that the goal set at the Paris Climate Agreement of 2015 can be met: to contain the increase in global temperatures to a maximum of 2ºC in relation to pre-industrial levels.

In addition to the need for decarbonization, other factors have driven the evolution in energy transition such as:

- Greater access to photovoltaic panels: International Renewable Energy Agency (Irena) data shows the price of panels to have fallen by 80% in the last seven years, making solar energy generation economically viable to a greater number of consumers.
- Digitization: new technologies have seen gains in energy efficiency and automation of systems relating to generation and consumption, enhancing reliability, economy and comfort offered to consumers.
- Decentralization: the possibility of any individual or company anywhere, generating energy through the use of photovoltaic panels even when not hooked up to the grid, favors consumer autonomy.

In Brazil, to these factors can be added the historically high cost of energy to the final consumer, which further encourages interest in autonomous generation not to mention the risks associated with energy rationing due to water shortages. Under this scenario, governments, civil society and sector companies require and are required to plan and act to meet the challenges which this transition entails and which involve technological, economic and political issues.

8.5 Social Balance

1 – Calculation basis	2016 (R$ thousand)				2015 (R$ thousand)			
Net Revenues (NR)	6,442,371				6,512,037			
Operating Income (OI)	2,066,773				2,033,232			
Gross Payroll (GPR)	182,630				170,130			
Total Value Added (TVA)	4,199,756				4,121,326			
2 – Internal social indicators	**R$ thousand**	**% over GPR**	**% over NR**	**% over TVA**	**R$ thousand**	**% over GPR**	**% over NR**	**% over TVA**
Meals	16,477	9.02	0.26	0.39	17,021	10.00	0.26	0.41
Compulsory social charges	63,868	34.97	0.99	1.52	58,031	34.11	0.89	1.41
Private pension	42,331	23.18	0.66	1.01	39,304	23.10	0.60	0.95
Health	16,954	9.28	0.26	0.40	17,758	10.44	0.27	0.43
Occupational health and safety	6,078	3.33	0.09	0.14	5,741	3.37	0.09	0.14
Education	512	0.28	0.01	0.01	729	0.43	0.01	0.02
Culture	24	0.01	0.00	0.00	29	0.02	0.00	0.00
Professional training and development	5,274	2.89	0.08	0.13	3,591	2.11	0.06	0.09
Daycare or daycare assistance	178	0.10	0.00	0.00	153	0.09	0.00	0.00
Sport	500	0.27	0.01	0.01	508	0.30	0.01	0.01
Profit-sharing	44,126	24.16	0.68	1.05	43,121	25.35	0.66	1.05
Transportation	4,290	2.35	0.07	0.10	4,258	2.50	0.07	0.10
Others	1,456	0.80	0.02	0.03	1,207	0.71	0.02	0.03
Total – internal social indicators	**202,068**	**110.64**	**3.14**	**4.81**	**191,451**	**112.53**	**2.94**	**4.65**
3 – External social indicators	**R$ thousand**	**% over OI**	**% over NR**	**% over TVA**	**R$ thousand**	**% over OI**	**% over NR**	**% over TVA**
Education	120	0.01	0.00	0.00	133	0.01	0.00	0.00
Culture	13,691	0.66	0.21	0.33	8,204	0.40	0.13	0.20
Health and sanitation	3,884	0.19	0.06	0.09	1,130	0.06	0.02	0.03
Sports	2,575	0.12	0.04	0.06	1,330	0.07	0.02	0.03
Others	6,298	0.30	0.10	0.15	4,518	0.22	0.07	0.11
Total contributions to society	**26,568**	**1.29**	**0.41**	**0.63**	**15,315**	**0.75**	**0.24**	**0.37**
Taxes (excluding social charges)	1,175,089	56.86	18.24	27.98	1,218,473	59.93	18.71	29.57
Total – external social indicators	**1,201,657**	**58.14**	**18.65**	**28.61**	**1,233,788**	**60.68**	**18.95**	**29.94**
4 – Environmental indicators	**R$ thousand**	**% over OI**	**% over NR**	**% over TVA**	**R$ thousand**	**% over OI**	**% over NR**	**% over TVA**
4.1 – Investments related to the production/operation of the company								
Liabilities and environmental contingencies	10,170	0.49	0.16	0.24	11,448	0.56	0.18	0.28
Technological and industrial development program	9,959	0.48	0.15	0.24	24,151	1.19	0.37	0.59
Others	991	0.05	0.02	0.02	7,878	0.39	0.12	0.19
Total investment related to the operation/production of the company	**21,120**	**1.02**	**0.33**	**0.50**	**43,477**	**2.14**	**0.67**	**1.05**
4.2 – Investment in external programs and/or projects								
Environmental education projects in communities	934	0.05	0.01	0.02	1,106	0.05	0.02	0.03
Preservation and/or revitalization of degraded environments	4,254	0.21	0.07	0.10	4,848	0.24	0.07	0.12
Others	5,467	0.26	0.08	0.13	1,377	0.07	0.02	0.03
Total investments in external programs and/or projects	**10,655**	**0.52**	**0.17**	**0.25**	**7,331**	**0.36**	**0.11**	**0.18**
Total environmental investment (4.1 + 4.2)	**31,775**	**1.54**	**0.49**	**0.76**	**50,808**	**2.50**	**0.78**	**1.23**
Distribution of environmental investment	**R$ thousand**		**% over total**		**R$ thousand**		**% over total**	
Total investment in environmental prevention activities	8,823		27.77		23,315		45.89	
Total investment in environmental maintenance activitie	20,745		65.29		24,638		48.49	
Total investment in environmental compensation activit	2,207		6.95		2,855		5.62	
Number of environmental, administrative and legal claims filed against the company:	21				24			
Total fines and indemnifications judicially or administratively determined for environmental matters:	36.00				-			
With regard to the establishment of annual goals for the minimizing of residues, the general consumption in production/operations to increase efficiency in the use of natural resources, the company:	( ) Does not have goals				( ) Does not have goals			
	( ) Fulfilled 51% to 75%				( ) Fulfilled 51% to 75%			
	(X) Fulfilled 0% to 50%				(X) Fulfilled 0% to 50%			
	( ) Fulfilled 76% to 100%				( ) Fulfilled 76% to 100%			

5 – Workforce indicators	2016 (in units)	2015 (in units)
Number of employees at the end of the period	1044	1135
Number of new hires in the period	83	48
Number of dismissals in the period	174	45
Number of outsourced employees	820	1023
Number of interns	81	67
Number of employees over 45	323	439
Number of employees by age group:		
Under 18	2	2
From 18 to 35	459	468
From 36 to 45	260	226
From 46 to 60	315	419
Over 60	8	20
Number of employees by education level:		
Illiterate	0	0
Elementary education	4	5
High school education	565	640
Higher education	294	336
Postgraduate	181	154
Number and percentage of women working at the Company	173 (16,54%)	179 (15,8%)
Percentage of management positions held by women	8.6%	9.5%
Number and percentage of men working at the Company	871 (83,46%)	956 (84,2%)
Percentage of management positions held by men	10.1%	10.7%
Number of blacks working at the company	n/d	n/d
Percentage of management positions held by blacks	n/d	n/d
Number of handicapped or special-needs employees	35	35
Difference between the lowest salary paid in the company and the minimum wage (national or regional)	1	1
Difference between the lowest salary paid in the company and the minimum wage	1	1
6 – Relevant corporate citizenship information	**2016**	**2015**
Ratio of highest to lowest salary at the company	20.4	20.4
Total on-the-job accidents	ENGIE: 1 Service provider: 7	ENGIE: 0 Service provider: 3
The social and environmental projects implemented by the company were decided upon by:	( ) Directors	( ) Directors
	( ) Directors and management	( ) Directors and management
	(X) All staff	(X) All staff
The risk and security standards in the workplace were decided upon by:	( ) Directors and management	( ) Directors and management
	( ) All staff	( ) All staff
	(X) All staff + CIPA	(X) All staff + CIPA
With regard to labor unions, right for collective bargaining and internal representation of workers, the company:	( ) Does not get involved	( ) Does not get involved
	(X) Follows ILO rules	(X) Follows ILO rules
	( ) Encourages and follows ILO	( ) Encourages and follows ILO
Private pension arrangements contemplate:	( ) Directors	( ) Directors
	( ) Directors and management	( ) Directors and management
	(X) All staff	(X) All staff
Profit-sharing contemplates:	( ) Directors	( ) Directors
	( ) Directors and management	( ) Directors and management
	(X) All staff	(X) All staff
Regarding the selection of suppliers, the same ethical and social and environmental responsibility standards adopted by the company:	( ) Are not considered	( ) Are not considered
	( ) Are suggested	( ) Are suggested
	(X) Are required	(X) Are required
Regarding the participation of employees in volunteer activities, the company:	( ) Does not get involved	( ) Does not get involved
	(X) Supports	(X) Supports
	( ) Organizes and encourages	( ) Organizes and encourages
Total number of consumer complaints and criticism:	To the company: 0	To the company: 0
	To Procon: N.A.	To Procon: N.A.
	To the Courts: 0	To the Courts: 0
Number of labor suits filed:		
Brought against the Company	461	58
Found to have grounds	9	15
Found to be without grounds	30	37
Total amount of indemnifications and fines paid by court order:	1,187.60	2,165.60

Distribution of Value Added:	R$ thousand	% over total	R$ thousand	% over total
Government	1,814,508	43.2	1,858,723	45.1
Employees	297,492	7.1	292,274	7.1
Shareholders	1,453,940	34.6	835,687	20.3
Third Parties	539,455	12.8	469,026	11.4
Retained	94,361	2.3	665,616	16.2
7 – Other information	**2016**		**2015**	
Water consumption	7.367.730,60 m3		7.677.604,90 m3	
Electric energy consumption	150,7 GWh		182,4 GWh	
Annual amount of waste produced	1.354.407,90 ton		1.870.226,20 ton	
Annual amount of waste recycled	1.352.785,90 ton		1.868.481,30 ton	

9. ADDITIONAL INFORMATION

Sustainability Report

Complementary information and details on the Company's socio-environmental activities as well as issues relating to the creation of value for stakeholders will be included in ENGIE Brasil Energia's Sustainability Report, to be published at the end of April 2017.

Exploitation of children, forced and compulsory labor, and anti-discrimination policy

ENGIE Brasil Energia does not permit, under any circumstances, the exploitation of children, or forced or compulsory labor, and reserves the right not to contract the services of, or have a commercial relationship with, entities that adopt such practices. The Company is committed to informing the responsible authorities of any such cases of which it may become cognizant.

Respect is one of ENGIE Brasil Energia's main ethical principles. On the issue of human rights, the Company is alert to sensitive situations that may compromise the performance of its activities, such as its relationship with resettled members of the community.

Also in this context, every one of ENGIE Brasil Energia's employees must ensure that he or she does not practice any discrimination, in words or deeds, particularly with respect to age, gender, ethnic, social or cultural origins, political or labor union-related opinions, personal lifestyle choices, particularities or physical disabilities.

All these principles and the conduct expected from the Company's employees, suppliers and partners are available in ENGIE Brasil Energia's Human Rights Policy and Code of Ethics, made widely available to all stakeholders on its website.

Volunteer practices

The Company sponsors Junior Achievement and the Volunteers in Action Institute.

Identification of persons with managerial charge for information on the Company's socially responsible activities and form of contact

The secretary of the Sustainability Committee has managerial charge of information on the Company's socially responsible activities, and can be contacted by email: comite_de_sustentabilidade@engie.com.

Independent Auditors

In accordance with Article 2 of CVM Instruction No. 381/03, ENGIE Brasil Energia states that in 2016 KPMG Auditores Independentes, the independent auditors of the Company and its subsidiaries, did not provide any services that were not related to the independent audit.

Statement from the Management Board

The Management Board states that in compliance with Article 25, Paragraph 1, items V and VI of CVM Instruction 480/2009, it has reviewed, discussed and agreed with the Financial Statements contained in this Report, and the opinions expressed in the Independent Auditor's report.

The Management

ENGIE BRASIL ENERGIA S.A.

CNPJ Nº 02.474.103/0001-19 | NIRE Nº 42 3 0002438-4

BALANCE SHEETS AT DECEMBER 31, 2016 AND 2015

(In thousands of Brazilian reais)

ASSETS

	Note	Parent Company		Consolidated	
		12.31.2016	12.31.2015	12.31.2016	12.31.2015
CURRENT ASSETS					
Cash and cash equivalents	4	1,175,259	1,739,008	1,815,340	2,396,854
Trade accounts receivable	5	505,348	441,588	824,079	773,602
Dividends receivable from subsidiaries	33	167,202	208,777	-	-
Inventories	6	102,085	86,100	105,541	88,888
Tax credits	7	10,457	6,095	14,589	46,385
Fuel reimbursable	8	49,472	144,249	49,472	144,249
Restricted deposits	9	2,485	2,293	8,760	8,426
Unrealized gains from hedge operations	20	-	488,802	1,490	778,227
Hydrological risk renegotiation to be accrued	10	23,991	23,991	26,064	26,064
Other current assets		57,534	53,493	90,153	82,237
		2,093,833	**3,194,396**	**2,935,488**	**4,344,932**
Non-current assets held for sale	11	10,922	86,886	419,603	86,886
		2,104,755	**3,281,282**	**3,355,091**	**4,431,818**
NON-CURRENT ASSETS					
Long Term Assets					
Tax credits	7	35,894	34,457	37,991	46,763
Restricted deposits	9	8,500	10,160	185,768	158,139
Judicial deposits	12	148,390	130,020	149,730	132,480
Unrealized gains from hedge operations	20	-	-	1,965	130,240
Hydrological risk renegotiation to be accrued	10	139,398	163,388	171,015	197,079
Other non-current assets		12,208	12,175	65,833	51,994
		344,390	**350,200**	**612,302**	**716,695**
Investments	13	**4,442,140**	**3,719,135**	**4,886**	**-**
Property, plant and equipment	14	**5,276,572**	**5,464,264**	**10,194,898**	**9,897,550**
Intangible assets	15	**20,838**	**17,262**	**252,514**	**243,323**
		10,083,940	**9,550,861**	**11,064,600**	**10,857,568**
TOTAL		**12,188,695**	**12,832,143**	**14,419,691**	**15,289,386**

The notes are an integral part of the financial statements.

ENGIE BRASIL ENERGIA S.A.

CNPJ Nº 02.474.103/0001-19 | NIRE Nº 42 3 0002438-4

BALANCE SHEETS AT DECEMBER 31, 2016 AND 2015

(In thousands of Brazilian reais)

LIABILITIES AND SHAREHOLDERS' EQUITY

	Note	Parent Company		Consolidated	
		12.31.2016	12.31.2015	12.31.2016	12.31.2015
CURRENT LIABILITIES					
Suppliers	16	211,777	372,502	371,149	573,573
Dividends and interest on equity	28	371,478	269,470	372,040	271,021
Loans and financing	17	137,759	1,553,004	283,196	1,712,490
Debentures	18	16,547	489	16,547	489
Concessions payable	19	59,907	55,388	65,408	60,572
Income and social contribution taxes payable	21	54,210	1,570	81,023	17,799
Other tax and regulatory liabilities	22	61,370	67,996	88,632	97,665
Labor obligations	23	90,655	106,579	94,753	108,016
Provisions	24	34,020	24,761	35,001	25,727
Retirement benefits obligations	25	27,219	22,189	27,219	22,189
Other current liabilities		117,540	30,944	206,330	87,836
		1,182,482	**2,504,892**	**1,641,298**	**2,977,377**
Liabilities related to non-current assets held for sale	11	-	-	159,496	-
		1,182,482	**2,504,892**	**1,800,794**	**2,977,377**
NON-CURRENT LIABILITIES					
Loans and financing	17	578,234	664,522	2,001,081	2,353,268
Debentures	18	787,908	180,947	787,908	180,947
Concessions payable	19	2,235,059	1,965,193	2,281,968	2,009,980
Provisions	24	287,382	243,414	292,106	246,873
Retirement benefits obligations	25	272,248	255,552	272,248	255,552
Deferred income and social contribution taxes	26	214,112	369,210	311,331	558,826
Other non-current liabilities		20,043	8,541	57,861	64,427
		4,394,986	**3,687,379**	**6,004,503**	**5,669,873**
SHAREHOLDERS' EQUITY	27				
Capital		2,829,056	2,445,766	2,829,056	2,445,766
Capital reserves		-	91,695	-	91,695
Profit reserves		2,926,369	2,833,116	2,926,369	2,833,116
Capital increase and proposed additional dividends		409,644	499,986	409,644	499,986
Valuation adjustments		446,158	769,309	446,158	769,309
		6,611,227	**6,639,872**	**6,611,227**	**6,639,872**
Non-controlling interest		-	-	3,167	2,264
		6,611,227	**6,639,872**	**6,614,394**	**6,642,136**
TOTAL		**12,188,695**	**12,832,143**	**14,419,691**	**15,289,386**

The notes are an integral part of the financial statements.

ENGIE BRASIL ENERGIA S.A.

CNPJ Nº 02.474.103/0001-19 | NIRE Nº 42 3 0002438-4

INCOME STATEMENT FOR THE FISCAL YEARS ENDED DECEMBER 31, 2016 AND 2015

(In thousands of Brazilian reais, except when stated otherwise)

	Note	Parent Company		Consolidated	
		12.31.2016	12.31.2015	12.31.2016	12.31.2015
NET SALES REVENUE	29	**4,260,985**	**4,049,469**	**6,442,371**	**6,512,037**
Cost of energy sold and services rendered					
Electricity purchased for resale		(474,330)	(428,242)	(1,643,327)	(1,782,558)
Transactions in the short-term energy market		(143,242)	(16,450)	(182,416)	(66,885)
Charges for the use of and connection to the power grid		(326,668)	(298,641)	(397,402)	(363,127)
Cost of electricity production	30	(1,125,154)	(1,239,503)	(1,447,973)	(1,562,116)
Cost of services rendered	30	(30,304)	(28,396)	(30,339)	(28,409)
		(2,099,698)	**(2,011,232)**	**(3,701,457)**	**(3,803,095)**
GROSS PROFIT		**2,161,287**	**2,038,237**	**2,740,914**	**2,708,942**
Other operating income (expenses)					
Selling expenses	30	(9,724)	(9,962)	(17,246)	(17,461)
General and administrative expenses	30	(180,170)	(177,724)	(185,248)	(182,757)
Provision for asset impairment	11/14	(106,226)	(10,298)	(120,869)	(10,298)
Other operating income, net		6,811	5,143	6,898	5,404
		(289,309)	**(192,841)**	**(316,465)**	**(205,112)**
Equity income (loss)					
Equity	13	397,622	416,049	(2,832)	-
Amortization of goodwill	13	(3,341)	(3,341)	-	-
		394,281	**412,708**	**(2,832)**	**-**
INCOME BEFORE FINANCIAL INCOME (LOSS) AND TAXES		**2,266,259**	**2,258,104**	**2,421,617**	**2,503,830**
Financial result					
Financial income	31	287,252	211,719	397,921	280,830
Financial expenses	31	(660,080)	(609,771)	(752,765)	(751,428)
		(372,828)	**(398,052)**	**(354,844)**	**(470,598)**
INCOME BEFORE INCOME TAXES		**1,893,431**	**1,860,052**	**2,066,773**	**2,033,232**
Income and social contribution taxes					
Current	32	(498,759)	(175,107)	(636,385)	(324,986)
Deferred	32	152,631	(184,553)	117,913	(206,943)
NET INCOME FOR THE YEAR		**1,547,303**	**1,500,392**	**1,548,301**	**1,501,303**
NET INCOME ATTRIBUTABLE TO:					
Shareholders of ENGIE Brasil Energia		**1,547,303**	**1,500,392**	**1,547,303**	**1,500,392**
Non-controlling shareholder		**-**	**-**	**998**	**911**
		1,547,303	**1,500,392**	**1,548,301**	**1,501,303**
BASIC AND DILUTED EARNINGS PER SHARE – IN BRAZILIAN REAL		**2.3705**	**2.2986**	**2.3720**	**2.3000**

The notes are an integral part of the financial statements.

ENGIE BRASIL ENERGIA S.A.

CNPJ Nº 02.474.103/0001-19 | NIRE Nº 42 3 0002438-4

COMPREHENSIVE INCOME STATEMENT FOR THE FISCAL YEARS ENDED DECEMBER 31, 2016 AND 2015

(In thousands of Brazilian reais)

	Note	Parent Company		Consolidated	
		12.31.2016	12.31.2015	12.31.2016	12.31.2015
NET INCOME FOR THE YEAR		**1,547,303**	**1,500,392**	**1,548,301**	**1,501,303**
Other comprehensive income that in the future:					
- Will not be reclassified as profit or loss					
Remeasurement of Retirement benefits obligations	25	(7,255)	21,013	(7,255)	21,013
Deferred income and social contribution taxes		2,467	(7,145)	2,467	(7,145)
		(4,788)	**13,868**	**(4,788)**	**13,868**
- Will be reclassified as profit or loss					
Cash flow hedge					
Unrealized gains (losses) generated in the fiscal year		-	-	(437,494)	391,332
Deferred income and social contribution taxes		-	-	148,748	(133,054)
Unrealized gains in the year		-	-	4,782	13,647
Equity income (loss) of the effects above		(283,964)	271,925	-	-
	20	**(283,964)**	**271,925**	**(283,964)**	**271,925**
COMPREHENSIVE INCOME FOR THE YEAR		**1,258,551**	**1,786,185**	**1,259,549**	**1,787,096**
INCOME ATTRIBUTABLE TO:					
Shareholders of ENGIE Brasil Energia		**1,258,551**	**1,786,185**	**1,258,551**	**1,786,185**
Non-controlling shareholder		**-**	**-**	**998**	**911**
		1,258,551	**1,786,185**	**1,259,549**	**1,787,096**

The notes are an integral part of the financial statements.

ENGIE BRASIL ENERGIA S.A.

CNPJ Nº 02.474.103/0001-19 | NIRE Nº 42 3 0002438-4

CHANGES IN SHAREHOLDERS' EQUITY STATEMENT FOR THE FISCAL YEARS ENDED DECEMBER 31, 2016 AND 2015

(In thousands of Brazilian reais)

				Profit reserves					Valuation adjustments				
	Note	Capital	Capital reserves	Legal Reserve	Tax incentive reserve	Retained Earnings Reserve	Capital increase and proposed additional dividends	Retained earnings	Attributed cost	Other comprehensive income	Parent Company Shareholders' Equity	Non-controlling interest	Consolidated Shareholders' Equity
Balances at 12.31.2014		**2,445,766**	**91,695**	**489,153**	**73,973**	**1,854,587**	**172,081**	**-**	**488,660**	**35,130**	**5,651,045**	**3,904**	**5,654,949**
Additional dividends paid from 2014		-	-	-	-	-	(172,081)	-	-	-	**(172,081)**	-	**(172,081)**
Net income for the year		-	-	-	-	-	-	1,500,392	-	-	**1,500,392**	911	**1,501,303**
Measurement of retirement benefits obligations	25	-	-	-	-	-	-	-	-	13,868	**13,868**	-	**13,868**
Cash flow hedge at subsidiaries	20	-	-	-	-	-	-	-	-	271,925	**271,925**	-	**271,925**
Realization of attributed cost		-	-	-	-	-	-	40,274	(40,274)	-	**-**	-	**-**
Allocations proposed to ASM:													
- Tax incentive reserve	27	-	-	-	22,891	-	-	(22,891)	-	-	**-**	-	**-**
- Interim dividends paid	28	-	-	-	-	-	-	(311,277)	-	-	**(311,277)**	(2,551)	**(313,828)**
- Interest on equity paid	28	-	-	-	-	-	-	(314,000)	-	-	**(314,000)**	-	**(314,000)**
- Capital increase proposed	27	-	-	-	-	-	290,487	(290,487)	-	-	**-**	-	**-**
- Additional dividends proposed	28	-	-	-	-	-	209,499	(209,499)	-	-	**-**	-	**-**
- Retained earnings reserve	28	-	-	-	-	392,512	-	(392,512)	-	-	**-**	-	**-**
Balances at 12.31.2015		**2,445,766**	**91,695**	**489,153**	**96,864**	**2,247,099**	**499,986**	**-**	**448,386**	**320,923**	**6,639,872**	**2,264**	**6,642,136**
Additional dividends paid from 2015		-	-	-	-	-	(209,499)	-	-	-	**(209,499)**	-	**(209,499)**
Capital increase	27	383,290	(91,695)	-	(1,108)	-	(290,487)	-	-	-	**-**	-	**-**
Net income for the year		-	-	-	-	-	-	1,547,303	-	-	**1,547,303**	998	**1,548,301**
Measurement of retirement benefits obligations	25	-	-	-	-	-	-	-	-	(4,788)	**(4,788)**	-	**(4,788)**
Cash flow hedge at subsidiaries	20	-	-	-	-	-	-	-	-	(283,964)	**(283,964)**	-	**(283,964)**
Realization of attributed cost		-	-	-	-	-	-	34,399	(34,399)	-	**-**	-	**-**
Allocations proposed to ASM:													
- Legal reserve	27	-	-	76,658	-	-	-	(76,658)	-	-	**-**	-	**-**
- Tax incentive reserve	27	-	-	-	17,703	-	-	(17,703)	-	-	**-**	-	**-**
- Interim dividends paid	28	-	-	-	-	-	-	(645,197)	-	-	**(645,197)**	(95)	**(645,292)**
- Interest on equity paid	28	-	-	-	-	-	-	(432,500)	-	-	**(432,500)**	-	**(432,500)**
- Additional dividends proposed	28	-	-	-	-	-	409,644	(409,644)	-	-	**-**	-	**-**
Balances at 12.31.2016		**2,829,056**	**-**	**565,811**	**113,459**	**2,247,099**	**409,644**	**-**	**413,987**	**32,171**	**6,611,227**	**3,167**	**6,614,394**

The notes are an integral part of the financial statements.

ENGIE BRASIL ENERGIA S.A.

CNPJ Nº 02.474.103/0001-19 | NIRE Nº 42 3 0002438-4

CASH FLOW STATEMENT (INDIRECT METHOD) FOR THE FISCAL YEARS ENDED DECEMBER 31, 2016 AND 2015

(In thousands of Brazilian reais)

	Parent Company		Consolidated	
	12.31.2016	12.31.2015	12.31.2016	12.31.2015
Cash flow from operating activities				
Income before income taxes	1,893,431	1,860,052	2,066,773	2,033,232
Adjustments to reconcile income before income taxes to cash generated by operations:				
Equity income (loss)	(394,281)	(412,708)	2,832	-
Depreciation and amortization	420,209	393,360	630,246	600,425
Provision for asset impairment	106,226	10,298	120,869	10,298
Monetary and foreign exchange variance	149,348	204,566	172,971	218,323
Interest	432,184	362,227	473,894	471,241
Accrual of operating provisions, net	24,874	54,677	25,474	54,193
Other	2,322	11,991	2,798	12,139
Adjusted net income	**2,634,313**	**2,484,463**	**3,495,857**	**3,399,851**
(Increase) decrease in assets				
Trade accounts receivable	(39,873)	29,467	(44,149)	(54,660)
Inventories	(22,179)	(19,004)	(22,906)	(18,629)
Tax credits	(104,805)	(52,447)	(96,776)	(33,782)
Fuel reimbursable	94,777	198,972	94,777	198,972
Insurance premium receivable	-	208,808	-	208,808
Restricted and judicial deposits	(2,137)	51,547	(2,855)	45,203
Hydrological risk renegotiation to be accrued	23,990	(187,379)	26,064	(223,143)
Other assets	42,723	(3,710)	37,599	(13,820)
(Decrease) increase in liabilities				
Suppliers	(201,768)	(167,181)	(231,649)	(133,462)
Income and social contribution taxes payable	4,014	-	(1,010)	(1,323)
Other tax and regulatory liabilities	(15,491)	35,507	(19,845)	39,431
Retirement benefits obligations	(21,349)	(11,980)	(21,349)	(11,980)
Other liabilities	74,630	(34)	85,247	1,191
Cash generated from operations	**2,466,845**	**2,567,029**	**3,299,005**	**3,402,657**
Payment of income and social contribution taxes	(365,573)	(338,674)	(457,616)	(477,035)
Payment of interest on debt, net of hedge	(171,002)	(197,216)	(316,595)	(347,010)
Net cash generated from operating activities	**1,930,270**	**2,031,139**	**2,524,794**	**2,578,612**

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Continued

	Parent Company		Consolidated	
	12.31.2016	12.31.2015	12.31.2016	12.31.2015
Investment activities				
Dividends received from subsidiaries	329,249	71,937	-	-
Capital increase at subsidiaries and joint ventures	(896,503)	(476,325)	(3,859)	-
Investment acquisition, net of cash and cash equivalents from acquired companies	(3,859)	-	(23,631)	(26,200)
Investment in property, plant and equipment	(254,636)	(270,255)	(1,166,583)	(723,996)
Investment in intangible assets	(8,266)	(11,698)	(9,000)	(28,735)
Cash and equivalents from subsidiaries transferred to held-for-sale assets	-	-	(69,040)	-
Net cash from investment activities	**(834,015)**	**(686,341)**	**(1,272,113)**	**(778,931)**
Financing activities				
Loans and financing	621,123	93,113	621,123	137,995
Interest on loans, financing, debentures paid	(1,055,201)	(263,017)	(1,209,544)	(413,681)
Concession installments paid	(58,809)	(53,852)	(64,491)	(59,006)
Deposits used to service debt	(4,189)	33,408	(23,689)	16,425
Payment of dividends and interest on equity	(1,162,928)	(702,906)	(1,164,012)	(704,335)
Others	-	-	6,418	15,044
Net cash from financing activities	**(1,660,004)**	**(893,254)**	**(1,834,195)**	**(1,007,558)**
(Decrease) increase in cash and cash equivalents	**(563,749)**	**451,544**	**(581,514)**	**792,123**
Reconciliation of cash and cash equivalents				
Opening balance	1,739,008	1,287,464	2,396,854	1,604,731
Closing balance	1,175,259	1,739,008	1,815,340	2,396,854
(Decrease) increase in cash and cash equivalents	**(563,749)**	**451,544**	**(581,514)**	**792,123**

Additional information on transactions not affecting cash and cash equivalents is presented in Note 36 - Additional information to the cash flow

The notes are an integral part of the financial statements.

ENGIE BRASIL ENERGIA S.A.

CNPJ Nº 02.474.103/0001-19 | NIRE Nº 42 3 0002438-4

ADDED-VALUE STATEMENT FOR THE FISCAL YEARS ENDED DECEMBER 31, 2016 AND 2015

(In thousands of Brazilian reais)

	Parent Company		Consolidated	
	12.31.2016	12.31.2015	12.31.2016	12.31.2015
GENERATION OF ADDED VALUE				
Gross sales revenue	4,727,929	4,518,289	7,127,466	7,229,293
Revenue from construction of plants	-	-	1,022,182	509,577
Other	23,635	39,220	23,722	39,481
	4,751,564	**4,557,509**	**8,173,370**	**7,778,351**
(-) Inputs				
Electricity purchased for resale	(474,330)	(428,242)	(1,643,327)	(1,782,558)
Transactions in the short-term energy market	(143,242)	(16,450)	(182,416)	(66,885)
Charges for the use of and connection to the power grid	(326,668)	(298,641)	(397,402)	(363,127)
Fuels used in energy production	(131,005)	(230,716)	(141,000)	(249,984)
Materials and services	(164,261)	(197,683)	(228,679)	(255,943)
Insurance	(24,903)	(20,951)	(31,153)	(26,520)
Accrual of operating provisions, net	(24,874)	(54,677)	(25,474)	(54,193)
Expenses with construction of plants	-	-	(925,449)	(475,846)
Provision for asset impairment	(106,226)	(10,298)	(120,869)	(10,298)
Other	(38,447)	(48,166)	(42,688)	(52,076)
	(1,433,956)	**(1,305,824)**	**(3,738,457)**	**(3,337,430)**
GROSS ADDED VALUE	**3,317,608**	**3,251,685**	**4,434,913**	**4,440,921**
Depreciation and amortization	(420,209)	(393,360)	(630,246)	(600,425)
NET ADDED VALUE GENERATED	**2,897,399**	**2,858,325**	**3,804,667**	**3,840,496**
ADDED VALUE RECEIVED IN TRANSFER				
Financial income	287,252	211,719	397,921	280,830
Equity income (loss)	394,281	412,708	(2,832)	-
ADDED VALUE TO DISTRIBUTE	**3,578,932**	**3,482,752**	**4,199,756**	**4,121,326**

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Continued

DISTRIBUTION OF ADDED VALUE

	Parent Company				Consolidated			
	12.31.2016	%	12.31.2015	%	12.31.2016	%	12.31.2015	%
Remuneration:								
Labor								
Remuneration and charges	186,563	5.2	183,915	5.3	189,851	4.5	187,929	4.6
Benefits	61,703	1.7	61,012	1.8	62,321	1.5	61,766	1.5
Profit sharing	31,712	0.9	29,337	0.8	31,907	0.8	29,555	0.7
FGTS	13,149	0.4	12,433	0.4	13,413	0.3	13,024	0.3
	293,127	**8.2**	**286,697**	**8.3**	**297,492**	**7.1**	**292,274**	**7.1**
Government								
Federal taxes	821,690	22.9	815,367	23.3	1,209,936	28.8	1,233,268	29.9
State taxes	16,476	0.5	27,555	0.8	16,708	0.4	27,751	0.7
Municipal taxes	3,010	0.1	2,322	0.1	3,238	0.1	2,510	0.1
Sectorial charges	211,558	5.9	198,396	5.7	243,311	5.8	231,408	5.6
Charges on concessions payable	333,194	9.3	354,328	10.1	341,315	8.1	363,786	8.8
	1,385,928	**38.7**	**1,397,968**	**40.0**	**1,814,508**	**43.2**	**1,858,723**	**45.1**
Third-party capital								
Interest and monetary variation	320,979	9.0	246,063	7.1	398,913	9.4	369,663	9.0
Capitalized financial interest and monetary variation	16,824	0.4	34,077	1.0	113,557	2.7	67,808	1.6
Rentals	9,237	0.3	9,218	0.3	14,956	0.4	14,643	0.4
Other financial expenses	5,534	0.2	8,337	0.2	12,029	0.3	16,912	0.4
	352,574	**9.9**	**297,695**	**8.6**	**539,455**	**12.8**	**469,026**	**11.4**
Own capital								
Tax incentive reserve	17,703	0.5	22,891	0.7	17,703	0.4	22,891	0.6
Proposed capital increase	-	-	290,487	8.3	-	-	290,487	7.0
Profit reserve	76,658	2.1	392,512	11.3	76,658	1.8	392,512	9.5
Realization of attributed cost	(34,399)	(1.0)	(40,274)	(1.2)	(34,399)	(0.8)	(40,274)	(1.0)
Interest on equity	432,500	12.1	314,000	9.0	432,500	10.3	314,000	7.6
Dividends	1,054,841	29.5	520,776	15.0	1,054,841	25.1	520,776	12.6
Non-controlling shareholder	-	-	-	-	998	-	911	-
	1,547,303	**43.2**	**1,500,392**	**43.1**	**1,548,301**	**36.9**	**1,501,303**	**36.4**
	3,578,932	**100.0**	**3,482,752**	**100.0**	**4,199,756**	**100.0**	**4,121,326**	**100.0**

The notes are an integral part of the financial statements.

NOTE 1 – OPERATIONS

ENGIE Brasil Energia S.A. ("Company" or "ENGIE Brasil Energia" or "EBE"), formerly Tractebel Energia S.A., is an independent utility concessionaire and a publicly held corporation with its registered headquarters in the municipality of Florianópolis, Santa Catarina state, Brazil. The core business and main operating activity of the Company and its subsidiaries is the generation and sale of electrical energy, regulated by the Brazilian Electricity Regulatory Agency (Aneel), which is linked to the Ministry of Mines and Energy (MME).

The shares of the Company are listed in the New Market segment of BM&FBOVESPA under the ticker EGIE3. ENGIE Brasil Energia also trades Level 1 American Depositary Receipts (ADR) in the U.S. Over-the-Counter market under the ticker EGIEY, in the proportion of one ADR for each common share.

The Company is controlled by ENGIE Brasil Participações Ltda. ("ENGIE Participações"), formerly GFD SUEZ Energy Latin America Ltda., a company established in Brazil and controlled by International Power S.A., headquartered in Belgium. International Power is a subsidiary of International Power Ltd., a company headquartered in the United Kingdom, which is part of the economic group ENGIE group, headquartered in France.

The ENGIE group is the largest private energy generator in Brazil's electric power industry, accounting for approximately 6.2%[4] of the country's installed capacity. At 12.31.2016, its installed capacity, including its stakes in energy generation consortiums, is 6,999.3 MW. Out of this total, 79.4% arises from hydroelectric power plants, 15.0% from thermoelectric power plants and 5.6% from complementary energy (Small Hydroelectric Power Plants – SHPP, wind farms, biomass and solar power plants). At 12.31.2016, assured energy for sale averaged 3,864.6 MW.

The Company's generation facilities in operation consist of twenty-nine plants, of which nine hydroelectric power plants, seven thermoelectric power plants (three coal, three biomass and one natural gas plant), three SHPP, nine wind farms and one photovoltaic solar power plant.

The main corporate and operational events occurred in 2016 are summarized as follows:

a) Capital increase

On 02.23.2016, 05.05.2016 and 10.27.2016, the Board of Directors of ENGIE Brasil Energia approved the proposals to increase the Company's capital stock in the amounts of R$ 290,487, R$ 1,108 and R$ 91,695, respectively, without the issue of new shares, increasing the capital stock from R$ 2,445,766 to R$ 2,829,056. For more information, see Note 27 – Shareholders' Equity.

[4] The non-financial information herein, such as MW, average MW, installed power and others has not been audited by the independent auditors.

b) Payment of interest on equity for fiscal year 2015

Interest on equity for fiscal year 2015 was paid on 2.24.2016. The gross amount credited was R$ 314,000, corresponding to R$ 0.4810475006 per share.

c) Acquisition of interest in joint venture

On 4.19.2016, the Company concluded the acquisition of 50% of the capital of ENGIE Geração Solar Distribuída S.A. ("ENGIE Solar") through capital subscription. ENGIE Solar operates in the distributed solar power generation market, which involves the decentralized generation of solar power by households and buildings. For more information, see Note 13 – Investments.

d) **Plan for shutdown, deactivation and demobilization of the Charqueadas Thermal Power Plant**

On 5.5.2016, the Board of Directors of the Company approved the shutdown, deactivation and demobilization plan of the assets of the Charqueadas Thermal Power Plant. The execution of the plan began on 8.31.2016, mainly at the end of the useful life of the plant's equipment and the effects arising from the new energy efficiency parameters established by Aneel as of 2016. With an installed capacity of 72 MW, the plant operated for 54 years and, due to the deactivation plan, its commercial operation was terminated in November 2016.

e) Payment of additional dividends for fiscal year 2015

On 5.25.2015, the Company paid additional dividends for fiscal year 2015 in the amount of R$ 209,499, corresponding to R$ 0.3209526559 per share.

f) Issue of Preliminary License for Santo Agostinho Wind Power Complex

The Institute for Sustainable Development and the Environment (DEMA) of the State of Rio Grande do Norte issued on 6.6.2016 the Preliminary License (LP) for Santo Agostinho Wind Power Complex, declaring it an environmentally viable project. The approved project includes twenty-four wind power parks with total installed capacity of 600 MW. The project already has all the necessary documentation to participate in future energy auctions.

g) Change of Company name

The Extraordinary Shareholders' Meeting held on 7.14.2016 approved changing the Company's name from Tractebel Energia S.A. to ENGIE Brasil Energia S.A. The purpose of this change is to adopt the same name of the Company's controlling group in Europe, which was changed from GDF SUEZ to ENGIE.

Due to this change, as from the trading session on 7.21.2016, the Company's shares were traded on BM&FBOVESPA under the new trading name ENGIE BRASIL and ticker EGIE3, replacing the previous ticker TBLE3. In the U.S. over-the-counter market, the ticker changed to EGIEY.

h) Issue of debentures

On 7.15.2016, the Company issued R$ 600,000 in non-convertible infrastructure debentures, in two series, at an average cost of IPCA + 6.26%. The proceeds will be used to build the Pampa Sul Thermal Power Plant (Pampa Sul TPP). For more information see Note 18 – Debentures.

i) Startup of the Santa Mônica wind farm

In October and December 2016, Aneel authorized the commercial startup of the Santa Mônica wind farm and of three of the seven generation units of the Cacimbas wind farm, respectively, located in the city of Trairi, state of Ceará, increasing the Company's installed capacity by 27.0 MW and its commercial capacity by 14.4 average MW.

The wind farms are part of the Santa Mônica Wind Power Complex, which also includes the wind farms of Estrela and Ouro Verde.

j) Asset divestment

On 12.23.2016, the Board of Directors of the Company approved the divestment of the equity interest held in Eólica Beberibe S.A., Eólica Pedra do Sal S.A. and Hidrelétrica Areia Branca S.A., companies with combined installed capacity of 63.4 MW. The Operation is part of the strategy to optimize the Company's generation facilities, aiming to enable expansion into assets that have a greater degree of synergy among them. The enterprise value of the Companies, before any and customary price adjustments, was established at R$ 391,768, of which R$ 85,418 refer to its estimated net debt. The conclusion of the sale is subject to compliance with certain conditions precedent provided for in the stock sale agreement, including prior approval from Brazil's antitrust agency CADE, the Brazilian Development Bank (BNDES) and Aneel. Further information is available in Note 11 – Non-current assets held for sale.

NOTE 2 – PRESENTATION OF FINANCIAL STATEMENTS

a) Preparation basis

The financial statements were elaborated considering the operational continuity and historical costs based on value, adjusted to reflect the fair value of certain financial instruments, when applicable.

These financial statements provide the relevant information specific to only themselves, which is consistent with that used by the Management in its activities.

The Company is presenting one package, containing the following financial statements:

a.1) Consolidated financial statements

The consolidated financial statements, identified as "Consolidated," are presented, simultaneously, in compliance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), which are in accordance with Brazilian accounting practices. These Brazilian standards include the rules of Brazilian Corporation Law, in addition to the pronouncements, interpretations and orientations issued by the Accounting Pronouncements Committee (CPC), approved by the Brazilian Securities and Exchange Commission (CVM) and also, when applicable, the regulations of the Brazilian electrical sector regulator, Aneel.

a.2) Individual financial statements

The individual financial statements of ENGIE Brasil Energia, identified as "Parent Company," were prepared in accordance with the accounting practices adopted in Brazil, which are convergent with the IFRS standards, except for the recording of the controlling interest in the joint venture in Itá Energética S.A. which, under Brazilian rules, is recognized by the equity method and, according to IFRS, by the rules applicable to joint ventures, which stipulate that assets, liabilities and profit or loss are recognized in proportion to its share in the joint venture.

There is no difference between shareholders' equity and parent company and consolidated results included, respectively, in the consolidated and individual financial statements, prepared in accordance with accounting practices mentioned above.

b) Functional currency and presentation currency

The financial statements, individual and consolidated, are presented in Brazilian reais, the functional currency used by the Company.

c) Business segment

The Company manages its business as one operating segment, composed of the generation and commercialization of electrical energy generated by its assets or acquired through near and long-term agreements. This segment concentrated 99.4% of net revenue from consolidated sales in 2016 and 2015.

d) Income statement of discontinued operations

In the presented years, the Company did not have any discontinue in its normal business that would require the disclosure of discontinued operations.

e) Net earnings per share – basic and diluted

There is no difference between the net earnings per share – basic and diluted – as there was no issue of shares with diluting effects in the presented years.

f) Added-value statement

This statement is not part of the consolidated financial statements, according to international financial reporting standards (IFRS), being presented to comply with the CPC requirements according to the standard.

g) Use of estimates

In the financial statements elaboration is necessary that the Company´s management rely on estimates when recording certain transactions that affect its assets and liabilities, revenues and expenses, as well the disclosure of financial statements information. To calculate these estimates, the Management uses the best information available on the date on which the financial statements were prepared, and also the experience of past and/or current events, also taking into account the assumptions regarding future events.

The financial statements include estimates relating mainly to the following items: (i) the useful life of fixed assets, which reference is established by Aneel; (ii) provisions to cover civil, tax and labor risks; (iii) definition of the discount rates used for the calculation of the present values of assets and liabilities; (iv) assumptions used for the definition of discount rates and the mortality table for the calculation of the obligations with retirement benefits; (v) calculation of the fair value of the financial instruments; and (vi) calculation of asset impairment.

h) Approval of financial statements

The financial statements as here presented have been approved at the Board of Directors meeting held on 2.23.2017.

i) Consolidation basis

The consolidated financial statements include information of ENGIE Brasil Energia and its subsidiaries and joint operations, all of which headquartered in Brazil, with their accounting practices being consistent with those adopted by ENGIE Brasil Energia. The companies consolidated with ENGIE Brasil Energia are the following:

		Equity interest (%)	
	Investor	12.31.2016	12.31.2015
Direct subsidiaries			
ENGIE Brasil Energia Comercializadora Ltda. ("EBC")[5]	EBE	99.99	99.99
Companhia Energética Estreito ("CEE")	EBE	99.99	99.99
Lages Bioenergética Ltda. ("Lages")	EBE	99.99	99.99
ENGIE Brasil Energias Complementares Participações Ltda. ("ECP")[6] [7]	EBE	99.99	99.99
Usina Termelétrica Pampa Sul S.A. ("Pampa Sul")	EBE	99.99	99.99
Usina Termelétrica Norte Catarinense Ltda. ("Norte Catarinense")	EBE	99.99	99.99
ENGIE Comercializadora Varejista de Energia Ltda. ("ECV")	EBE	99.99	-
Joint ventures			
Itá Energética S.A. ("Itasa")	EBE	48.75	48.75
Indirect subsidiaries			
Tupan Energia Elétrica Ltda. ("Tupan")	ECP	99.99	99.99
Hidropower Energia S.A. ("Hidropower")	ECP	99.99	99.99
Hidrelétrica Areia Branca S.A. ("Areia Branca")[8]	ECP	99.99	99.99
Ibitiúva Bioenergética S.A. ("Ibitiúva")	ECP	95.00	95.00
Ferrari Termoelétrica S.A. ("Ferrari")	ECP	99.99	99.99
Eólica Beberibe S.A. ("Beberibe")[8]	ECP	99.99	99.99
Eólica Pedra do Sal S.A. ("Pedra do Sal")[8]	ECP	99.99	99.99
Energias Eólicas do Nordeste S.A. ("EEN")[6] and subsidiaries[9]	ECP	99.99	99.99
Energias Eólicas do Ceará S.A. ("EEC")[6] and subsidiaries[9]	ECP	99.99	99.99
CLWP Brasil I Ltda. ("CLWP")[6] and subsidiaries[9]	ECP	99.99	99.99
CLWP Brasil II Ltda. ("CLWP II")[6] and subsidiaries[9]	ECP	99.99	99.99
Santo Agostinho Participações Ltda. and Santo Agostinho	ECP	99.99	99.99
Alvorada Participações Ltda. ("Alvorada")[6] and subsidiaries	ECP	99.99	99.99
Central Fotovoltaica Assú I, II, III, IV & V ("Assú")	ECP	99.99	99.99
Investment fund			
Fundo de Investimento Energy Renda Fixa[10]	-	100	100

[5] Formerly Tractebel Energia Comercializadora Ltda.

[6] Holding company.

[7] Formerly Tractebel Energias Complementares Participações Ltda.

[8] On 12.23.2016, the Board of Directors of the Company approved the sale of equity interest held by the Company and its subsidiary ECP in these companies. Accordingly, the assets and liabilities of these companies are registered as "Non-current assets held for sale" and "Liabilities related to non-current assets held for sale," respectively.

[9] For more information, see Note 13 – Investments.

[10] Fixed income investment fund of which ENGIE Brasil Energia and its subsidiaries participate, managed by Votorantim Asset Management D.T.V.M. Ltda.

The consolidation of the balance sheet accounts and income statement occurs with the sum of assets, liabilities, and consolidated income statement, according to their respective accounting natures, adjusted through the elimination of transactions made between the consolidated companies.

Assets, liabilities, revenues and expenses of the joint operation Itasa are recognized in the consolidated financial statements in proportion to the Company's interest.

The subsidiary Ibitiúva is fully consolidated. The 5% non-controlling interest held in that company is presented separately in the balance sheet and in the consolidated income statements as "Interest of non-controlling shareholder", "Net income attributable to non-controlling shareholder" and "Income attributable to non-controlling shareholder", respectively.

NOTE 3 – SUMMARY OF THE MAIN ACCOUNTING PRACTICES

The main accounting practices adopted in the Parent company and consolidated financial statements have been applied by the Company consistently between the years presented.

a) Financial instruments

a.1) Cash and cash equivalents

Are maintained with the purpose of meeting short term cash commitments, and consists of cash, bank deposits, and short-term marketable securities with immediate liquidity, without any significant risk of change of market value.

Marketable securities are classified as cash and cash equivalents, due to the intention of withdrawing in the short term, being registered at acquisition cost and measured at the fair value on the financial statements date. The fair value variation is recorded in the profit or loss when obtained.

a.2) Accounts receivable

These are initially recorded at sale or collection value and then at the amortized cost, deducted from the allowance for doubtful accounts. The allowance is accrued when there is an expectation of impairment and in amounts deemed sufficient to cover probable risks of loss.

a.3) Restricted deposits

These are maintained to meet legal and contractual requirements. They are initially accounted for at the value deposited, and later measured at the fair value on the date of the financial statements. The fair value variation is recognized in the profit or loss when they are obtained.

a.4) Loans, financing and debentures

These are initially accounted for at fair value, net of any transaction costs incurred, and subsequently measured at the amortized cost using the effective interest rate method.

a.5) Concessions payable

These are initially recorded at the present value of concession installments payable over the term of the concession, and subsequently at the amortized cost based on the interest rate used for calculating the present value of contractual liabilities.

In order to accurately reflect in shareholders' equity the granted onerous concession and the related obligation, amounts corresponding to concessions are recorded in property, plant and equipment with a corresponding entry in liabilities. During the construction of plants, interest and monetary variations are capitalized in the property, plant and equipment and, as of the commercial start-up date, recognized directly as profit or loss.

b) Derivative financial instruments

These are initially and subsequently measured at fair value. Gains or losses resulting from changes in their fair value are recognized as financial income (loss), except when the derivative qualifies for and is designated for hedge accounting, as cash flow hedge.

Derivative financial instruments held by the Company correspond to hedging operations against exposure to risks related to exchange variation of debts and future commitments, which are recognized in accordance with the standards applicable to hedge accounting.

b.1) Hedge accounting

At the start of the hedge operation, the Company prepares a formal documentation describing the objectives and strategies of the risk hedging and the relationship between the underlying hedge transaction and the hedge instrument used to provide the expected protection.

The hedge operations of the Company that qualify for hedge accounting classify as cash flow hedge, since they aim to hedge against exposure to foreign currencies of highly probable financial commitments for acquisition of goods and services for property, plant and equipment. In these transactions, for the highly effective portion of the hedge, gains and losses arising from changes in the instrument's fair value are recognized as shareholders' equity, under "Other comprehensive income (loss)", and transferred to property, plant and equipment when the hedged financial commitment is finally realized. The ineffective portion of the hedge instrument is recorded as profit or loss for the period.

c) Inventories

These are assessed at the lower value between the average weighted cost of acquisition and the net realization value.

d) Judicial deposits

Are initially registered at the total amount deposited, plus any interest obtained until the date of the financial statements, which are recognized in the financial result.

e) Non-current assets held for sale

Assets are classified as held-for-sale when their carrying amount is recoverable particularly through their sale and not through their continuous use. This condition is met only when an asset (or group of assets) is available for immediate sale in its present condition and the sale is deemed as highly probable.

Non-current assets held for sale and their respective liabilities are measured by the lowest between their carrying value and their fair value net of sales expenses, and are presented separately in the balance sheet.

f) Investments

The Company has investments in controlled entities, one joint venture and one joint operation an entity with its own company identification.

f.1) Investments in directly or indirect subsidiaries

Permanent investments in subsidiaries are those in which the Company is exposed to or has rights to the variable returns resulting from its involvement with the entity and is capable of interfering in these returns through its power over such entity.

These investments are evaluated using the equity method in the Parent company financial statements, and fully consolidated for purposes of presentation of the consolidated financial statements.

f.2) Investments in joint arrangements

Joint arrangements are those in which the Company and one or more investors hold shared control over operating and financial activities of the entity. These may be classified as joint operations or joint ventures, depending on the contractual rights and obligations of investors.

Investments in joint ventures are recorded at the equity method and are initially recognized at cost. The investment in joint operations in entities with their own legal personality is recognized through the equity method in the parent company. In the consolidated statements, assets, liabilities, revenues and expenses of said joint operation are recognized in proportion to the interest in the business.

Additionally, the Company holds interest in consortia (entities without their own legal personality,). Assets, liabilities, revenue and expenses from these consortia are recognized directly in the financial statements of the consortium member, based on the respective interest held in the consortium.

f.3) Business combination and "Goodwill" (Concession right)

Business combination is a method used for recognizing acquisitions of control in the consolidated statements. This method requires identifiable assets acquired and liabilities assumed to be measured at their fair values.

In the parent company, the difference between the amount paid and the acquired company's book value of shareholders' equity is recognized in the investment as "goodwill", whose economic ground is based on the acquired company's right to use public assets.

g) Property, plant and equipment

g.1) Measurement

The assets that compound the property, plant and equipment are recorded at acquisition or construction cost. The interests and other financial charges arising from loans, financing and debentures related to the constructions in progress, are calculated as the cost of the respective fixed asset. The assets, or set of assets, that had accounting values significantly different from their fair values on the date of adoption of new accounting practices in Brazil, on 1.1.2009, started to have their fair value taken as deemed cost in assets.

The costs of property, plant and equipment are deducted from accumulated depreciations and provisions for asset impairment, when applicable.

The components of certain assets that are regularly replaced during the economic useful life of the asset are recognized as separate assets and then depreciated for the expected period for the substitution. The costs incurred in small regular maintenance activities and also routine activities are recognized in the profit or loss, when incurred.

In the consolidated statements, the Company elected to recognize the fair values of intangible assets arising from the concession of or authorization to use public assets, acquired in a business combination, as a single asset in the group of property, plant and equipment. This option was adopted in view of the impossibility of these fixed and intangible assets to be sold or transferred separately and to the equivalence between the periods of said rights and the useful lives of the assets.

g.2) Depreciation

Depreciation of fully operating assets is calculated by the linear method, based on the annual rates established by Aneel, which are practiced by the companies of the Brazilian electrical sector and represent the estimated useful life of the assets. Initial investments in generation assets are depreciated based on the useful lives defined by Aneel, limited to the period of concession or authorization of the power plants. The average annual depreciation rates of the assets held by the Company, taking into consideration said useful life limitation are presented in Note 14 – Property, Plant and Equipment.

h) Intangible assets

Intangible assets are registered at acquisition cost or at the fair value of the intangible assets acquired in a business combination, deducted from the accumulated amortization calculated by the linear method. Intangible assets have useful lives that are well defined based on commercial contracts or contracts of concession and authorization.

i) Assessment of the recovery value of property, plant and equipment and intangible assets – Impairment

The Company appraises, at least on an annual basis, the assets comprising its property, plant and equipment and its intangible assets, in order to identify evidences that could lead to impairment losses from the respective units generating cash or intangibles, or also when events or significant change indicate that their book values may not be recoverable. If identified that the book value of the asset exceeds its recoverable value, then this provision for impairment loss is recognized in the profit or loss of the year.

The recoverable value of an asset is the larger value between its current value in use and the sale fair value, net of necessary costs to sell the asset. The value in use corresponds to the discounted cash flows – before tax – generated by the use of the asset during its useful life.

j) Provisions

Are recognized when there is a present obligation resulting from a past event, in which there shall probably be an outflow of resources for the settlement and that this obligation can be reasonable estimated. The updating of the provision through time is recognized in the item of financial expenses.

The significant contingent liabilities which have been assessed as possible and remote risk of loss are not recorded, but disclosed in the explanatory note, when necessary.

k) Retirement benefits obligations

Are recognized at present value of the obligations estimated, arising from the pension plans with retirement defined benefits, net of the total value of the assets that guarantee the plan.

The present value of the commitments is calculated based on an actuarial appraisal elaborated annually by independent actuarial, based on the Projected Unit Credit Method. The method considers each period of employment as a generator of an additional benefit unit, and the units are accumulated to build up the final estimated obligation.

The effects of remeasurements of retirement benefit obligations, net of the assets of the plans, are recognized under "Other comprehensive income".

l) Current and deferred income tax and social contribution

Current income Tax and Social Contribution are individually calculated by each entity according to the rates in force in the financial statement period.

The tax benefit of reduction of income tax for projects built in a tax-incentive region, is recognized as an offsetting account of income tax and transferred from the "Retained earnings" account to the "Tax incentive reserve", in shareholders' equity.

The deferred income tax and social contribution are calculated with the application of the effective rates forecasted for the years in which there is an expectation of realizing or demanding temporary differences - differences between the book value of liabilities and assets and their tax base – or offsetting tax losses, and social contribution tax loss carryforwards, when applicable. These deferred taxes are fully presented in the non-current group, regardless of the expectations of realization and enforceability of the amounts that give rise to them.

The taxes and social contributions, current and deferred, are presented offset under assets or liabilities, when these same taxes correspond to the same tax authorities and when there is the intention to settle them at the net value.

m) Other assets and liabilities current and non-current

Other assets are recorded at acquisition cost, deducted from the impairment provision, when applicable. Other obligations are recorded at the known or calculable values with the addition, when applicable, of the corresponding interest and monetary readjustments incurred.

n) Equity instruments

Equity instruments issued by the Company are recognized in the equity when the funds are received, net of any direct costs incurred in its issue, as applicable.

o) Distribution of dividends and interest on equity

The dividends and interest on equity are recognized as liabilities in the following cases: (i) interim dividends – when approved by the Board of Directors; (ii) interest on equity – on the date when credit is paid to the shareholders; and (iii) additional dividends as proposed at the end of the year – on approval at a General Meeting (AGO).

The credits of interest on equity are initially recorded as financial expenses for tax purposes and, at the same time, transferred from this same category against shareholders' equity. The reduction in taxes generated thereby is recognized as profit or loss for the year, when the credit occurs.

The Company has adopted the accounting practice of disclosing the dividends received from controlled companies in the investment activity for the "Cash Flow Statement".

p) Adjustment to present value

The assets and liabilities arising from long-term operations are adjusted at present value based on interest rates practiced on the market on the date of the transaction.

q) Related party transactions

Transactions for the purchase and sale of energy, services and intercompany loans are carried out under conditions and durations agreed between the parties and registered according to contractual terms and conditions. These will be restated at their contractual charges.

r) Service and energy revenue recognition

Revenue is measured at the fair value against received or trade receivable, deducted from taxes and possible discounts contributions. Revenue from energy and services sales is recognized when: (i) it is probable that the economic benefits associated with the transactions flow to the Company; (ii) the revenue amount can be reliable measured; (iii) the risks and benefits related to the sale have been transferred to the buyer; (iv) the costs incurred, or still to be incurred, related to the transaction can be reliable measured; and (v) the Company has no longer the control and the responsibility over the energy sold.

s) Leasing contracts

The Company's leasing contracts are considered operational, where the contractual amounts are registered as profit or loss, while the contract remains valid.

t) Application of judgments and critical accounting practices

Critical accounting practices are those important to present the financial conditions and also the results, and require more difficult, subjective or complex judgments made by Management, often as a result of the need of making estimates that have an impact on questions that are inherently uncertain. As the number of variables and assumptions that affect the possible future solution of such uncertainties increases, these judgments become even more subjective and more complex.

In the preparation of financial statements, the Company adopted certain assumptions arising from the historical experience and other factors which are considered reasonable and relevant. Even though these estimates and assumptions are reviewed by the Company in the normal course of business, the statement of its financial conditions and the results of the operations often require the use of judgments in relation to the book value of its assets and liabilities.

Effective results can be different from those estimated due to variables, assumptions or different conditions. In order to provide understanding of how the Company prepares its judgments about future events, including variables and assumptions used in the estimates, comments are included about each critical accounting practice as described below:

t.1) Derivative financial instruments

Derivative financial instruments are recognized at their fair values in the financial statements. Determining the fair value of the Company's derivatives requires the use of valuation methodologies that can be complex and involve the use of estimates for future exchange and long-term interest rates.

t.2) Useful life of property, plant and equipment

The Company hereby recognizes the depreciation of its property, plant and equipment, based on the annual rates established by Aneel, which are practiced by the companies of the Brazilian electrical sector and represent the estimated useful lives of the different assets – limited to the time frame for concession or authorization of the power plants, when applicable. However, the real useful lives may vary based on the technological updates made to the assets of each generation unit. The useful lives of fixed assets also affect the impairment tests of property, plant and equipment, when these are necessary.

t.3) Long-term assets impairment test

There are specific rules for test the long-term assets impairment, particularly property, plant and equipment. At the end of the year, the Company conducts an analysis to determine if there is any evidence that the total value of the long-lived assets may not be recovered. If this evidence is identified, then the Company proceeds to the impairment test.

t.4) Retirement benefits obligations

The Company recognizes its obligations in relation to benefits plans for employees and related costs, net of plan assets, adopting the following practices: (i) the future obligations arising from the pension benefit plans are discounted to present value, based on the interest rates on Federal Government bonds with average duration similar to those expected for the payment of the future forecasted commitments; and (ii) the assets of the pension plans are assessed at market value on the date of the financial statements.

In actuarial calculations, the actuarial consultants also use subjective factors, such as mortality tables, inflation estimates and forecasts of salary growth, resignation, and staff turnover.

The actuarial assumptions used by the Company may be different from the real results, due to changes in the economic or market conditions, regulatory events, court decisions, or shorter or longer life periods of the participants. However, the Company and its actuaries use assumptions consistent with the internal and external analysis carried out for the definition of the estimates.

t.5) Civil, tax and labor provisions

These are defined based on an appraisal and a qualification of the risks for which the probability of a loss is considered as probable. This appraisal is supported by the judgment made by Management, together with its legal advisors, considering cases of jurisprudence, decisions taken at lower and higher levels, the experience of the Management and legal advisors, and other applicable aspects.

u) Revised standards and interpretations in force as of January 1st, 2016

In 2016, the following revised accounting standards came into effect, which did not have any impact on the Company's financial statements:

IAS 1 (CPC 26): Provides clarifications on the concept of materiality, which must be evaluated both for the purposes of selecting the information to be disclosed, whether required or not, and for the ordering of notes to the financial statements and use of aggregation criteria.

IAS 16 (CPC 27) and IAS 38 (CPC 04): Provides clarification on the accepted methods of depreciation and amortization.

IFRS 11 (CPC 19): Determines the application of IFRS 3 – Business combination, in case of acquisition of a jointly controlled operation that constitutes a business; and

IFRS 10 (CPC 36), IFRS 12 (CPC 45) and IAS 28 (CPC 18): Addresses specific matters in the scope of applicable exceptions of consolidation for investment entities; and clarifies the treatment of sale or contribution of assets between an investor and its associate or joint venture, the requirements of which are applicable regardless of the legal condition of the operation.

In addition, in 2016, the improvements related to the 2012-2014 cycle's annual revision of the following standards came into effect: IFRS 5 (CPC 31) – Non-current assets held for sale and Discontinued operations, IFRS 7 (CPC 40) – Financial instruments: Disclosure, IAS 19 (CPC 33) – Employee benefits and IAS 34 – Interim financial statements. The annual revision process is a vehicle used to make changes that are not urgent but are necessary for the pronouncements issued. The changes did not have any impact on the Company's financial statements.

v) Standards, amendments and interpretations not yet in force

The Company did not adopt the following standards, amendments and interpretations while preparing these financial statements.

v.2) In force as from January 1st, 2018

IFRS 9 – Financial instruments: introduces new requirements for the classification, measurement, impairment, hedge accounting and recognition of financial assets and liabilities.

IFRS 15 – Revenues from contracts with customers: establishes the principles for revenue recognition and reporting in contracts with customers. It will replace the pronouncements currently in force regarding revenue recognition.

According to the Company, the application of these new standards will not have a significant impact on its financial statements.

v.3) In force as from January 1st, 2019

IFRS 16 – Leases: introduces requirements for recognizing, measuring, presenting and disclosing leases. The standard establishes the recognition by lessees of assets and liabilities for all lease agreements unless the lease term is lower than 12 months or the value of the underlying asset is insignificant. For lessors, no significant changes were introduced and they must continue to classify leases as operating or finance, as defined in IAS 17.

The Company has contracts that would come under the scope of this pronouncement, namely, the contract to use the building of its headquarters and the leases of areas where the wind power plants are or will be built. With the application of the standard, these lease contracts will be recognized as a right to use the asset in exchange for an obligation. Based on an initial evaluation, the Company does not expect significant effects on its financial statements from the adoption of the pronouncement.

NOTE 4 – CASH AND CASH EQUIVALENTS

	Parent Company		Consolidated	
	12.31.2016	12.31.2015	12.31.2016	12.31.2015
Cash and bank deposits	**1,418**	**3,664**	**12,007**	**11,691**
Marketable securities:				
Exclusive investment fund – Citibank				
Repurchase transactions backed by federal bonds	1,173,841	1,735,137	1,793,540	2,365,959
Other marketable securities	-	207	9,793	19,204
	1,173,841	**1,735,344**	**1,803,333**	**2,385,163**
	1,175,259	**1,739,008**	**1,815,340**	**2,396,854**

The Company's marketable securities are held for payment of short-term cash commitments and are substantially structured to concentrate funds in an Exclusive Investment Fund in Fixed Income (FIE), the units of which can be redeemed at any time without losses.

The committed operations carried out within the scope of the FIE are transactions involving the sale of papers with a commitment to repurchase, taken on by the seller, together with a commitment to resale taken on by the buyer, which have immediate liquidity and remuneration based on the Selic rate, in addition to being backed by federal government bonds.

The average yield of the Fund in 2016 and 2015 was 99.8% and 100.0% of the CDI (the reference rate of Interbank Deposit Certificates), respectively.

NOTE 5 – TRADE ACCOUNTS RECEIVABLE

	Parent Company		Consolidated	
	12.31.2016	12.31.2015	12.31.2016	12.31.2015
Distributors	286,312	297,273	386,139	385,568
Traders	153,436	121,815	21,384	34,483
Free Consumers	24,802	22,500	329,956	330,222
Transactions within the CCEE[11]	46,978	6,180	93,069	29,798
Estimated losses with doubtful accounts	(6,180)	(6,180)	(6,469)	(6,469)
	505,348	**441,588**	**824,079**	**773,602**

The average term for receiving amounts relative to electrical energy sale invoices is approximately 30 days, as from the first day of month subsequent to the sale.

The breakdown of overdue accounts receivable recorded under current assets is as follows:

	Parent Company		Consolidated	
	12.31.2016	12.31.2015	12.31.2016	12.31.2015
Overdue up to 30 days	431	1,429	1,153	3,009
Overdue more than 30 days	10,047	7,411	12,332	8,886
	10,478	**8,840**	**13,485**	**11,895**

The Company accrued allowance for doubtful accounts on overdue accounts receivable, for which the risk of recovery is deemed as probable.

In addition to the provisions mentioned above, the Company has amounts receivable from transactions conducted in the Wholesale Electricity Market (MAE), currently CCEE, between 2000 and 2002, for which it maintains full allowance for doubtful accounts. The nature and amounts of these transactions are:

(i) R$ 110,598 – corresponds to credits from transactions made within the MAE between September 2000 and September 2002, which were not received due to certain debtor agents having taken Court action, disagreeing with the interpretation given by that organization, in relation to the provisions of the General Agreement of the Electrical Segment. The provision was established due to doubts in relation to the receipt of the values regarding the aforementioned transactions.

(ii) R$ 12,388 – refers, substantially, to debts by defaulting agents in the first financial settlement made by MAE, on 12.30.2002, regarding the transactions made within the scope of that market. Such amounts are being the objects of bilateral negotiations for a long time. However, due to uncertainties regarding payment, the Company has set some cash aside as allowance for doubtful accounts, regardless of any legal action applicable to the case.

[11] Electric Energy Commercialization Chamber

NOTE 6 – INVENTORIES

	Parent Company		Consolidated	
	12.31.2016	12.31.2015	12.31.2016	12.31.2015
Supplies	57,711	50,234	59,987	52,416
Inputs for energy production	49,159	34,394	50,305	34,937
Reduction to net realizable value	(6,194)	-	(6,194)	-
Other	1,409	1,472	1,443	1,535
	102,085	**86,100**	**105,541**	**88,888**

The variation in "Inputs for energy production" is basically due to the increase in mineral coal inventories, caused by the effects of Aneel's new Resolution in effect as of 2016, which links the percentage of reimbursement of coal acquired with funds from the Energy Development Account (CDE) to the energy efficiency of the generating unit.

NOTE 7 – TAX CREDITS

	Parent Company		Consolidated	
	12.31.2016	12.31.2015	12.31.2016	12.31.2015
Current				
PIS[12] and Cofins[13]	-	-	4,118	40,289
ICMS[14]	10,457	6,095	10,471	6,096
	10,457	**6,095**	**14,589**	**46,385**
Non-current				
PIS and Cofins	-	-	1,515	12,096
ICMS	29,606	28,169	30,188	28,379
INSS[15]	6,288	6,288	6,288	6,288
	35,894	**34,457**	**37,991**	**46,763**

PIS and Cofins tax credits to offset arise from the acquisition of machinery and equipment, and expenses with the construction of facilities for the installation of power generation projects.

ICMS balances recoverable are the result of acquisitions of property, plant and equipment and are offset at the ratio of 1 to 48 per month.

[12]Social Integration Program
[13]Contribution for Social Security Funding
[14]Value-Added Tax on Sales and Communication and Transport Services
[15]National Social Security Institute

NOTE 8 – FUEL REIMBURSABLE

	Parent Company and Consolidated	
Periods	**12.31.2016**	**12.31.2015**
December	49,472	69,662
November	-	74,587
	49,472	**144,249**

This item records amounts receivable from Eletrobras, related to the reimbursement of fuel purchased for consumption by the Company's thermal power plants. These purchases are paid by Eletrobras using funds from the Energy Development Account (CDE), whose aim, among other things, is to ensure competitiveness of the energy produced from domestic charcoal. Reimbursement usually takes place after the presentation of the proof of payments to fuel suppliers.

As mentioned in Note 6 – Inventories, as of 2016, in accordance with Aneel's new resolution, the percentage of reimbursement of mineral coal purchased using funds from the Energy Development Account (CDE) is now linked to the energy efficiency of the generating unit. Thus, in 2016, the Company had a reduction of approximately 12.8% in said reimbursement at the Jorge Lacerda complex. During 2016, this reduction was not applied in reimbursements made by Eletrobras, and the definitive measurement will occur during 2017. The Company recorded R$ 87,364 under "Other current liabilities," related to the probable estimated amount to be reimbursed to Eletrobras.

NOTE 9 – RESTRICTED DEPOSITS

	Parent Company		Consolidated	
	12.31.2016	**12.31.2015**	**12.31.2016**	**12.31.2015**
Financing guarantees	8,406	3,546	180,183	146,766
Contractual commitments guarantees	-	-	6,264	6,056
Reinvestment deposits	2,420	2,083	2,420	2,083
Other	159	6,824	5,661	11,660
	10,985	**12,453**	**194,528**	**166,565**
Classification in the balance sheet				
Current assets	2,485	2,293	8,760	8,426
Non-current assets	8,500	10,160	185,768	158,139
	10,985	**12,453**	**194,528**	**166,565**

Guarantees for loans are constituted for the amount equivalent to three months of debt service and contractual operating and maintenance expenses for plants that hire third-party services to perform these activities. These restricted deposits are aimed at ensuring the payment of debt with BNDES and onlending banks.

The average yield of restricted deposits in 2016 and 2015 was 98.6% and 98.3%, respectively, of the overnight rate (CDI).

NOTE 10 – HYDROLOGICAL RISK RENEGOTIATION TO BE ACCRUED

a) Breakdown

	Parent Company		Consolidated	
	12.31.2016	12.31.2015	12.31.2016	12.31.2015
Cana Brava HPP	38,696	41,855	38,696	41,855
Itá HPP	49,689	53,745	49,689	53,745
Machadinho HPP	12,428	13,443	12,428	13,443
Ponte de Pedra HPP	22,165	25,759	22,165	25,759
Salto Santiago HPP	21,035	32,009	21,035	32,009
São Salvador HPP	19,376	20,568	19,376	20,568
Estreito HPP	-	-	33,690	35,764
	163,389	**187,379**	**197,079**	**223,143**
Classification in the balance sheet				
Current assets	23,991	23,991	26,064	26,064
Non-current assets	139,398	163,388	171,015	197,079
	163,389	**187,379**	**197,079**	**223,143**

In December 2015, Aneel approved the renegotiation of hydrological risk relating to the Company's plants whose energy was being sold in the Regulated Contracting Environment (ACR). As a condition for adhering to said Agreement, the Company formally withdrew from any legal dispute with Aneel that prevented the direct application of mechanism to reduce the physical guarantee, called Generation Scaling Factor (SGF)

The renegotiation rules established options to choose the hydrological risk level to be assumed by generators who, in turn, assumed the commitment to pay a risk premium defined by Aneel during the term of the energy sale agreement within ACR. Based on the new risk level defined in the renegotiation, GSF for 2015 was recalculated, which resulted in an overpayment that is being offset by risk premiums calculated at the present value due by the Company.

	Parent Company	Consolidated
Recognition of the hydrological risk renegotiation	211,370	249,207
Amortization of the risk premium	(23,991)	(26,064)
Balances at 12.31.2015	**187,379**	**223,143**
Amortization of the risk premium	(23,990)	(26,064)
Balances at 12.31.2016	**163,389**	**197,079**

b) Expected realization of non-current assets

	Parent Company	Consolidated
2018	23,076	25,150
2019	13,016	15,090
2020	13,016	15,090
2021	13,016	15,090
2022	13,016	15,090
2023 to 2027	47,710	58,075
After 2028	16,548	27,430
	139,398	**171,015**

NOTE 11 – NON-CURRENT ASSETS HELD FOR SALE

The main categories of assets and liabilities held for sale are detailed below:

	Parent Company		Consolidated	
	12.31.2016	12.31.2015	12.31.2016	12.31.2015
Property, plant and equipment held for sale	10,922	86,886	10,922	86,886
Investments held for sale				
Assets	-	-	408,681	-
Related liabilities	-	-	(159,496)	-
Net assets	**-**	**-**	**249,185**	**-**
	10,922	**86,886**	**260,107**	**86,886**
Classification in the balance sheet				
Assets	10,922	86,886	419,603	86,886
Liabilities[16]	-	-	(159,496)	-
	10,922	**86,886**	**260,107**	**86,886**

a) Property, plant and equipment held for sale

Refers to assets from the thermal power project Jacuí received as a result of the favorable decision for the Company, in 2014, on a claim for enforcement filed against Elétrica Jacuí Ltda. ("Eleja") to collect the amounts receivable from the sale of Jacuí, which had been granted as collateral.

In 2015, the Company signed an exclusivity sale contract with a potential buyer. The contract included an option for the acquisition of the project, valid up to January 2016 which was not exercised by the buyer. Since the Company concluded that there is no active market for the sale of operating assets, it hired a firm specializing in the sale of assets to define a feasible sale strategy and assess the market value of the assets, prepared based on an alternative to the proposed sale. Based on the results of these analyses, the fair value of assets, net of selling expenses, was assessed at R$ 10,922, which is lower than their book value. Accordingly, the Company recognized a provision for impairment in the amount of R$ 75,964. The assessment was based on the market prices for similar non-operating assets (Level 2).

[16] Shown in "Liabilities related to non-current assets held for sale".

b) Held-for-sale investments

The Board of Directors' meeting held on 12.23.2016 approved the sale of special purpose entities (SPE): Beberibe and Pedra do Sal, which are authorized by Aneel to operate and maintain two wind farms with installed capacity of 25.6 MW and 18.0 MW, respectively; and Areia Branca, which is authorized by Aneel to operate and maintain the Areia Branca Small Hydroelectric Plant, with installed capacity of 19.8 MW. The conclusion of the sale is subject to meeting certain conditions precedent provided for in the contract, including prior approval from the Brazilian Antitrust Authority (CADE), BNDES and Aneel. The Company Management expects the sale to be concluded during the first half of 2017.

Thus, since investments will be recovered through their sale, the Company started recording assets and liabilities of the indirect subsidiaries Beberibe, Pedra do Sal and Areia Branca in "Non-current assets held for sale" and "Liabilities related to non-current assets held for sale," respectively.

The value of SPEs, before possible and usual price adjustments, was established at R$ 391,768, of which R$ 85,418 refer to its estimated net debt.

Held-for-sale assets, net of related liabilities, are measured at book value, below the fair value of sale, net of estimated sale expenses. The main assets and liabilities of subsidiaries, classified as held for sale, are as follows:

	12.31.2016		12.31.2016
CURRENT ASSETS		**CURRENT LIABILITIES**	
Cash and cash equivalents	69,040	Loans and financing	17,721
Trade accounts receivable	16,809	Other current liabilities	8,620
Other current assets	4,357		**26,341**
	90,206		
NON-CURRENT ASSETS		**NON-CURRENT LIABILITIES**	
Long-Term Assets		Loans and financing	132,974
Tax credits	10,331	Provisions	181
Restricted deposits	11,291		**133,155**
Other non-current assets	8,788		
	30,410		
Property, plant and equipment	**287,988**		
Intangible assets	**77**		
	318,475		
Total assets	**408,681**	**Total liabilities related to assets**	**159,496**

NOTE 12 – JUDICIAL DEPOSITS

a) Breakdown

	Parent Company		Consolidated	
	12.31.2016	12.31.2015	12.31.2016	12.31.2015
Tax and social security	125,900	110,740	126,645	111,393
Civil	17,711	13,819	18,175	15,485
Labor	4,779	5,461	4,910	5,602
	148,390	**130,020**	**149,730**	**132,480**

Of the total amount of tax deposits at 12.31.2016, R$ 56,758 (R$ 56,779 at 12.31.2015) in the parent company and consolidated correspond to deposits restricted to the lawsuit whose final and unappealable decision in favor of the Company given in June 2012, in a suit that required the maintenance of the non-cumulative system for calculating PIS and Cofins taxes on revenues arising from "fixed price" contracts. The Company is awaiting the ruling of an appeal presented by the Federal Government to calculate said deposits.

The other amounts deposited are linked to lawsuits being conducted in administrative and in court levels, of which R$ 20,809 at 12.31.2016 (R$ 18,234 at 12.31.2015) are directly related to probable-risk contingencies recognized as provision in the Company's liabilities.

b) Changes

	Parent Company	Consolidated
Balance at 1.1.2015	**115,380**	**117,144**
Additions	4,784	5,217
Restatements	14,951	15,237
Write-offs and redemptions	(5,095)	(5,118)
Balance at 12.31.2015	**130,020**	**132,480**
Additions	12,149	12,489
Restatements	9,345	9,675
Write-offs and redemptions	(3,124)	(3,125)
Reclassification to held-for-sale assets	-	(1,789)
Balance at 12.31.2016	**148,390**	**149,730**

NOTE 13 – INVESTMENTS

a) Breakdown

	Parent Company	
	12.31.2016	12.31.2015
Interest on subsidiaries:		
Measured at the equity method		
Equity in earnings of subsidiaries	4,368,111	3,645,624
"Goodwill" (Concession right)	70,170	73,511
Other	3,859	-
	4,442,140	**3,719,135**

b) Changes in investments evaluated through the equity method

	Balance at 12.31.2015	Capital increase	Equity in earnings of subsidiaries	Dividends	Other comprehensive income	Balance at 12.31.2016
Itasa	**285,485**	-	8,591	(39,421)	-	**254,655**
CEE	**1,041,035**	-	78,354	(18,609)	-	**1,100,780**
Lages	**43,796**	-	(811)	-	-	**42,985**
EBC	**233,844**	-	132,606	(229,644)	-	**136,806**
ECP	**1,679,074**	255,137	153,411	-	(97,680)	**1,989,942**
Pampa	**362,389**	629,519	28,300	-	(186,284)	**833,924**
ECV	**-**	4,400	3	-	-	**4,403**
ENGIE Solar	**-**	3,859	(2,832)	-	-	**1,027**
Norte Catarinense	**1**	3,588	-	-	-	**3,589**
	3,645,624	**896,503**	**397,622**	**(287,674)**	**(283,964)**	**4,368,111**

	Balance at 12.31.2015	Capital increase	Equity in earnings of subsidiaries	Dividends	Other comprehensive income	Balance at 12.31.2016
Itasa	**301,642**	-	6,898	(23,055)	-	**285,485**
CEE	**1,006,681**	-	45,055	(10,701)	-	**1,041,035**
Lages	**43,796**	-	7,844	(7,844)	-	**43,796**
EBC	**4,200**	-	229,644	-	-	**233,844**
ECP	**1,152,122**	328,736	120,309	-	77,907	**1,679,074**
Pampa	**14,483**	147,589	6,299	-	194,018	**362,389**
Norte Catarinense	**1**	-	-	-	-	**1**
	2,522,925	**476,325**	**416,049**	**(41,600)**	**271,925**	**3,645,624**

b.1) Information on the main subsidiaries related to the fiscal year ended 12.31.2016

	Itasa	CEE	Lages	EBC	ECP	Pampa
Interest (%)	**48.75**	**99.99**	**99.99**	**99.99**	**99.99**	**99.99**
Capital	510,135	920,380	30,530	4,200	1,608,407	600,000
Assets	579,169	2,508,064	65,444	519,115	2,612,701	821,633
Liabilities	56,800	1,407,284	22,459	382,309	669,641	23,054
Adjusted shareholders' Equity	522,369	1,100,780	42,985	136,806	1,993,109	833,924
Net revenue	172,263	443,628	52,566	3,200,007	301,931	-
Adjusted net income (loss) for the year	17,623	78,354	(811)	132,606	154,409	28,300

The non-controlling interest of Ibitiúva in the shareholders' equity and the net income of ECP presented above is R$ 3,167 and R$ 998, respectively.

Capitalized interests

ENGIE Brasil Energia took out loans to finance the construction of the Pampa Sul Thermal Power Plant, the Campo Largo and Santa Mônica Wind Power Complexes and the Assú V Photovoltaic Power Plant. Interest on loans taken for investment in the construction of these subsidiaries' plants was capitalized as construction assets in the consolidated financial statements and recognized using the equity method in the parent company's financial statements. In fiscal year 2016, R$ 35,000 was capitalized in ECP and R$ 28,782 in Pampa.

In the year up to 12.31.2016, the amounts capitalized in the same subsidiaries were R$ 50,049 and R$ 35,345, respectively. In the table above, "Adjusted shareholders' equity" and "Adjusted net income (loss) for the year" include the items described above.

c) "Goodwill" (Concession right) – Parent company

This items substantially records "goodwill" (concession rights and acquired rights) paid in the acquisition of the subsidiary CEE, whose economic grounds are the rights over the concession granted by Aneel for the use of public assets in the generation of electrical energy, and which was defined based on the present value of the cash flow projections obtained through economic and financial evaluations.

The "goodwill" is being amortized through the straight-line method over the period of the concession contract of the plant, as the economic benefits arising from the acquisitions of these investments will occur over the course of the this period. In 2016, the amortized amount was R$ 3,341 (R$3,341 in 2015).

d) Information on subsidiaries

d.1) Itá Energética S.A. ("Itasa") – joint operation

ENGIE Brasil Energia and Companhia Siderúrgica Nacional (CSN) have joint control over Itasa, both with a 48.75% share in the voting and paid-up capital of the company.

The Company and Itasa own the exploration rights over the Itá Hydroelectric Power Plant, situated on the Uruguay River, on the border of the Brazilian States of Rio Grande do Sul and Santa Catarina, by means of a consortium in which Itasa has a 60.5% share and ENGIE Brasil Energia has 39.5%. The Plant has physical guarantee of 720 average MW, of which, under the terms of the Consortium Contract, Itasa is entitled to 404.1 average MW and ENGIE Brasil Energia to 315.9 average MW. The Company, directly and indirectly, through Itasa, is entitled to 544.2 average MW of the physical guarantee by the project.

The main groups, of assets, liabilities and income statement of Itasa, as shown below, are consolidated in ENGIE Brasil Energia's consolidated financial statements proportionally to its equity interest in the capital of this Company, since that Company has its legal personality.

BALANCE SHEET	12.31.2016	12.31.2015
ASSETS		
Current assets	33,763	56,004
Non-current assets		
Long-term assets	29,219	30,659
Property, plant and equipment	516,179	534,562
Intangible assets	8	8
TOTAL ASSETS	**579,169**	**621,233**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities	53,781	33,453
Non-current liabilities	3,019	2,170
Shareholders' equity	522,369	585,610
TOTAL LIABILITIES	**579,169**	**621,233**

STATEMENT OF INCOME FOR THE YEAR	12.31.2016	12.31.2015
NET SALES	**172,263**	**157,469**
COSTS OF ENERGY SOLD	**(142,062)**	**(135,479)**
GROSS INCOME	**30,201**	**21,990**
OPERATING INCOME (EXPENSES)		
Administrative and general expenses	(4,135)	(3,378)
Other operating expenses, net	(1)	(142)
INCOME BEFORE FINANCIAL INCOME (LOSS) AND TAXES	**26,065**	**18,470**
Financial result	**412**	**2,794**
INCOME BEFORE INCOME TAXES	**26,477**	**21,264**
Income and social contribution taxes	(8,854)	(7,114)
NET INCOME FOR THE YEAR	**17,623**	**14,150**

d.2) Companhia Energética Estreito ("CEE")

CEE has a 40.07% share in the Estreito Energia Consortium (Ceste), which was created for the implementation and exploitation of the Estreito Power Plant, situated on the Tocantins River, between the Brazilian states of Tocantins and Maranhão. The other consortium members are Vale (*Companhia Vale do Rio Doce*), Estreito Energia SA (Alcoa Group) and Intercement Brasil S.A. (Camargo Corrêa Group), with respective shares of 30.00%, 25.49% and 4.44%. The leadership of the consortium is in the hands of CEE. The plant has physical guarantee of 641.1 average MW, of which 256.9 average MW belonging to CEE.

d.3) Lages Bioenergética Ltda. ("Lages")

Lages is a thermoelectric power plant located in the municipality of Lages, state of Santa Catarina, which makes use of a 28 MW steam turbogenerator powered by wood residue. The plant has the registration at the Executive Committee of the Clean Development Mechanism (CDM) of the United Nations Organization (UNO), to negotiate carbon credits, to use wood residue in the joint generation of electricity.

d.4) ENGIE Brasil Energia Comercializadora Ltda. ("EBC")

EBC has the main objective of commercialization of electrical energy in free and regulated markets, including purchase, sale, import and export of electrical energy, as also the intermediation of any of these operations, and practice and celebration of commercial acts arising from such activities. The Company's sales to free consumers are normally made through EBC.

d.5) Usina Termelétrica Pampa Sul S.A. ("Pampa Sul")

Pampa Sul holds the Pampa Sul Thermoelectric Plant, which is being installed in the municipality of Candiota, state of Rio Grande do Sul and will have installed capacity of 340 MW. In November 2014, Pampa Sul sold, through an auction held by Aneel, 294.5 average MW for a period of 25 years, to be delivered as from January 1st, 2019. Construction of the Plant started in 2015 and commercial operation is scheduled to start in January 2019.

d.6) ENGIE Comercializadora Varejista de Energia Ltda. ("ENGIE Varejista")

ENGIE Varejista was founded in 2016 and its corporate purpose is the retail sale of electricity, including the purchase, wholesale or retail, and the retail sale and import of electricity. The operational startup of the Company is subject to approval from the Electricity Trading Chamber (CCEE), which has not been received to date.

The figure of retail seller was regulated by Aneel in 2015 to reduce the complexity of adhesion and facilitate the development of the Free Contracting Environment (ACL).

d.7) ENGIE Geração Solar Distribuída S.A. ("ENGIE Solar")

In April 2016, ENGIE Brasil Energia acquired 50% of ENGIE Solar's capital stock through capital subscription. The corporate purpose of ENGIE Solar is to develop, sell in retail or wholesale, operate and maintain photovoltaic solar generators and panels, with installed capacity below five megawatts (5 MW).

The acquisition will be completed through capital injections to be made within 48 months, in the maximum amount of R$ 24,276.

d.8) ENGIE Brasil Energias Complementares Participações Ltda. ("ECP")

ECP is a holding company with the objective of participating in the capital of other companies and also concentrating the investments in projects related to complementary energy of the Company. The following table presents financial information for the most significant subsidiaries of ECP for the year ended 12.31.2016.

	Capital	Assets	Liabilities	Net Assets	Net Revenue	Net Income (loss)	Other comprehensive income	Equity interest in the capital (%)
Tupan	80,379	127,490	31,855	95,635	17,620	15,256	-	99.99
Hidropower	33,393	87,745	36,273	51,472	14,770	10,943	-	99.99
Ibitiúva	38,501	123,112	59,754	63,358	30,879	19,969	-	95.00
Ferrari	87,640	250,308	104,693	145,615	54,678	33,930	-	99.99
EEN	185,683	588,690	331,369	257,321	109,341	33,060	-	99.99
EEC	391,500	431,816	40,814	391,002	5,324	286	-	99.99
CECL[17]	199,666	198,522	697	197,825	-	(2,038)	-	99.99
CESA[18]	380	-	-	-	-	(215)		99.99
Assú Project	2,703	10,324	22,258	(11,934)	-	(219)	(14,418)	99.99
Other	10	10	-	10	-	-	-	99.99

The effects on ECP's consolidated assets deriving from the allocation of the fair value of the rights linked to authorizations and other rights acquired in the business combination total R$ 366,075 (R$ 425,991 at 12.31.2015).

- Energias Eólicas do Nordeste S.A. ("EEN")

EEN is a holding company incorporated to concentrate the investments in SPEs that hold wind power projects of the Trairi Wind Power Complex in the state of Ceará. The following table presents selected financial information for the subsidiaries of EEN for the fiscal year ended 12.31.2016:

	Capital	Assets	Liabilities	Net Assets	Net Revenue	Net Income	Equity interest in the capital (%)
Trairí	36,554	119,859	75,188	44,671	24,621	6,644	99.99
Guajiru	40,068	143,101	91,574	51,527	30,365	9,992	99.99
Fleixeiras I	43,391	143,087	91,567	51,520	28,399	8,145	99.99
Mundaú	52,128	140,671	82,178	58,493	25,955	6,459	99.99

The effects on EEN's consolidated assets deriving from the allocation of the fair value of the rights to authorizations and other rights acquired in the business combination total R$ 10,939 (R$ 11,524 at 12.31.2015).

[17] Campo Largo Wind Power Complex.
[18] Santo Agostinho Wind Power Complex.

- Energias Eólicas do Ceará S.A. ("EEC")

EEC is a holding company incorporated to concentrate investments in the SPEs comprising the wind farms in the Santa Mônica Wind Power Complex, in the state of Ceará. The following table provides financial information for the fiscal year ended 12.31.2016 of the subsidiaries of EEC.

	Capital	Assets	Liabilities	Net Assets	Net Income (Loss)	Equity interest in the capital (%)
Estrela	125,059	133,537	9,588	123,949	(613)	99.99
Cacimbas	75,715	82,199	6,810	75,389	177	99.99
Santa Mônica	80,277	99,650	18,394	81,256	1,300	99.99
Ouro Verde	75,715	113,175	10,483	102,692	(579)	99.99

The effects on EEC's consolidated assets resulting from the fair value of the authorization and other rights acquired in the business combination are R$6,551 on 12.31.2016 (R$ 6,564 on 12.31.2015).

The four wind farms have combined commercial capacity of 47.4 average MW. Energy from the Complex was sold through an auction held by Aneel in August 2015, for an average price of R$188.45/MWh, for a period of 20 years. Supply will start on 1.1.2018.

The Santa Mônica wind farm started commercial operations in October 2016. The Cacimbas wind farm started commercial operations of three plants in December 2016 and the remaining four plants in January 2017. Construction of other farms is expected to be completed in the first quarter of 2017.

- Campo Largo Wind Power Complex ("CECL")

CECL is formed by a set of wind power projects totaling an approximate development potential of 630 MW, all of which located in the cities of Umburanas and Sento Sé, state of Bahia, which will be developed in stages.

The Complex is composed of twenty-two (22) SPEs acquired during 2013 and 2014. The total acquisition amount, including any adjustments to the final price, was R$ 87,801, of which R$ 81,392 correspond basically to the fair value of the basic environmental projects, the power generation certification, winds measurements, preliminary environmental licenses and leasing agreements.

In an Aneel Auction held in November 2014, CECL sold 82.6 average MW through CLWP Brasil I and its subsidiaries for the period of 20 years starting January 1st, 2019, to be generated by six wind farms, with total installed capacity of 178.2 MW. Another five wind farms of the Complex, with total installed capacity of 148.5 MW (approximately 70 average MW) will be developed in this stage of the project.

- Santo Agostinho Wind Power Complex ("CESA")

In August 2014, ECP acquired the rights to develop CESA, located in the cities of Lajes and Pedro Avelino, state of Rio Grande do Norte, which is composed of 24 SPEs, each responsible for developing one wind power project, totaling 600 MW of potential installed capacity.

The maximum acquisition price at the time of execution of the contract was R$ 54,000, which consists of a fixed amount of R$ 39,000 and a performance-based amount of up to R$ 15,000, which will be paid if certain contractual conditions are met.

At 12.31.2016, process for acquisition of the Wind Power Complex had been concluded. The surplus in the acquired business, considering principal and inflation adjustment, in the amount of R$ 58,899, substantially corresponds to the fair value of the basic environmental projects, the certification of power generation, measurements of winds, environmental licenses and leasing agreements, and was fully allocated to intangible assets.

Up to date, R$ 44,658 (corresponding to R$ 33,000 of the price upon the execution of the contract) was disbursed for the acquisition of the project.

- Assú Project

In November 2015, ECP signed an agreement to acquire projects for the installation of three photovoltaic power plants and the option to acquire another two – which was exercised in 2016, in the municipality of Assú, state of Rio Grande do Norte. Also in November 2015, ECP, through its subsidiary Assú V, which will develop one of the projects acquired, sold 9.2 average MW at the Reserve Energy Auction (LER) carried out by Aneel, for R$ 302.99/MWh, for a period of 20 years. Supply will start on November 1, 2018.

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT

a) Breakdown

		Parent Company			
		12.31.2016			12.31.2015
	Average rate of depreciation	Adjusted cost	Accumulated depreciation	Net amount	Net amount
In service					
Reservoirs, dams and ducts	2.8%	5,086,548	(2,882,952)	2,203,596	2,331,964
Buildings and improvements	3.1%	1,467,196	(902,431)	564,765	606,830
Machinery and equipment	4.3%	6,401,972	(4,197,132)	2,204,840	2,287,231
Furniture and fixtures	6.3%	9,767	(5,416)	4,351	4,691
Vehicles	14.3%	3,086	(2,093)	993	1,057
Special obligations		(12,238)	-	(12,238)	(12,420)
		12,956,331	**(7,990,024)**	**4,966,307**	**5,219,353**
In progress					
Reservoirs, dams and ducts		1,380	-	1,380	1,347
Buildings and improvements		7,991	-	7,991	2,811
Machinery and equipment		248,420	-	248,420	184,333
Advances to suppliers		24,192	-	24,192	27,890
Acquisitions to be apportioned		28,282	-	28,282	28,530
		310,265	**-**	**310,265**	**244,911**
		13,266,596	**(7,990,024)**	**5,276,572**	**5,464,264**

	Average rate of depreciation	Consolidated 12.31.2016 Adjusted cost	Accumulated depreciation	Net amount	12.31.2015 Net amount
In service					
Reservoirs, dams and ducts	3.1%	7,067,468	(3,325,504)	3,741,964	3,983,941
Buildings and improvements	3.2%	1,766,562	(998,510)	768,052	832,520
Machinery and equipment	4.4%	8,779,994	(4,735,638)	4,044,356	4,344,016
Furniture and fixtures	6.3%	10,458	(5,672)	4,786	5,133
Vehicles	14.3%	4,445	(2,928)	1,517	1,707
Special obligations		(12,362)	-	(12,362)	(12,545)
		17,616,565	**(9,068,252)**	**8,548,313**	**9,154,772**
In progress					
Reservoirs, dams and ducts		74,415	-	74,415	15,800
Buildings and improvements		90,673	-	90,673	22,277
Machinery and equipment		469,269	-	469,269	198,094
Advances to suppliers		743,344	-	743,344	399,818
Acquisitions to be apportioned		268,884	-	268,884	106,789
		1,646,585	**-**	**1,646,585**	**742,778**
		19,263,150	**(9,068,252)**	**10,194,898**	**9,897,550**

b) Changes in property, plant and equipment

	Parent Company Reservoirs, dams and ducts	Buildings and improvements	Machinery and equipment	Other	Construction in progress	Special obligations	Total
Balance at 12.31.2015	**2,466,257**	**642,132**	**2,110,667**	**5,923**	**327,250**	**(12,902)**	**5,539,327**
Additions	-	-	-	-	302,370	482	302,852
Capitalized interest and monetary variation	-	-	-	-	34,077	-	34,077
Impairment	-	-	(10,298)	-	-	-	(10,298)
Transfers	2,579	5,643	410,032	532	(418,786)	-	-
Write-offs	-	-	(13,758)	(5)	-	-	(13,763)
Depreciation	(136,872)	(40,945)	(209,412)	(702)	-	-	(387,931)
Balance at 12.31.2015	**2,331,964**	**606,830**	**2,287,231**	**5,748**	**244,911**	**(12,420)**	**5,464,264**
Additions	-	-	-	-	241,601	-	241,601
Capitalized interest and monetary variation	-	-	-	-	16,824	-	16,824
Impairment	-	-	(30,262)	-	-	-	(30,262)
Transfers	7,348	(502)	185,736	307	(193,071)	182	-
Write-offs	-	-	(296)	(40)	-	-	(336)
Depreciation	(135,716)	(41,563)	(237,569)	(671)	-	-	(415,519)
Balance at 12.31.2016	**2,203,596**	**564,765**	**2,204,840**	**5,344**	**310,265**	**(12,238)**	**5,276,572**

	Consolidated						
	Reservoirs, dams and ducts	Buildings and improvements	Machinery and equipment	Other	Construction in progress	Special obligations	Total
Balance at 12.31.2015	**4,197,039**	**869,242**	**4,195,582**	**7,123**	**402,118**	**(13,026)**	**9,658,078**
Additions	-	-	-	-	783,958	481	784,439
Capitalized interest and monetary variation	-	-	-	-	67,808	-	67,808
Impairment	-	-	(10,298)	-	-	-	(10,298)
Transfers	2,675	16,239	491,270	619	(511,106)	-	(303)
Write-offs	-	-	(13,906)	(5)	-	-	(13,911)
Depreciation	(215,773)	(52,961)	(318,632)	(897)	-	-	(588,263)
Balance at 12.31.2015	**3,983,941**	**832,520**	**4,344,016**	**6,840**	**742,778**	**(12,545)**	**9,897,550**
Additions	-	-	-	-	1,135,909	-	1,135,909
Capitalized interest and monetary variation	-	-	-	-	113,557	-	113,557
Impairment	-	(2,622)	(42,103)	(180)	-	-	(44,905)
Reclassification to held-for-sale asset	(44,277)	(12,470)	(230,974)	(93)	(174)	-	(287,988)
Transfers	16,890	4,543	323,210	659	(345,485)	183	-
Write-offs	-	-	(369)	(40)	-	-	(409)
Depreciation	(214,590)	(53,919)	(349,424)	(883)	-	-	(618,816)
Balance at 12.31.2016	**3,741,964**	**768,052**	**4,044,356**	**6,303**	**1,646,585**	**(12,362)**	**10,194,898**

c) Breakdown of property, plant and equipment in consolidated services, by group of power plants

	Parent Company				
	12.31.2016				12.31.2015
	Average rate of depreciation	Adjusted cost	Accumulated depreciation	Net amount	Net amount
Hydroelectric power plants	2.9%	10,107,479	(5,582,112)	4,525,367	4,730,375
Thermoelectric power plants	6.7%	2,879,113	(2,438,173)	440,940	488,978
		12,986,592	**(8,020,285)**	**4,966,307**	**5,219,353**

	Consolidated				
	12.31.2016				12.31.2015
	Average rate of depreciation	Adjusted cost	Accumulated depreciation	Net amount	Net amount
Hydroelectric power plants	3.1%	13,303,083	(6,330,328)	6,972,755	7,579,491
Thermoelectric power plants	6.7%	2,879,113	(2,438,173)	440,940	488,978
SHPP	4.3%	343,173	(119,432)	223,741	209,944
Biomass power plants	4.8%	500,471	(152,063)	348,408	263,399
Wind power plants	4.0%	634,711	(72,242)	562,469	612,960
		17,660,551	**(9,112,238)**	**8,548,313**	**9,154,772**

d) Depreciation

The useful lives set by Aneel, which correspond to the estimated useful life of assets, for the main groups of assets which make up the generator parks of the Company, are the following:

	Depreciation (% p.a.)	Average useful life (years)
Reservoirs and dams	2.0	50
Buildings and improvements	3.3	30
Generators	3.3	30
Boilers	4.0	25
Hydraulic Turbines	2.5	40
Engine Rooms	2.0	50
Wind Turbines (aerogenerators)	5.0	20
General Equipment	6.3	16

The following items are fully depreciated at 12.31.2016 and 12.31.2015:

	Parent Company		Consolidated	
	12.31.2016	12.31.2015	12.31.2016	12.31.2015
Reservoirs, dams and pipelines	231,535	231,535	231,535	231,535
Buildings and improvements	106,311	105,858	106,311	105,858
Machinery and equipment	935,229	812,968	936,242	813,771
Furniture and fixtures	1,224	1,170	1,390	1,314
Vehicles	1,212	680	1,630	1,098
	1,275,511	**1,152,211**	**1,277,108**	**1,153,576**

- Depreciation of assets comprising the Power Plants' Original Project

The Company, solely based on the interpretation of Law 8,987/95 and Decree 2,003/96, considers that there is no certainty of restitution by the Granting Power of the residual value of the Original Project of the hydroelectric projects at the end of the concession and authorization terms.

Therefore, the Company has been depreciating said assets based on the rates determined by Aneel, limited to the concession or amortization term, even though the agreements and the law provide the possibility of renewing said concessions and authorizations.

e) Fair value adjustment of property, plant and equipment

In compliance with the guidelines of accounting pronouncements, on 1.1.2009, date of the first-time adoption of the international financial reporting standards (IFRS) and the standards provided by CPC, the Company adopted the fair value as the deemed cost of property, plant and equipment of its plants whose book values differed substantially from their fair value.

The adjustment to the fair value of property, plant and equipment, net of deferred income tax and social contribution was offset by the 'Asset Valuation Adjustments' account under Shareholders' Equity. Depreciation and write-off of said adjustment to assets will not produce any effects on the income tax and social contribution calculation base or on the dividend distribution base.

Balances of consolidated property, plant and equipment at 12.31.2016 and 12.31.2015 include the fair value adjustment, net of depreciation and write-offs, in the amounts of R$ 627,253 and R$ 679,372, respectively. The depreciation and write-offs over the amounts of fair value adjustment in the fiscal year ended at 12.31.2016 was R$ 52,120 (R$ 61,021 at 12.31.2015).

f) Record of the onerous concessions contracted or acquired in a business combination

The Company, for the purpose of preparing the consolidated information, considered as reference to record the onerous concessions and authorizations granted by the Federal Government for the use of public assets to generate electrical energy, contracted or acquired in a business combination, the IFRS 3 - Business Combination Application Guide, which enables the recognition of the fair value for the concession and the property, plant and equipment as the single asset in the financial statements, when these assets can no longer be sold or transferred separately.

In accordance with this pronouncement, the Company recognized the onerous concession and the authorizations contracted or acquired in a business combination as a single asset in the property, plant and equipment group, broken-down by the nature of the assets proportionally to their cost of acquisition. This procedure has already been adopted by the Company before the adoption of IFRS and CPC became compulsory, in 1.1.2009, and was maintained for transactions after that date in order to maintain the consistency of procedures.

The balance of these concessions and authorizations to use public assets for power generation, in Property, Plant and Equipment, on 12.31.2016 was R$ 659,596 (R$ 693,944 at 12.31.2015) at the parent company, and R$ 1,051,064 (R$ 1,108,046 at 12.31.2015) in the consolidated.

g) Appropriation of financial charges

Financial charges linked to loans, financings and concession payables are capitalized in property, plant and equipment assets in progress during the construction of the power plants.

h) Impairment

In 2016, the Company recognized a provision for impairment of assets totaling R$30,262, in the parent company and R$ 44,905 in the consolidated results.

The main reason for recording impairment was the expectation that the values in use of thermal generation assets are lower than their book values, considering the prospects of a decline in revenue generation from these assets due to the difficulty in maintaining the same sale price of a contract that will expire in 2017 and the low possibility of dispatch of a plant through order of merit.

To calculate impairment, the recoverable value of the assets was based on the fair value of sale deducted from estimated sale expenses, based on the market prices for similar assets (Level 2).

i) Regulatory agency concessions and authorizations

i.1) Concessions of hydroelectric power plants (HPP)

Concessions	Concession holder	Installed capacity (MW)	Date of minutes	Expiration
Salto Santiago HPP	ENGIE Brasil Energia	1,420	9.28.1998	9.27.2028
Salto Osório	ENGIE Brasil Energia	1,078	9.28.1998	9.27.2028
Passo Fundo	ENGIE Brasil Energia	226	9.28.1998	9.27.2028
Itá	ENGIE Brasil Energia/Itasa	1,450	12.28.1995	10.16.2030
Machadinho	ENGIE Brasil Energia	1,140	7.15.1997	7.14.2032
Cana Brava	ENGIE Brasil Energia	450	8.27.1998	8.26.2033
Ponte de Pedra	ENGIE Brasil Energia	176	10.1.1999	9.30.2034
São Salvador	ENGIE Brasil Energia	243	4.23.2002	4.22.2037
Estreito	CEE	1,087	11.26.2002	11.26.2037

The Company has, directly and indirectly, in power plants Itá, Machadinho and Estreito, the equivalent to 1,126.9 MW, 403.9 MW and 435.6 MW, respectively, of the plants' installed capacity, which correspond to their interest as shareholders or consortium members.

i.2) Authorizations for thermal, small hydroelectric and wind power plants

Authorizations	Authorization holder	Installed capacity (MW)	Date of minutes	Expiration
Thermal power plants (TPP)				
Thermal power complex Jorge Lacerda	ENGIE Brasil Energia	857	9.25.1998	9.27.2028
Charqueadas TPP	ENGIE Brasil Energia	72	9.25.1998	9.27.2028
Alegrete TPP [19]	ENGIE Brasil Energia	66	9.25.1998	9.27.2028
William Arjona TPP	ENGIE Brasil Energia	190	6.1.2000	4.28.2029
Ibitiúva Bioenergética TPP	Consórcio Andrade[20]	33	4.5.2000	4.5.2030
Co-generation Unit Lages TPP	Lages	28	10.29.2002	10.28.2032
Pampa Sul TPP	Pampa Sul	340	3.31.2015	3.30.2050
Ferrari TPP	Ferrari Termoelétrica	80	7.27.2007	7.26.2042
Small Hydro Power Plants (SHPP)				
Areia Branca SHPP[21]	Areia Branca	20	5.2.2000	5.2.2030
Rondonópolis SHPP	Tupan	27	12.18.2002	12.18.2032
Engenheiro José Gelazio da Rocha SHPP	Hidropower	24	12.18.2002	12.18.2032
Wind Power Plants (WPP)				
Pedra do Sal WPP[21]	Pedra do Sal	18	10.1.2002	10.1.2032
Beberibe WPP[21]	Beberibe	26	7.31.2003	8.3.2033

[19] Alegrete Thermal Power Plant is a fuel oil-fired power plant constructed about 45 years ago. Due to its high operating cost, the plant is not dispatched if the electricity system is operating under normal conditions. Aneel definitively revoked the authorization for the operation in February 2014, and the Company is in the process of returning the plant to the Federal Government.

[20] Consortium members are the indirect subsidiary Ibitiúva Bioenergética S.A. (72.9%) and Andrade Açúcar e Álcool S.A. (27.1%).

[21] As mentioned in Note 11 – Non-current assets held for sale, the Board of Directors approved the sale of these plants. The completion of sale is subject to prior approval of CADE, BNDES and Aneel.

Authorizations	Authorization holder	Installed capacity (MW)	Date of minutes	Expiration
Trairí WPP	Trairí	25	9.20.2011	9.28.2041
Guajiru WPP	Guajiru	30	9.20.2011	9.28.2041
Fleixeiras I WPP	Fleixeiras I	30	9.20.2011	9.26.2041
Mundaú WPP	Mundaú	30	9.20.2011	9.26.2041
Santa Mônica WPP	Santa Mônica SPE	19	1.20.2015	1.25.2045
Cacimbas I WPP	Cacimbas	19	1.27.2015	2.4.2045
Ouro Verde WPP[22]	Santa Mônica SPE II	30	1.20.2015	1.22.2045
Estrela WPP[22]	Trairí II	30	1.27.2015	2.4.2045
Tubarão P&D	ENGIE Brasil Energia	2	5.21.2015	N.A.[23]
Wind Power Plants (WPP) Project				
Campo Largo WPP III, IV, VI and VII	CLWP Eólicas	116	7.2.2015	7.2.2050
Campo Largo WPP V and XXI	CLWP Eólicas	59	8.3.2015	8.3.2050
Photovoltaic solar power plant				
Central Fotovoltaica Assú V	ENGIE Brasil Energia	30	6.7.2016	6.7.2051
Cidade Azul	ENGIE Brasil Energia	3	4.10.2014	N.A. [23]

The Company has 22.9 MW of the installed capacity of Ibitiúva Bioenergética Power Plant, which corresponds to its interest as shareholders or consortium member.

i.3) Unavailability of assets

The assets and facilities used in the production, transmission, distribution and sale of electrical energy are linked to those services and cannot be removed, sold, assigned or pledged in mortgage guarantee without the previous and express authorization of the Regulatory Agency. Aneel regulates the release of assets from the concessions of the Public Electrical Energy Service, granting prior authorization to release the property and other fixed assets not usable by the concession when they are destined for sale, and also determining that the sales proceeds less respective charges be deposited in a restricted bank account to be invested in the concession.

NOTE 15 – INTANGIBLE ASSETS

a) Breakdown

		Parent Company			
		12.31.2016			12.31.2015
	Amortization period	Adjusted cost	Accumulated amortization	Total	Total
Right to use	Until 2034	58,251	(37,413)	**20,838**	**17,262**

[22] Plants are in the final construction phase.

[23] For generating plants with capacity equal to or lesser than 5 MW, the record is the applicable legal instrument.

	Amortization period	Consolidated			
		12.31.2016			12.31.2015
		Adjusted cost	Accumulated amortization	Total	Total
Energy purchase right	Until 2023	64,561	(24,090)	40,471	46,486
Right to use assets	Until 2037	78,116	(39,062)	39,054	51,484
Rights over Trairí Project	Until 2041	12,668	(1,729)	10,939	11,524
Rights over Campo Largo Project	-	81,392	-	81,392	81,392
Rights over Santo Agostinho Project	-	58,899	-	58,899	45,872
Rights over Assú Project	-	15,194	-	15,194	-
Rights over Santa Mônica Project	-	6,565	-	6,565	6,565
		317,395	**(64,881)**	**252,514**	**243,323**

Rights over the abovementioned projects arise from the fair value of the basic environmental projects, the certification of power generation, wind measurements, preliminary environmental licenses and leasing agreements acquired jointly with the companies. The amortization of these rights will start after the wind farms start to operate commercially and will be recognized through the straight-line method over the term of the authorization for use of the assets.

b) Changes

	Parent Company	Consolidated
Balance at 1.1.2015	**10,993**	**196,516**
Addition	11,698	29,509
Fair value of acquired rights	-	29,157
Transfer to property, plant and equipment	-	303
Amortization	(5,429)	(12,162)
Balance at 12.31.2015	**17,262**	**243,323**
Addition	8,266	9,000
Fair value of acquired rights	-	11,698
Transfer to held-for-sale assets	-	(77)
Amortization	(4,690)	(11,430)
Balance at 12.31.2016	**20,838**	**252,514**

c) Impairment

The Company evaluates, at least on an annual basis, the existence of events that may lead to intangible assets impairment losses, and no indications of impairment were identified at 12.31.2016.

NOTE 16 – SUPPLIERS

	Parent Company		Consolidated	
	12.31.2016	12.31.2015	12.31.2016	12.31.2015
Electrical energy purchased	47,514	43,297	146,998	178,827
Transactions in the short-term market	11,071	120,918	17,586	121,189
Fossil fuels and biomass	48,371	101,478	49,545	102,834
Charges for the use of the power grid	34,624	30,940	41,966	37,692
Suppliers of materials and services	46,837	39,474	61,107	52,049
Suppliers of property, plant and equipment	23,360	36,395	53,947	80,982
	211,777	**372,502**	**371,149**	**573,573**

NOTE 17 – LOANS AND FINANCING

a) Breakdown

	Parent Company					
	12.31.2016			12.31.2015		
	Current	Non-current	Total	Current	Non-current	Total
Measured at the amortized cost						
Local currency						
BNDES	73,033	240,842	313,875	35,712	277,763	313,475
Banks (BNDES onlending)	35,655	207,585	243,240	34,671	239,996	274,667
Nordic Investment Bank (NIB)	25,958	129,807	155,765	24,458	146,763	171,221
Financial charges	3,113	-	3,113	5,987	-	5,987
	137,759	**578,234**	**715,993**	**100,828**	**664,522**	**765,350**
Measured at fair value						
Foreign currency with hedge						
HSBC USA	-	-	-	920,668	-	920,668
Mizuho Bank	-	-	-	341,182	-	341,182
Bank of Tokyo	-	-	-	188,199	-	188,199
Financial charges	-	-	-	2,127	-	2,127
	-	**-**	**-**	**1,452,176**	**-**	**1,452,176**
Loans and financing	**137,759**	**578,234**	**715,993**	**1,553,004**	**664,522**	**2,217,526**

The balances of loans and financing at the parent company, net of hedge effects, are as follows:

	Parent Company					
	12.31.2016			12.31.2015		
	Current	Non-current	Total	Current	Non-current	Total
Loans and financing	**137,759**	**578,234**	**715,993**	**1,553,004**	**664,522**	**2,217,526**
Effects of Hedge (swap) in the balance sheet						
Long position [24]	-	-	-	(488,802)	-	(488,802)
Loans and financing, including hedge effects	**137,759**	**578,234**	**715,993**	**1,064,202**	**664,522**	**1,728,724**

	Consolidated					
	12.31.2016			12.31.2015		
	Current	Non-current	Total	Current	Non-current	Total
Measured at the amortized cost						
Local currency						
BNDES	168,221	1,184,886	1,353,107	145,533	1,450,429	1,595,962
Banks (BNDES onlending)	77,045	686,388	763,433	73,918	752,771	826,689
Nordic Investment Bank	25,958	129,807	155,765	24,458	146,763	171,221
Banco do Brasil	3,305	-	3,305	3,966	3,305	7,271
Financial charges	8,667	-	8,667	12,439	-	12,439
	283,196	**2,001,081**	**2,284,277**	**260,314**	**2,353,268**	**2,613,582**
Measured at fair value						
Foreign currency with hedge						
HSBC USA	-	-	-	920,668	-	920,668
Mizuho Bank	-	-	-	341,182	-	341,182
Bank of Tokyo	-	-	-	188,199	-	188,199
Financial charges	-	-	-	2,127	-	2,127
	-	**-**	**-**	**1,452,176**	**-**	**1,452,176**
Loans and financing	**283,196**	**2,001,081**	**2,284,277**	**1,712,490**	**2,353,268**	**4,065,758**

The balances of loans and financing in the consolidated, net of hedge effects, are as follows:

[24] The long position of the hedge is presented as part of the item "Unrealized gain from hedge operations"

	Consolidated					
	12.31.2016			12.31.2015		
	Current	Non-current	Total	Current	Non-current	Total
Loans and financing	**283,196**	**2,001,081**	**2,284,277**	**1,712,490**	**2,353,268**	**4,065,758**
Effects of Hedge (swap) in the balance sheet						
Long position	-	-	-	(488,802)	-	(488,802)
Loans and financing, including hedge effects	**283,196**	**2,001,081**	**2,284,277**	**1,223,688**	**2,353,268**	**3,576,956**

b) Changes in loans and financings

	Parent Company			Consolidated		
	Current	Non-current	Total	Current	Non-current	Total
Balance at 1.1.2015	**297,730**	**1,644,768**	**1,942,498**	**454,321**	**3,435,085**	**3,889,406**
Additions	96	93,017	93,113	1,290	136,705	137,995
Interest income (expense)	68,217	-	68,217	184,867	-	184,867
Monetary variation gain (loss)	2,131	17,518	19,649	2,670	23,498	26,168
Capitalized interest and monetary variation	9,365	-	9,365	43,096	-	43,096
Exchange variation gain (loss)	201,649	352,957	554,606	201,649	352,957	554,606
Adjustment to fair value	(40,408)	14,435	(25,973)	(40,408)	14,435	(25,973)
Transfers	1,458,173	(1,458,173)	-	1,609,412	(1,609,412)	-
Principal amortization	(368,551)	-	(368,551)	(519,215)	-	(519,215)
Interest payment	(75,398)	-	(75,398)	(225,192)	-	(225,192)
Balance at 12.31.2015	**1,553,004**	**664,522**	**2,217,526**	**1,712,490**	**2,353,268**	**4,065,758**
Additions	-	35,339	35,339	-	35,339	35,339
Interest income (expense)	65,411	-	65,411	135,536	-	135,536
Monetary variation gain (loss)	2,785	14,978	17,763	4,980	37,984	42,964
Capitalized interest and monetary variation	6,023	-	6,023	81,380	-	81,380
Exchange variation gain (loss)	(181,654)	-	(181,654)	(181,654)	-	(181,654)
Adjustment to fair value	39,594	-	39,594	39,594	-	39,594
Transfers	136,605	(136,605)	-	292,536	(292,536)	-
Reclassification to liabilities related to assets held for sale	-	-	-	(17,721)	(132,974)	(150,695)
Principal amortization	(1,408,927)	-	(1,408,927)	(1,563,270)	-	(1,563,270)
Interest payment	(75,082)	-	(75,082)	(220,675)	-	(220,675)
Balance at 12.31.2016	**137,759**	**578,234**	**715,993**	**283,196**	**2,001,081**	**2,284,277**

c) Breakdown of debt by index and currency

	Parent Company				Consolidated			
	12.31.2016	%	12.31.2015	%	12.31.2016	%	12.31.2015	%
Local currency								
TJLP	540,711	75.5	572,251	25.8	2,092,637	91.6	2,395,953	58.9
IPCA	156,829	21.9	172,415	7.8	156,829	6.9	172,415	4.2
Not indexed	18,453	2.6	20,684	0.9	34,811	1.5	45,214	1.1
	715,993	**100.0**	**765,350**	**34.5**	**2,284,277**	**100.0**	**2,613,582**	**64.3**
Foreign currency								
U.S. dollar – with hedge for CDI	-	-	1,452,176	65.5	-	-	1,452,176	35.7
	-	**-**	**1,452,176**	**65.5**	**-**	**-**	**1,452,176**	**35.7**
Loans and financing	**715,993**	**100.0**	**2,217,526**	**100.0**	**2,284,277**	**100.0**	**4,065,758**	**100.0**

Loans in U.S. dollars were fully settled upon maturity in 2016. They were fully hedged against exchange variation through swap-to-CDI operations.

d) Interest rates and foreign currency variation

	2016	2015
TJLP	7.5%	6.3%
CDI	14.1%	13.3%
IPCA	6.2%	10.7%
U.S. dollar	-16.8%	47.5%

e) Maturity of loans and financing under non-current liabilities

	Parent Company	Consolidated
2018	134,214	268,001
2019	134,430	265,425
2020	110,877	238,024
2021	77,905	198,273
2022	77,922	194,904
2023 to 2027	42,886	627,799
2028 to 2032	-	208,655
Loans and financing	**578,234**	**2,001,081**

f) Main contracted loan conditions

		Payment Conditions		
Company/Bank	Interest	Maturity	Principal and interest	Balance at 12.31.2016
Parent Company:				
Local currency				
BNDES – Modernization	TJLP + 2.26% p.a. [a]	7.2020	Monthly	203,268
Nordic Investment Bank	IPCA + 3.55% p.a.	10.2022	Principal: Monthly Interest: Quarterly	156,829
BNDES – São Salvador Power Plant	TJLP + 2.7% p.a. [a]	10.2023	Monthly	111,741
BNDES Onlending (Banks) [b]	TJLP + 3.25% p.a. [a]	10.2023	Monthly	225,702
Finame Onlending (Banks)	3.68% p.a.	11.2024	Monthly	18,453
Subsidiaries:				
Hidropower - Banco do Brasil	8.08% p.a.	10.2017	Monthly	3,326
Companhia Energética Estreito				
BNDES – Social Credit	TJLP	6.2018	Monthly	8,398
BNDES	TJLP + 1.89% p.a. [a]	9.2029	Monthly	691,582
BNDES Onlending (Banks) [b]	TJLP + 2.95% p.a. [a]	9.2029	Monthly	470,048
Ibitiúva				
BNDES (Subcredit B)	4.5% p.a.	1.2020	Monthly	13,032
BNDES (Subcredit A and C)	TJLP + 2.05% p.a. [a]	1.2021	Monthly	14,891
Ferrari				
BNDES	TJLP + 1.91% p.a. [a]	6.2021	Monthly	19,383
BNDES Expansion	TJLP + 1.76% p.a. [a]	7.2032	Monthly	43,274
Banks (BNDES Onlending) [b]	TJLP + 3.40% p.a. [a]	6.2021	Monthly	8,459
Trairí Project [c] – BNDES				
BNDES – Social Credit	TJLP	7.2029	Monthly	1,527
BNDES	TJLP + 2.51% [a]	7.2029	Monthly	294,364

[a] The amount corresponding to the TJLP installment that exceeds 6% p.a. is incorporated into the principal.
[b] The banks are the following: Itaú Unibanco, Itaú BBA, Bradesco, Santander and Votorantim.
[c] Financing of the Trairí Project, composed of the following companies: Trairí, Mundaú, Guajiru and Fleixeiras I.

g) Guarantees

h.1) BNDES and Banks (BNDES onlending)

- Financing of hydroelectric projects: (a) pledge of rights deriving from concession; (b) pledge of credit rights deriving from electrical energy purchase and sale contracts; (c) reserve account at amount equivalent to three months of debt service; (d) reserve account at amount equivalent to three months of operating and maintenance contract expenses applicable to plants that contract third parties' services to execute these activities; and (e) security deposit for total shares.

In addition to these guarantees, in the contract with CEE, there is the guarantee for the pledge of dividends to be paid by ENGIE Brasil Energia to its parent company, ENGIE.

- **Modernization**: fiduciary assignment of revenues arising from Agreements for Energy Sale in the Regulated Environment - CCEAR

- **Financing of São Salvador Hydroelectric Power Plant:** bank guarantee for the BNDES portion and bank account concentrating receivables for Banks (BNDES Onlending).

- **Financing of Small Hydroelectric (SHPP), Biomass and Wind Farm Projects:** (a) pledge of assets and equipment, (b) total shares representing subsidiaries' capital; (c) receivables and reserve account; and (d) ENGIE Brasil Energia corporate collateral signature.

h.2) Banco do Brasil

- Financing of SHPP projects: (a) total shares representing capital; (b) receivables and reserve account; and (c) ENGIE Brasil Energia corporate collateral signature.

h) Contract commitments (covenants)

Debt	Covenants
Parent company	
Nordic Investment Bank	Parent company: Total debt / EBITDA ≤ 3.5 Consolidated: Total debt / EBITDA ≤ 4.5 Parent company and Consolidated: EBITDA / financial expenses ≥ 2.0
BNDES – Modernization	Net Debt of the parent company/EBITDA ≤ 3.5
BNDES and Banks (BNDES onlending) – São Salvador Power Plant	Consolidated gross debt/EBITDA ≤ 4.5
Subsidiaries	
BNDES and Banks (BNDES onlending)	Debt service coverage ratio[25] ≥ 1.2 or 1.3, depending on the subsidiary
BNDES Expansion	Net Debt/EBITDA ≤ 3.5
BNDES - Ibitiúva	Total debt ratio ≤ 0.80 Debt service coverage ratio ≥ 1.3

The financial commitments established in the loan and financing agreements are being fulfilled by the Company.

NOTE 18 – DEBENTURES

a) Changes in debentures

	Parent Company			Consolidated		
	Current	Non-current	Total	Current	Non-current	Total
Balance at 1.1.2015	**442**	**162,884**	**163,326**	**442**	**162,884**	**163,326**
Interest income (expense)	1,972	-	1,972	1,972	-	1,972
Monetary variation gain (loss)	488	2,328	2,816	488	2,328	2,816
Capitalized interest and monetary variation	9,233	15,479	24,712	9,233	15,479	24,712
Transfers	(256)	256	-	(256)	256	-
Payment of interests	(11,390)	-	(11,390)	(11,390)	-	(11,390)
Balance at 1.1.2015	**489**	**180,947**	**181,436**	**489**	**180,947**	**181,436**
Additions	-	585,784	585,784	-	585,784	585,784
Interest income (expense)	23,795	-	23,795	9,240	-	9,240
Monetary variation gain (loss)	359	14,516	14,875	359	7,695	8,054

[25]Debt service coverage rate: Activity cash generation/ Debt service

	Parent Company			Consolidated		
	Current	Non-current	Total	Current	Non-current	Total
Capitalized interest and monetary variation	5,092	5,709	10,801	19,647	12,530	32,177
Transfers	(952)	952	-	(952)	952	-
Payment of interests	(12,236)	-	(12,236)	(12,236)	-	(12,236)
Balance at 1.1.2016	**16,547**	**787,908**	**804,455**	**16,547**	**787,908**	**804,455**

On 7.15.2016, the Company issued 600,000 simple, unsecured, non-convertible debentures in two series, at the nominal unit value of R$ 1, totaling R$ 600,000, or R$ 585,784 net of funding costs. The proceeds will be used to build Pampa Sul TPP.

b) Main conditions contracted

			Payment Conditions		
	Quantity	Remuneration	Charges	Principal	Guarantee
5th Issuance - single series	165,000	IPCA + 6.3% p.a.	Annually in December	3 annual installments as of 12.2022	Without guarantee
6th Issuance – Series 1	246,600	IPCA + 6.2621% p.a.	Annually in July	3 annual installments as of 7.2021	Without guarantee
6th Issuance – Series 2	353,400	IPCA + 6.2515% p.a.	Annually in July	3 annual installments as of 7.2024	Without guarantee

c) Contractual covenants

Debt	Covenants
5th and 6th Issuances - single series	EBITDA/consolidated financial expenses ≥ 2.0 Consolidated gross debt/EBITDA ≤ 4.5

The covenants are being fully complied with by the Company.

NOTE 19 – CONCESSIONS PAYABLE

a) Breakdown

	Parent Company		Consolidated	
	12.31.2016	12.31.2015	12.31.2016	12.31.2015
Cana Brava hydroelectric power plant	950,283	810,919	950,283	810,919
Ponte de Pedra hydroelectric power plant	814,472	704,492	814,472	704,492
São Salvador hydroelectric power plant	530,211	505,170	530,211	505,170
Estreito hydroelectric power plant	-	-	52,410	49,971
	2,294,966	**2,020,581**	**2,347,376**	**2,070,552**
Classification in the balance sheet				
Current liabilities	59,907	55,388	65,408	60,572
Non-current liabilities	2,235,059	1,965,193	2,281,968	2,009,980
	2,294,966	**2,020,581**	**2,347,376**	**2,070,552**

The Company has onerous concession agreements with the Federal Government to Use the Public Asset (UBP) to generate electrical energy in the power plants listed in the table above. The features of the businesses and the agreements show the condition and the intention of the parties to execute them in full.

Considering that contractual amounts are stated at future prices, the Company adjusted them to present value based on reference discount rates on the date the obligation assumed, namely: Cana Brava plant, São Salvador and Estreito of 10% p.a. and 8.3% p.a. to Ponte de Pedra.

b) Original contracted amounts

Original amount, adjusted at annual IGP-M (Cana Brava and Ponte de Pedra) and IPCA (Estreito and São Salvador) variation are paid in monthly installments equivalent to 1/12 of respective annual amount, as follows:

	Original value		Restated amount	
Plants and payment years	Annual Payment	Total payment	Annual Payment	Total payment
Cana Brava hydroelectric plant				
Until 7.31.2023	680	4,477	3,508	20,411
From 8.1.2023 to 7.31.2033	61,280	612,800	272,837	2,728,366
		617,277		**2,748,777**
Ponte de Pedra hydroelectric plant				
Until 9.30.2019	200	550	782	2,158
From 10.1.2019 to 9.30.2020	16,200	16,200	61,290	63,687
From 10.1.2020 to 9.30.2034	31,109	435,531	117,697	1,712,209
		452,281		**1,778,054**
São Salvador hydroelectric plant				
Until 4.30.2037	20,000	**408,333**	58,729	**1,209,354**
Estreito hydroelectric plant				
Until 12.31.2037	1,960	**41,328**	5,771	**121,749**

c) Changes

	Parent Company			Consolidated		
	Current	Non-current	Total	Current	Non-current	Total
Balance at 12.31.2015	**50,458**	**1,669,647**	**1,720,105**	**55,115**	**1,710,657**	**1,765,772**
Interest	-	167,963	167,963	-	172,576	172,576
Monetary variations	-	186,365	186,365	-	191,210	191,210
Transfers	58,782	(58,782)	-	64,463	(64,463)	-
Amortizations	(53,852)	-	(53,852)	(59,006)	-	(59,006)
Balance at 12.31.2015	**55,388**	**1,965,193**	**2,020,581**	**60,572**	**2,009,980**	**2,070,552**
Interest	-	196,562	196,562	-	201,530	201,530
Monetary variations	-	136,632	136,632	-	139,785	139,785
Transfers	63,328	(63,328)	-	69,327	(69,327)	-
Amortizations	(58,809)	-	(58,809)	(64,491)	-	(64,491)
Balance at 12.31.2016	**59,907**	**2,235,059**	**2,294,966**	**65,408**	**2,281,968**	**2,347,376**

d) Maturities of concessions payable disclosed in non-current liabilities

	Parent Company	Consolidated
2018	54,503	59,508
2019	62,028	66,577
2020	103,248	107,382
2021	125,650	129,409
2022	115,458	118,875
2023 to 2027	968,309	981,261
2028 to 2032	670,339	678,377
2033 to 2037	135,524	140,579
	2,235,059	**2,281,968**

NOTE 20 – RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

In order to conduct more efficiently risk evaluation and monitoring process in its business, the Company has the Risk Management Committee, which is responsible for: (i) internally promote the awareness on risk treatment; (ii) define goals and guidelines for its management; (iii) promote and suggest improvements in its evaluation processes; and (iv) classify and define control procedures.

The Company's business, the financial conditions and the results of operations may be adversely affected by any of the risk factors described below.

a) Market risk

The Company and its subsidiaries use financial instruments with the objective of hedging assets and liabilities, minimizing exposure to market risks, mainly in connection with interest rate, price indexes and currency fluctuations.

These risks are monitored by the Financial Committee that periodically evaluates the Company's exposure and propose operating strategies, control system and position and credit limits with other market partners. The Company does not perform financial operations in derivatives or any other instruments on a speculative basis.

In 2016, there were no changes in the Company's exposure to market risks or in the management and measurement of these risks.

The main market risks to which the Company is exposed are as follows:

a.1) Risk related to debts with floating interest rates

This risk is related to the possibility of the Company incurring losses as a result of fluctuations in interest rates applied to its liabilities, affecting its financial expenses. The Company and its subsidiaries are exposed to floating interest rates linked to TJLP, DI rate, Euribor, IGP-M and IPCA variations.

With respect to the risk of inflation acceleration, all prevailing electrical energy sale contracts have an inflation adjustment clause for the application of IGP-M or IPCA, which represents a natural long-term hedge for debts and obligations indexed at inflation rates and/or linked to inflation acceleration, which is the case of debts linked to CDI.

Regarding the risk of floating interest rates, the majority of the Company's debt is linked to the Brazilian long-term interest rate (TJLP), which usually follows the fluctuation in interest and inflation rates. Therefore, debt pegged to TJLP is usually hedged by the aforementioned adjustments to energy contracts. Note that any amount corresponding to the portion of TJLP that exceeds 6% p.a. is added to the principal of the debt, which mitigates the immediate impact on the Company's cash flow, in case of an increase in the TJLP.

a.2) Risk related to liabilities denominated in foreign currency

The exchange rate risk is associated with the possibility of variation in foreign exchange rates, which affects the financial result and the balance of liabilities denominated in foreign currencies. The Company's policy to hedge against exchange rate variation risks seeks to achieve a low level of exposure for its liabilities and obligations denominated in foreign currency, which are permanently monitored by the Company's Financial Committee.

At 12.31.2016, the Company held no financial obligation denominated in foreign currencies whose exchange variation was not fully hedged against.

Unrealized gains (losses) with hedge operations are as follows:

	Parent Company		Consolidated	
	12.31.2016	12.31.2015	12.31.2016	12.31.2015
Long position				
Fair value hedge on loans	-	488,802	-	488,802
Cash flow hedge on obligations	-	-	3,455	419,665
	-	**488,802**	**3,455**	**908,467**
Short position				
Cash flow hedge on obligations	-	-	(21,846)	(562)
Net position	**-**	**488,802**	**(18,391)**	**907,905**
Classification in the balance sheet				
Current assets	-	488,802	1,490	778,227
Non-current assets	-	-	1,965	130,240
Current liabilities[26]	-	-	(21,846)	-
Non-current liabilities[27]	-	-	-	(562)
	-	**488,802**	**(18,391)**	**907,905**

a.2.1) Fair value hedge operations on loans

The Company contracted swap operations with the Brazilian subsidiaries of the same lending financial institutions, in order to hedge future payment flows of principal and interest, including any income tax levied thereon, against foreign exchange fluctuation.

Due to the characteristics of said financial instruments, the Company applied the rules of fair value hedge accounting to record them. As a result, both the underlying loan object of the hedge operation and the hedge instrument itself (swap) are measured at fair value through profit or loss, thus fully protecting the Company from the financial effects, as well as impacts from exchange variation in its results.

[26] Presented under "Other current liabilities"
[27] Presented under "Other non-current liabilities"

Changes in fair value hedge operations on loans

	Parent Company and Consolidated		
	Current	Non-Current	Total
Assets at 1.1.2015	**27,538**	**36,698**	**64,236**
Interest expense	(110,733)	-	(110,733)
Exchange variation	201,649	352,957	554,606
Fair value adjustment	(38,438)	14,237	(24,201)
Transfer	403,892	(403,892)	-
Principal amortization	(105,534)	-	(105,534)
Interest amortization	110,428	-	110,428
Assets at 12.31.2015	**488,802**	**-**	**488,802**
Interest expense	(74,714)	-	(74,714)
Exchange variation	(181,654)	-	(181,654)
Fair value adjustment	37,608	-	37,608
Principal amortization	(353,726)	-	(353,726)
Interest amortization	83,684	-	83,684
Assets at 12.31.2016	**-**	**-**	**-**

a.2.2) Cash flow hedge operations

As at 12.31.2016, the Company maintains a Non-Deliverable Forward (NDF) operation to hedge all of its future foreign-denominated payments arising from contractual commitments related to the construction of the coal-fired thermal power plant Pampa Sul TPP and of the Assú Photovoltaic Power Plant. The NDFs used to hedge the commitments assumed by the Assú V Photovoltaic Solar Power Plant were contracted by ENGIE Brasil Energia – the indirect parent company – and fully transferred to the subsidiary.

These NDF operations are contracted 98.5% from HSBC, 0.9% from Citibank and 0.6% from Santander, and mature up to July 2018.

At 12.31.2016, unrealized gains with NDF totaled an asset of R$ 3,455 (R$ 419,665 at 12.31.2015) and a liability of R$ 21,846 (R$ 562 at 12.31.2015). The corresponding entry for this unrealized loss is recognized directly to shareholders' equity under "Other comprehensive income (loss)", net of deferred income and social contribution taxes, in the amount of R$ 12,139. In addition, an amount of R$ 18,429 was recognized under "Other comprehensive income," relating to the gains realized from NDF contracted again due to the revision of the supplier payment flow. Unrealized losses, net of impacts from deferred income and social contribution taxes, incurred in fiscal year 2016, were R$ 288,746 and are recorded in the "Statement of comprehensive income."

a.3) Sensitivity analysis of the exposure to risks related to interest rates, floating rates and foreign currency quotation variation

In compliance with CVM Instruction no. 475/08 and for reference purposes, the Company prepared a sensitivity analysis on its loans, financing, debentures and concessions payable exposed to interest rate variation risks, floating rate risks and foreign currency variation risks.

The probable basic scenario for 2016 was defined using the following assumptions available in the market (Source: Central Bank of Brazil Market Readout).

Variation of interest rates and indices:	Change 2016	Probable Scenario 2017	Sensitivity		
			Probable	Δ + 25% (*)	Δ + 50% (*)
TJLP	7.5%	7.5%	0.0 p.p.	1.9 p.p.	3.8 p.p.
IPCA	6.2%	4.8%	-1.4 p.p.	1.2 p.p.	2.4 p.p.
IGP-M	7.2%	5.1%	-2.1 p.p.	1.3 p.p.	2.5 p.p.

(*) Variations on probable scenario for 2017.

The probable sensitivity was calculated based on the variation of indices in 2016 and those expected for 2017. The other sensitivities shown were calculated based on the variation of 25% and 50% on the probable scenario for 2017. Variations that could be caused on the consolidated financial result of the Company in 2017 compared to 2016 if the scenarios materialize are the following:

	Balance at 12.31.2016	Sensitivity		
		Probable	Δ + 25%	Δ + 50%
Loans and financing				
TJLP	2,092,637	-	(41,422)	(83,504)
IPCA	156,829	1,948	(1,718)	(3,435)
		1,948	**(43,140)**	**(86,939)**
Debentures				
IPCA	804,455	**11,533**	**(10,169)**	**(20,337)**
Concessions payable				
IGP-M	1,764,755	36,992	(22,597)	(45,194)
IPCA	582,621	8,570	(6,716)	(13,433)
		45,562	**(29,313)**	**(58,627)**
Total		**59,043**	**(82,622)**	**(165,903)**

b) Capital management risk

The Company manages its capital so as to maximize return to investors by optimizing the debt and equity balances, seeking to structure capital and maintaining indebtedness and debt coverage ratios that provide the return to investors.

The Company's capital structure is formed by net indebtedness (loans, financing and debentures less cash, cash equivalents and escrow deposits linked to debt) and shareholders' equity, which includes capital reserves and accumulated earnings incorporated to earnings reserve.

ENGIE Brasil Energia and its subsidiaries have debts that stipulate a gross indebtedness maximum limit, calculated based on EBITDA. The most restrictive limit is the one that limits debts to 3.5 times EBITDA.

c) Credit risk

The transactions that are relevant to the Company's business in which there exists credit risk are energy sales, financial investments and hedge operations. The Company's history of losses resulting from difficulties of banks and customers to honor their commitments is practically zero. The Company is the guarantor of certain financing agreements for its subsidiaries to guarantee compliance with the commitments assumed.

c.1) Risks related to energy sale

In long-term agreements entered into with distributors, including CCEAR, the Company minimizes its credit risk through a mechanism for the establishment of guarantees involving customers' receivables.

In order to minimize credit risk in the agreements to sell electrical energy to free consumers, sellers and generating companies, the Company requires bank guarantee and secured CDB. For counterparties that wish to present another type of guarantee, the Company, through its credit area, analyzes and establishes, in accordance with its Credit Policy, guarantees that should be required from these counterparties.

Credits of all customers are annually revised and its exposure to several economy factors is periodically assessed, so as to maintain the diversification of its portfolio and reduce its exposure to the specific sector risk.

c.2) Risks related to marketable securities

The Company and its subsidiaries' financial investments follow the rule of allocating a minimum of 90% of funds to Federal Public Securities – as final purchase and/or repurchase and resale commitments – and a maximum of 10% of funds to Private Securities – acquisition of CDBs from eligible banks and repurchase and resale commitments backed by debentures issued by lease companies controlled by eligible banks.

The Company uses Fitch Ratings (Fitch), Moody's or Standard & Poor's (S&P) ratings to identify banks eligible to receive funds. They should comply with the following parameters: (i) shareholders' equity of at least R$ 1 billion; and (ii) minimum rating equivalent to AA- (S&P and Fitch) or Aa3 (Moody's) in the domestic ambit.

The Company's available resources are allocated to a Fixed Income Exclusive Investment Fund whose policy is to allocate its equity to very low-risk assets. As of 12.31.2016, this fund had 100% of its portfolio in Brazilian government credit-risk assets, all of them with floating rates and daily liquidity, linked to Selic variation.

Following the Company's financial planning, this fund will be used in the short-term, substantially reducing the risk of any significant effects on earnings as a result of possible reduction in Brazilian economy's basic interest rate.

c.3) Risks related to hedge operations

The "Investment and Derivatives Policy" imposes strong restrictions to the realization of derivative transactions and determines that exposures be continuously monitored in case this type of transaction is contracted.

At 12.31.2016, the only hedge operations contracted by the Company were Non-Deliverable Forwards (NDF) to hedge future payment flows in foreign currencies related to contracts for purchase of equipment and services for the construction of plants.

d) Liquidity risk

The management of the Company's liquidity risk is under the responsibility of the Financial Committee, which manages fund raising requirements and short-, medium- and long-term liquidity by permanently monitoring forecasted and actual cash flows. The Company, in order to ensure the capacity to pay its obligations, uses a minimum cash policy that is annually reviewed based on cash projections and monthly monitored in the Financial Committee meetings. The management of marketable securities focuses on short-term instruments, especially with daily maturities, in order to provide maximum liquidity and to cover disbursements.

The Company's cash generating feature and the low volatility in receipts and payment obligations throughout the months guarantee to the Company the stability of its flows, reducing its liquidity risk.

The following statement presents the estimated settlement profile for the Company's main financial liabilities recorded at 12.31.2016. Amounts were determined based on the estimated undiscounted cash flows, considering estimates of principal amortization and future interest payment, when applicable. For debts with floating interest rates, the amount was obtained based on interest curve at year end.

	Parent Company				
	Up to 1 year	From 2 to 3 years	From 4 to 5 years	Over 5 years	Total
Suppliers	211,777	-	-	-	211,777
Post-fixed interest rates:					
Loans and financing[28]	179,336	329,150	213,430	124,460	846,376
Debentures	48,901	99,666	183,833	849,605	1,182,005
Fixed interest rates:					
Loans and financing	3,381	6,474	6,087	4,868	20,810
Concessions payable	63,019	141,872	325,215	5,206,079	5,736,185
	506,414	**577,162**	**728,565**	**6,185,012**	**7,997,153**

	Consolidated				
	Up to 1 year	From 2 to 3 years	From 4 to 5 years	Over 5 years	Total
Suppliers	371,149				371,149
Post-fixed interest rates:					
Loans and financing[29]	432,793	796,306	629,884	1,328,679	3,187,662
Debentures	48,901	99,666	183,833	849,605	1,182,005
Fixed interest rates:					
Loans and financing	11,515	15,336	6,440	4,868	38,159
Concessions payable	68,790	153,422	336,765	5,298,957	5,857,934
	933,148	**1,064,730**	**1,156,922**	**7,482,109**	**10,636,909**

[28]Including hedge effects
[29]Including hedge effects

e) Hydrological Risk

Most of energy of the National Interconnected System (SIN) is generated by hydroelectric plants. Since SIN operates in a dispatch system optimized and centralized by ONS, each hydroelectric plant, including the Company's plants, is subject to changes in hydrological conditions in both the regions where they operate and in other regions across Brazil.

Adverse hydrological conditions, combined with the obligation to deliver assured energy, may result in an exposure of the Company to the short-term energy market, which could affect its future financial results. However, most of the Company's hydroelectric generation capacity is included in the Energy Reallocation Mechanism (MRE), which distributes the hydrological risk across all the plants linked to MRE.

In order to reduce this risk, in December 2015, the Company joined the renegotiation of hydrological risk relating to the Company's plants, whose energy was sold in the Regulated Contracting Environment (ACR). For more information, see Note 10 – Renegotiation of hydrological risk to appropriate.

f) Category and fair value of financial instruments

	Parent Company		Consolidated	
	12.31.2016	12.31.2015	12.31.2016	12.31.2015
Financial assets				
Measured at fair value through profit or loss				
Marketable securities	1,173,841	1,735,344	1,803,333	2,385,163
Restricted deposits	10,985	12,453	194,528	166,565
Receivables and loans				
Cash and bank deposits	1,418	3,664	12,007	11,691
Trade accounts receivable	505,348	441,588	824,079	773,602
Fuel reimbursable	49,472	144,249	49,472	144,249
Hedge operations				
Fair value hedge on loans	-	488,802	-	488,802
Cash flow hedge on obligations	-	-	3,455	419,665
	1,741,064	**2,826,100**	**2,886,874**	**4,389,737**
Financial liabilities				
Financial liabilities assessed at amortized cost:				
Suppliers	211,777	372,502	371,149	573,573
Loans and financing	715,993	765,350	2,284,277	2,613,582
Debentures	804,455	181,436	804,455	181,436
Concessions payable	2,294,966	2,020,581	2,347,376	2,070,552
Liabilities linked to investment acquisition [30]	-	-	43,068	47,516
Measured at fair value				
Loans and financing	-	1,452,176	-	1,452,176
Hedge operations				
Cash flow hedge on obligations	-	-	21,846	562
	4,027,191	**4,792,045**	**5,872,171**	**6,939,397**

[30] Presented under "Other current liabilities" and "Other non-current liabilities"

Financial assets and liabilities measured at fair value through profit or loss are assessed based on the market prices in active markets (Level 1), excluding Loans and Financing and hedge operations, which are assessed based on observable data (Level 2).

g) Market value of financial instruments

In operations involving financial instruments, differences were identified only between amounts presented in the balance sheet and their market values, in loans and financing, debentures and concessions payable. These differences occurred mainly because these instruments have long-term settlements and different costs in relation to interest rates currently used for similar contracts. The market values were determined based on future cash flows discounted to present value at rates considered as adequate for operations with similar characteristics.

	Parent Company			
	12.31.2016		12.31.2015	
	Book	Market	Book	Market
Loans and financing in local currency	715,993	728,513	765,350	773,945
Debentures	804,455	841,565	181,436	176,729
Concessions payable	2,294,966	2,901,915	2,020,581	2,240,528
	3,815,414	**4,471,993**	**2,967,367**	**3,191,202**

	Consolidated			
	12.31.2016		12.31.2015	
	Book	Market	Book	Market
Loans and financing in local currency	2,284,277	2,450,271	2,613,582	2,802,011
Debentures	804,455	841,565	181,436	176,729
Concessions payable	2,347,376	2,967,320	2,070,552	2,296,789
	5,436,108	**6,259,156**	**4,865,570**	**5,275,529**

NOTE 21 – INCOME AND SOCIAL CONTRIBUTION TAXES PAYABLE

	Parent Company		Consolidated	
	12.31.2016	12.31.2015	12.31.2016	12.31.2015
Income tax	82,763	46,465	101,779	57,600
Social Contribution	17,893	1,617	26,279	7,385
	100,656	**48,082**	**128,058**	**64,985**
(-) Taxes recoverable	(46,446)	(46,512)	(47,035)	(47,186)
	54,210	**1,570**	**81,023**	**17,799**

NOTE 22 – OTHER TAX AND REGULATORY OBLIGATIONS

	Parent Company		Consolidated	
	12.31.2016	12.31.2015	12.31.2016	12.31.2015
PIS and Cofins	25,599	36,934	29,220	42,830
INSS	5,321	5,455	6,206	6,236
ICMS	2,662	3,815	21,021	22,348
ISSQN[31]	805	1,021	1,256	1,479
Royalties [32]	27,177	32,829	30,942	37,117
Inspection fee	1,187	1,065	1,438	1,307
Other	2,003	2,710	2,166	2,821
	64,754	**83,829**	**92,249**	**114,138**
(-) Federal and state taxes recoverable	(3,384)	(15,833)	(3,617)	(16,473)
	61,370	**67,996**	**88,632**	**97,665**

NOTE 23 – LABOR LIABILITIES

	Parent Company		Consolidated	
	12.31.2016	12.31.2015	12.31.2016	12.31.2015
Provision for profit sharing and bonuses	56,302	54,701	59,065	54,701
Provision for vacation	19,895	24,607	20,812	25,255
Payroll and social charges	8,462	4,236	8,878	5,024
Provision for voluntary termination expenses	4,505	21,734	4,505	21,734
Other	1,491	1,301	1,493	1,302
	90,655	**106,579**	**94,753**	**108,016**

To supplement fixed salary payment, the Company maintains a variable remuneration system, of annual periodicity, comprised of two programs: (i) Profit Sharing Program – applicable to all employees of the Company and linked to results obtained; and (ii) Manager Bonus Program – applicable to all employees classified as managers and linked to the results in their areas and individual performance.

The Company also maintains provision for voluntary layoff expenses, concerning employees, including members of the management, who joined the Voluntary Layoff Program (PDV) and terminated their employment in 2016.

[31] Taxes on services of any nature.

[32] Financial compensation for the use of water resources.

NOTE 24 – PROVISIONS

Provisions are recognized by the Company in amounts considered sufficient to settle the respective liabilities, when according to the legal counsels and Management, they involve probable risk of future disbursement.

a) Breakdown

	Parent Company		Consolidated	
	12.31.2016	12.31.2015	12.31.2016	12.31.2015
Civil				
Fuel purchase	209,960	184,956	209,960	184,956
Expropriations and administrative servitude	31,817	27,794	31,817	27,794
Retirement benefits	17,425	15,573	17,425	15,573
Environmental	10,170	11,448	10,170	11,448
Sundry lawsuits	14,916	14,168	20,138	17,679
	284,288	**253,939**	**289,510**	**257,450**
Tax	**6,929**	**4,847**	**7,270**	**5,142**
Labor	**10,806**	**9,389**	**10,948**	**10,008**
Divestment of generation assets	**19,379**	**-**	**19,379**	**-**
	321,402	**268,175**	**327,107**	**272,600**
Classification in the balance sheet				
Current liabilities	34,020	24,761	35,001	25,727
Non-current liabilities	287,382	243,414	292,106	246,873
	321,402	**268,175**	**327,107**	**272,600**

a.1) Fuel purchase

Provision related to a legal dispute with a fuel supplier resulting from the controversy regarding the application of the laws in force to define the price of fuel. The Company adopted a conservative stance and classified the lawsuit as having a probable risk of loss, considering that: (i) the claim is still in its initial stages of discussion, (ii) the award of the claim has not yet been judged in lower courts, and (iii) there is no previous jurisprudence for similar claims. The provisioned amount corresponds to the expected net disbursement of funds by the Company in the event of an adverse outcome in said legal dispute.

a.2) Expropriations and administrative servitudes

The Company is defendant in lawsuits filed by individuals and legal persons regarding expropriation processes of areas that were impacted by the reservoirs of some plants and establishment of administrative services of properties where connection lines and wind farms will be constructed.

a.3) Retirement benefit

The provision refers, substantially, to the lawsuit filed against Fundação Eletrosul de Previdência e Assistência Social (ELOS) and Eletrosul Centrais Elétricas S.A. (Eletrosul) by members of the foundation, requiring that the option they exercised be declared as null or, alternatively, as ineffective, in order to limit contributions to the foundation to contribution salaries, which reduced their retirement benefits.
Lower court decision, confirmed by TJSC, is against Eletrosul and ELOS interest. In 2011, the Company signed agreements with most plaintiffs that joined the class action.

a.4) Divestment of generation assets

In May 2016, the Board of Directors approved the plan for shutdown, deactivation and demobilization of the Charqueadas Thermal Power Plant. To execute the plan, the Company recognized a provision of R$ 19,379 corresponding to the expectation of future payments for disassembly, removal, restoration and other expenses established in the plan.

b) Change in provisions

	Parent Company				
	Civil	Tax	Labor	Divestment	Total
Balance at 1.1.2015	**183,413**	**4,347**	**10,880**	**-**	**198,640**
Additions	65,950	1,841	225	-	68,016
Restatements	11,978	202	960	-	13,140
Payments	(6,220)	(1,418)	(1,314)	-	(8,952)
Reversals from revision	(1,182)	(125)	(1,362)	-	(2,669)
Balance at 12.31.2015	**253,939**	**4,847**	**9,389**	**-**	**268,175**
Additions	194	2,783	92	19,379	22,448
Restatements	32,151	413	1,348	-	33,912
Payments	(48)	(58)	(23)	-	(129)
Reversal from revision	(1,948)	(1,056)	-	-	(3,004)
Balance at 12.31.2016	**284,288**	**6,929**	**10,806**	**19,379**	**321,402**

	Consolidated				
	Civil	Tax	Labor	Divestment	Total
Balance at 1.1.2015	**185,882**	**5,061**	**11,529**	**-**	**202,472**
Additions	67,107	1,841	377	-	69,325
Restatements	12,296	314	961	-	13,571
Payments	(6,260)	(1,419)	(1,415)	-	(9,094)
Reversals from revision	(1,575)	(655)	(1,444)	-	(3,674)
Balance at 12.31.2015	**257,450**	**5,142**	**10,008**	**-**	**272,600**
Additions	1,686	2,828	369	19,379	24,262
Restatements	32,657	416	1,348	-	34,421
Payments	(48)	(58)	(24)	-	(130)
Reversal from revision	(2,054)	(1,058)	(753)	-	(3,865)
Reclassification to held-for-sale asset	(181)	-	-	-	(181)
Balance at 12.31.2016	**289,510**	**7,270**	**10,948**	**19,379**	**327,107**

c) Possible and remote risks

The Company is also a party to lawsuits that, in the opinion of the legal counsels and its Management, do not represent a probable risk of future disbursement, for which reason the amounts related to those lawsuits are not provisioned for.

	12.31.2016			12.31.2015		
	Possible risk	Remote risk	Total	Possible risk	Remote risk	Total
Parent Company						
Tax	258,990	210,611	469,601	239,648	111,891	351,539
Civil	98,694	128,071	226,765	70,060	113,764	183,824
Labor	6,736	109,830	116,566	3,789	63,780	67,569
	364,420	**448,512**	**812,932**	**313,497**	**289,435**	**602,932**
Consolidated						
Tax	331,483	230,981	562,464	310,195	130,461	440,656
Civil	121,855	128,153	250,008	92,047	115,122	207,169
Labor	9,989	112,396	122,385	6,023	64,795	70,818
	463,327	**471,530**	**934,857**	**408,265**	**310,378**	**718,643**

c.1) Tax risks

The main tax-related risks evaluated by the Company and its legal counsel as having a possible risk are the following:

- Recovery of PIS and Cofins taxes

In 1998, Law 9,718/98 was published, extending the PIS and Cofins calculation basis that, so far, only levied on the companies' gross revenues. The Company challenged in court the constitutionality of said Law, obtaining a favorable decision on 9.1.2006, which enabled its settling the contributions, calculated on several revenues resulting from the gross revenues for the period assessed from February of 1999 to November of 2002, for PIS, and February of 1999 to January of 2004, for Cofins.

The main amount included in the calculation base of PIS and Cofins regards the accounting caption named Fuel Consumption Account (CCC), which accounted for the reimbursement of the consumption of fossil fuel acquired for thermal energy generation with funds from CCC. In 2016, Aneel amended the Electricity Sector Accounting Manual (MCSE) to reflect the offset in a rectifying account of operating costs and no longer as revenue.

As a result of the recognition, by Aneel, that the accounting procedure adopted until then was inadequate, the Company also offset the amounts of taxes overpaid in 2004 and 2005.

In 2009, the Brazilian Federal Revenue Service (RFB) notified the Company to collect the amount of R$ 135,982 referred to the period from February of 1999 to January of 2004, interest and fines already included, pleading that the CCC Subsidy represents a billing and, thus must be included in the calculation basis of PIS and Cofins for the mentioned period, and therefore the offset was inappropriate. The Company submitted its Appeal on 3.31.2009, which, on 4.30.2014, RFB, through an appeal settlement issued by the Office of the Federal Revenue Service of Brazil in Florianópolis, recognized the claimed credit rights and the offsets were fully ratified, resulting in the cancelation of the debits.

In relation to the period from February 2004 to December 2005, the RFB issued 44 tax deficiency notices, which correspond to a portion of the offset amount, claiming that the consumption of fossil fuel under the CCC is considered as revenue by nature. The Company submitted a statement of discontentment with all proceedings, which was deemed invalid by the respective authorities. Consequently, the Company filed a voluntary appeal against the decisions.

Of the 44 proceedings sent to CARF, only one was favorable for the Company, by unanimous vote, which annulled the Decision Order amounting to R$117. Of the 43 proceedings remaining at CARF and with the Upper Chamber of Tax Appeals (CSRF), 11 were decided, totaling R$7,570, with an unfavorable ruling against the Company. After this decision, the Management of ENGIE Brasil Energia filed a request for analysis of Special Appeal at CSRF, which was also denied.

Due to the final and unappealable denial of the Special Appeals in the administrative sphere, on 11.18.2015 the Company filed a suit for the declaration of non-existence of tax–legal relationship against the National Treasury, relating to the 11 tax liabilities constituted by the Federal Revenue Service (RFB), as a result of the non-ratification of offset of PIS and Cofins taxes paid in excess. On 12.31.2016, the amount relating to the proceedings totaled R$8,152 and is awaiting the judge's decision.

The proceedings pending judgment in the administrative and legal spheres totaled R$125,818 on 12.31.2016 (R$117,901 on 12.31.2015) in the parent company and consolidated statements.

- Value-Added Tax on Operations of Sale, Interstate and Intermunicipal Transport Services and Communication Services (ICMS)

The Company and its subsidiary EBC were notified by the São Paulo State Revenue Office, claiming that the invoices of electrical energy sold to free consumers are issued in the month following the taxable event. The tax authority understands that this practice postpones for one month the collection of the tax due to the state. The measurement of the electrical energy used by the client is carried out by the distribution company to which the client is connected by the eighth day of the month following the supply, and therefore only after the consumption the consumed energy can be billed to the client. As a result, the procedure adopted by the Company and by EBC would be deemed compliant with the usual practices of the Brazilian Power Sector, against the interpretation of the tax authorities of the state of São Paulo.

Despite the partial success of the Company's defenses, the Company's Management and legal counsels understand that the total amounts of debits claimed by tax authorities are subject to calculation mistakes and legal grounds, where the chance of success for these disputes is higher than the risk of losses. The assessment notices are being challenged in court by the Company and its lawyers. The restated amount of the proceedings, assessed as having possible risk of loss, at 12.31.2016 is R$ 15,572 (R$ 14,801 at 12.31.2015), in the parent company, and R$ 95,459 (R$ 89,727 at 12.31.2015) in the consolidated.

Even if the tax deficiency notices are partially upheld, the Company's management and legal counsel understand that the contingent amount would be less than 10% of the abovementioned value that charged by the tax authorities, who adopted calculation criteria not supported by law, and therefore the aforementioned amount would be substantially reduced.

- Voluntary confession

The mechanism called "voluntary confession" allows the payment of overdue taxes without the application of a late payment penalty, provided it is made before any administrative procedure or inspection measure. Once the Internal Revenue Service of Brazil (RFB) accepts the payments after the deadline without the corresponding late payment penalty, the Company submits administrative, and when necessary, legal challenges.

On 5.18.2012, RFB notified administratively ENGIE Brasil Energia of an Appellate Decision rendered by the Administrative Council of Tax Appeals (CARF), conferring a favorable decision for the Company, by unanimous vote, and it also obtained judicially a favorable decision in a process amounting to R$ 140. However, in 2015 three administrative procedures totaling R$13,187 resulted in unfavorable decisions for the Company. Since all appeals in the administrative sphere have been exhausted, the Company filed lawsuits in December 2015, which are pending judgment.

The restated amount of the processes whose risk of loss is deemed as possible at 12.31.2016 is R$ 61,910 (R$ 51,432 at 12.31.2015), at the parent company and consolidated statements.

- Compensation of tax loss carryforwards in the succession and waiver of fines in voluntary confession

The Company used social contribution tax loss carryforwards arising from the merger of a company on 4.29.1998, or after the amendment to the tax legislation introduced in 2001, prohibiting the use of tax loss carryforwards from mergers, consolidations or spin-offs of companies.

As the merger took place before said Provisional Measure (MP) prohibited the use of taxes, when it was still possible to use the social contribution tax loss carryforwards from the former company, the Company understands that the new rule does not apply to the merger brought in effect. The amounts were added to its equity, as successor company, ensuring the right to use said amounts. Such arguments were accepted by the Florianópolis Judgment Office.

In June 2008, the Company obtained a favorable decision of the Judgment Office of Florianópolis, regarding the portion of the tax deficiency notice regarding the use of the social contribution tax loss carryforwards in the calendar year 2003, originated from a merger.

The lawsuit is pending decision of the Administrative Council of Tax Appeals (CARF), issued by the Brazilian Federal Revenue Service, and with voluntary appeal from the Company exclusively focusing on the non-levy of interest in arrears. The restated amount of this notice, whose risk of loss was deemed as possible, at 12.31.2016 is R$ 26,959 (R$ 33,812 at 12.31.2015) at the parent company and consolidated statements.

c.2) Civil risks

The main civil risks assessed by the Company and its legal counsel as possible are the following:

- Environmental

The Company is currently the defendant in sixteen environmental public-interest civil actions. These lawsuits are divided as follows: (i) three lawsuits requiring the installation of a lock, fish ladder and "lair out"; (ii) eight lawsuits requiring reforesting and the establishment of a Permanent Conservation Area (APP) of one hundred meters around the reservoirs of two hydroelectric power plants; and (iii) other lawsuits related to alleged damage caused by the filling of a plant's reservoir, disposal of ashes by in allegedly inadequate areas, influence of the plant's operation in a river, construction of a wind farm and the process of environmental licensing of two Small Hydroelectric Power Plants (SHPP).

The amount related to these actions on 12.31.2015 was R$ 22,769, in the parent company and consolidated. In 2016, Company Management and its legal counsel reassessed the risk from probable to possible in two environmental actions and their amounts from R$ 2,151 to R$ 19,000. The amount related to these actions on 12.31.2016 was R$ 46,548, in the parent company and consolidated.

c.3) Contract with supplier

Claim for indemnity filed by a former energy supplier seeking to obtain the right to receive the difference related to the application of a foreign exchange adjustment foreseen in the agreement, and its termination due to a supposed breach of a contractual clause.

In November 2012, a court ruled against the suit filed by the plaintiff, which opposed this decision through a motion for resettlement, which was not admitted, and filed an appeal with the Court of Appeals of Santa Catarina (TJSC), where it currently awaits the appointment of the judge-rapporteur. The amount related to this action on 12.31.2016 was R$ 32,909 (R$ 29,738 on 12.31.2015), in the parent company and consolidated.

NOTE 25 – RETIREMENT BENEFITS OBLIGATIONS

The Company offers complementary pension plans for its employees through PREVIG - Sociedade de Previdência Complementar. The foundation is a nonprofit closed pension entity, sponsored by the Company, as its Founder, and by other ENGIE companies in Brazil. The benefit plans managed by PREVIG are: Defined Contribution (CD) and Defined Benefit (BD), the latter closed for new adhesions.

The Company also sponsors the BD plan of ELOS, also closed for new adhesions. The participants in this plan are mainly retirees that were entitled to benefits until 12.23.1997, the date of spin-off of Eletrosul, as well as participants that opted for the proportional benefit deferred until that date, who did not migrate to PREVIG. The plans managed by the Company have the following main characteristics:

a) Defined Benefit Plan (BD)

BD plan uses the financial system for capitalization of retirements, pension plans and aid benefits. Benefit plan costs are covered by contributions made by members and sponsor, and the Company's contribution is twice the contribution of its employees. Benefits provided for in the plan are as follows: (i) retirement per length of work, disability and age supplement; (ii) special retirement and former combatant retirement supplement; (iii) pension supplement; (iv) inmate pension supplement; (v) annual bonus; and (vi) funeral allowance.

At PREVIG, this plan had 16 active members at 12.31.2016 (19 at 12.31.2015). At ELOS, the plan had 3 members at 12.31.2016 and 12.31.2015. At 12.31.2016, PREVIG had 430 (427 at 12.31.2015) retired employees and pension holders enjoying benefits, while ELOS had 2,099 (2,121 at 12.31.2015).

b) Settled Proportional Supplementary Benefit Plan (BSPS)

The Company also maintains a defined contribution plan (CD) at PREVIG, denominated "Prevflex", created in 2005. ENGIE Brasil Energia employees, on the date of creation, could choose to remain in the defined benefit (BD) plan or to transfer to Prevflex (CD).

However, members that comply with some pre-conditions established upon Prevflex creation had the option of maintaining existing reserves in the BD plan up to that date and, from then on, making direct contributions to the CD plan. This plan was called "BSPS", and is closed for new membership. However, in case they chose to transfer their reserves directly to the CD plan, they were entitled to a special contribution, which was accepted by 94% of members.

On 12.31.2016, this plan had 37 active participants (43 on 12.31.2015) and 54 retired employees and pension holders enjoying benefits (48 on 12.31.2015).

c) Breakdown of obligations with retirement benefits

	Parent Company and Consolidated					
	12.31.2016			12.31.2015		
	Current	Non-current	Total	Current	Non-current	Total
Contracted obligations	13,843	178,797	192,640	7,423	85,491	92,914
Current contributions and service costs	211	89	300	220	130	350
Uncontracted deficit	13,165	93,362	106,527	14,546	169,931	184,477
Recorded actuarial liability	**27,219**	**272,248**	**299,467**	**22,189**	**255,552**	**277,741**

Retirement benefits obligations recognized in the balance sheet are partially covered by contracted obligations and/or obligations acknowledged through an instrument for the acknowledgment of debt and agreement entered into by the Company with respective Foundations.

On 04.19.2016, the Company signed an installment payment agreement with ELOS Foundation in order to balance the portion of the deficit under its responsibility for fiscal year 2014. The amount agreed was R$ 94,890, which will be paid in 165 monthly installments, adjusted at the National Consumer Price Index (INPC) plus interest of 5.75% p.a.

Other contracted debts with foundations are adjusted at the INPC plus interest of 6% p.a.

Contracted amounts presented in non-current liabilities are expected to be settled as follows:

	ELOS	PREVIG	Total
2018	11,210	2,866	14,076
2019	11,869	3,060	14,929
2020	12,566	3,244	15,810
2021	13,304	3,438	16,742
2022	14,085	2,099	16,184
2023 to 2027	66,599	1,658	68,257
2028 to 2032	32,799	-	32,799
	162,432	**16,365**	**178,797**

d) Statement of retirement benefit obligations, net

	Plans				
	ELOS BD	PREVIG BD	PREVIG BSPS	GC	Total
12.31.2015					
Present value of obligations	1,087,803	264,082	46,762	2,704	1,401,351
Fair value of assets	(832,802)	(264,176)	(56,450)	-	(1,153,428)
Actuarial Evaluation	**255,001**	**(94)**	**(9,688)**	**2,704**	**247,923**
Complement with contracted obligations	-	18,610	11,208	-	29,818
Liabilities recorded at 12.31.2015	**255,001**	**18,516**	**1,520**	**2,704**	**277,741**
12.31.2016					
Present value of obligations	1,249,850	327,691	62,657	3,229	1,643,427
Fair value of assets	(972,906)	(317,415)	(70,471)	-	(1,360,792)
Actuarial Evaluation	**276,944**	**10,276**	**(7,814)**	**3,229**	**282,635**
Complement with contracted obligations	-	7,580	9,252	-	16,832
Liabilities recorded at 12.31.2016	**276,944**	**17,856**	**1,438**	**3,229**	**299,467**

e) Breakdown of plan assets per investment nature, as of 12.31.2016

	Plans		
	ELOS BD	PREVIG BD	PREVIG BSPS
Fixed income	93.3%	98.3%	100%
Loans	3.1%	1.7%	-
Real estate	3.0%	-	-
Other	0.6%	-	-
	100.0%	**100.0%**	**100.0%**
Change in assets' market value	6.7%	6.2%	5.4%

Fixed income assets are mainly comprised of Federal Public Securities, substantially, National Treasury Notes (NTN).

f) Changes in actuarial liabilities

	Plans				
	ELOS BD	PREVIG BD	PREVIG BSPS	GC	Total
Liabilities recorded at 1.1.2015	**260,487**	**18,348**	**1,528**	**2,555**	**282,918**
Current contribution and cost of service	(478)	(1,316)	(8)	(235)	(2,037)
Payment of contracted obligations	(8,299)	(3,085)	(279)	-	(11,663)
Interest on actuarial liabilities/assets, net	27,468	1,690	145	233	29,536
Losses (Gains) from remeasuring liabilities, net					
Adjustment by demographic experience	44,911	4,065	(763)	276	48,489
Changes in financial assumptions	(135,499)	(28,297)	(4,859)	(125)	(168,780)
Return on asset lower than the rate of discount	66,411	19,587	4,063	-	90,061
Changes to the limits of surplus and deficit	-	7,524	1,693	-	9,217
	(24,177)	**2,879**	**134**	**151**	**(21,013)**
Liabilities recorded at 12.31.2015	**255,001**	**18,516**	**1,520**	**2,704**	**277,741**
Current contribution and cost of service	(105)	(818)	(310)	(752)	(1,985)
Payment of contracted obligations	(16,282)	(3,387)	(306)	-	(19,975)
Interest on actuarial liabilities/assets, net	34,034	1,968	166	263	36,431
Losses (Gains) from remeasuring liabilities, net					
Adjustment by demographic experience	4,265	19,417	6,782	922	31,386
Changes in financial assumptions	150,714	33,119	6,591	90	190,514
Changes in demographic assumptions	(11,632)	5,312	(89)	2	(6,407)
Return on asset lower than the rate of discount	(139,051)	(42,972)	(9,593)	-	(191,616)
Changes to the limits of surplus and deficit	-	(13,299)	(3,323)	-	(16,622)
	4,296	**1,577**	**368**	**1,014**	**7,255**
Liabilities recorded at 12.31.2016	**276,944**	**17,856**	**1,438**	**3,229**	**299,467**

g) Net expenses to be recognized as profit or loss over the course of 2017

	Plans				
	ELOS BD	PREVIG BD	PREVIG BSPS	GC	Total
Interest on liabilities, net of assets	29,314	1,718	140	274	31,446
Current cost of service and others	-	(27)	-	98	71
Net expenses	**29,314**	**1,691**	**140**	**372**	**31,517**

h) Actuarial assumptions adopted

Assumptions	12.31.2016	12.31.2015
Rate of discount and of implicit return (p.a.)		
Benefit plans BD (ELOS)	11.0%	12.7%
Benefit plans BD (PREVIG)	11.0%	12.2%
Benefit plans BSPS	11.0%	12.2%
Inflation	5.0%	5.0%
Future salary growth (p.a.)	5.0%	5.0%
Benefit growth (p.a.)	5.0%	5.0%
Capacity factor (Wages and Benefits)	100.0%	100.0%

Hypothesis	12.31.2016	12.31.2015
Mortality Table (assets)		
BD Elos Plan	AT 2000 Basic (unisex, 31.38% for women and 68.62% for men)	AT 2000 Basic (by gender)
BD and BSPS Previg Plan and Confidentiality	AT-2000 (by gender, at 10%)	AT-2000 Men (at 10%)
Mortality Table of Disabled	AT-1983 Men	AT-1983 Men
Table of Start of Disability	Light Average	Light Average
Turnover Table	Null	Null
% of active employees married at the time of retirement		
BD Elos Plan	90	90
BD and BSPS Previg Plan	85	90
Age of Retirement	First date to comply with all requirements	First date to comply with all requirements
Age difference between participant and spouse		
BD Elos and BSPS Previg Plan	Wives are 4 years younger than husbands	Wives are 4 years younger than husbands
BD Previg Plan	Wives are 5 years younger than husbands	Wives are 4 years younger than husbands

i) Sensitivity analysis

	Plans			
	ELOS BD	PREVIG BD	PREVIG BSPS	GC
Effect in the present value of obligations				
Increase of 0.1 p.p. in the discount rate	(9,894)	(3,036)	(621)	(9)
Reduction of 0.1 p.p. in the discount rate	10,037	3,088	632	9

j) Confidentiality bonus benefit

Refers to the payment of remuneration to manager-level employees upon the termination of their employment.

k) Defined Contribution Plan (CD)

In addition to the defined benefit plan, PREVIG manages the defined contribution plan whose benefits are supported by contributions of participants and the sponsoring entity. The Company's contribution corresponds to the same amount of its employees' basic contribution. Assets of the CD plan at 12.31.2016 amounted to R$ 820,619.

NOTE 26 – DEFERRED INCOME AND SOCIAL CONTRIBUTION TAXES

Deferred income and social contribution tax assets and liabilities, are presented net, as follows:

a) Breakdown

	Parent Company				
	12.31.2016				12.31.2015
Description of credits	Calculation basis	IR	CS	Total	Total
Liabilities:					
Property, plant and equipment deemed cost (fair value)	664,874	166,219	59,839	226,058	244,978
Accelerated depreciation	657,651	164,413	59,189	223,602	167,651
Unrealized sale at MAE (currently CCEE)	107,456	26,864	9,671	36,535	36,535
Capitalized financial charges	66,358	16,590	5,972	22,562	17,219
Adjustment to fair value in business combination	39,128	9,781	3,522	13,303	14,054
Unrealized hedge gains	-	-	-	-	179,655
Other	3,362	841	302	1,143	786
		384,708	**138,495**	**523,203**	**660,878**
Assets:					
Civil, tax and labor provisions	292,714	73,179	26,344	99,523	88,493
Provision for asset impairment	157,107	39,277	14,140	53,417	20,426
Allowance for doubtful accounts	129,166	32,292	11,625	43,917	43,925
Fair value adjustment in business combinations	107,654	26,914	9,689	36,603	34,887
Retirement benefits obligations	106,782	26,696	9,610	36,306	62,830
Interest on property, plant and equipment in progress (RIC)	76,987	19,247	-	19,247	22,885
Other	59,059	14,763	5,315	20,078	18,222
Subtotal		**232,368**	**76,723**	**309,091**	**291,668**
Net total		**152,340**	**61,772**	**214,112**	**369,210**

Description of credits	Consolidated				
	12.31.2016				12.31.2015
	Calculation basis	IR	CS	Total	Total
Liabilities:					
Property, plant and equipment deemed cost (fair value)	664,874	166,219	59,839	226,058	244,978
Accelerated depreciation	815,510	203,877	73,397	277,274	209,443
Unrealized sale at MAE (currently CCEE)	107,456	26,864	9,671	36,535	36,535
Capitalized financial charges	195,743	48,936	17,617	66,553	28,352
Adjustment to fair value in business combination	39,128	9,781	3,522	13,303	14,054
Unrealized hedge gains	3,455	864	311	1,175	322,344
Other	3,362	841	302	1,143	784
		457,382	**164,659**	**622,041**	**856,490**
Assets:					
Civil, tax and labor provisions	296,453	74,113	26,681	100,794	89,378
Provision for asset impairment	155,340	38,835	13,981	52,816	20,426
Allowance for doubtful accounts	131,304	32,826	11,817	44,643	44,651
Fair value adjustment in business combinations	107,654	26,914	9,689	36,603	34,887
Retirement benefits obligations	106,782	26,696	9,610	36,306	62,830
Interest on property, plant and equipment in progress (RIC)	76,987	19,247	-	19,247	22,885
Realized gains in capitalized hedge operations	46,107	11,527	4,150	15,677	5,075
Fair value adjustment of property, plant and equipment	37,621	9,405	3,386	12,791	13,117
Other	83,901	20,961	7,563	28,524	19,473
		260,524	**86,877**	**347,401**	**312,722**
Net amount		**196,858**	**77,782**	**274,640**	**543,768**
Classification in the balance sheet					
Liabilities		223,824	87,507	311,331	558,826
Assets [33]		(26,966)	(9,725)	(36,691)	(15,058)
Total		**196,858**	**77,782**	**274,640**	**543,768**

[33] Amount presented under "Other non-current assets"

b) Change in deferred income and social contribution taxes, net

	Parent Company	Consolidated
Balance at 1.1.2015	**177,512**	**196,627**
Taxes deferred in profit or loss	184,553	206,943
Taxes deferred in other comprehensive income	7,145	140,198
Balance at 12.31.2015	**369,210**	**543,768**
Taxes deferred in profit or loss	(152,631)	(117,913)
Taxes deferred in other comprehensive income	(2,467)	(151,215)
Balance at 12.31.2016	**214,112**	**274,640**

c) Expected realization and required payments

	Parent Company		Consolidated	
	Assets	Liabilities	Assets	Liabilities
2017	64,061	20,499	73,269	21,975
2018	132,740	55,490	134,548	57,130
2019	16,142	22,741	18,256	24,941
2020	10,927	23,211	12,553	25,411
2021	9,115	27,241	10,709	29,440
2022	9,003	31,942	10,572	37,496
2023 to 2027	27,512	150,394	34,912	178,167
2028 to 2032	21,365	98,648	34,357	126,418
After 2033	18,226	93,037	18,225	121,063
	309,091	**523,203**	**347,401**	**622,041**

NOTE 27 – SHAREHOLDERS' EQUITY

a) Authorized capital stock

The Company is authorized to increase its capital stock up to the limit of R$ 5,000,000, by resolution of Board of Directors, regardless of any amendment to its bylaws. Under the BM&FBOVESPA's New Market listing regulations, the Company cannot issue preferred shares or founder shares.

The Company has no treasury shares and did not perform any purchase and sale transactions involving shares of its own issuance in 2016 and 2015.

b) Subscribed and paid-in capital

In 2016, the Board of Directors approved capital increases totaling R$ 383,290, which did not involve issue of new shares. These increases resulted from: (i) the capitalization of a portion of net income from fiscal year 2015, in the amount of R$ 290,487, corresponding to R$ 0.4450258658 per share, approved on 02.23.2016; (ii) the capitalization of a portion of tax incentive reserve, related to deposit for reinvestment in the Ponte de Pedra Hydroelectric Power Plant, in the amount of R$ 1,108, corresponding to 0.0016968731, approved on 10.27.2016; and (iii) the capitalization of the entire capital reserve maintained by the Company, in the amount of R$ 91,695, corresponding to 0.1404756565, approved on 10.27.2016.

Therefore, as of 12.31.2016, the Company's fully subscribed and paid-in capital is R$ 2,829,056 (R$ 2,445,766 at 12.31.2015), represented by 652,742,192 registered common shares without par value.

The book value of the share in reais, at 12.31.2016, is R$ 10.13 (R$ 10.18 for each share at 12.31.2015).

The Company's ownership structure at 12.31.2016 and 12.31.2015 was as follows:

Shareholders	% of capital
ENGIE Brasil Participações Ltda. ("ENGIE Participações")	68.71%
Banco Clássico S.A.	10.00%
Other shareholders	21.29%
	100.00%

As of 12.31.2016 and 12.31.2015, the number of Company shares held by its managers was 374,328 and 381,132 shares, respectively.

c) Profit reserves

c.1) Legal reserve

Of net income for the year, 5% are allocated, before any other destination, to establish the legal reserve, which will not exceed 20% of the Company's capital. Said reserve is intended to ensure capital integrity and may only be used to offset losses or increase capital.

c.2) Tax incentive reserves

This reserve is established by allocating the portion of net income that is equivalent to tax benefit granted by Amazon Region Development Authority (Sudam). This benefit corresponds to a 75% reduction in income tax calculated on earnings from exploration of activities developed by the plants entitled to the benefit.

c.3) Retained earnings reserve

This reserve was established based on capital budget and was intended to finance the implementation of new plants, maintenance of production plants and possible acquisition of interest in other companies.

d) Asset valuation adjustments

d.1) Deemed cost

As provided for in accounting practices, the Company recognized the adjustment to fair value of property, plant and equipment on the date of first-time adoption of CPCs in 1.1.2009. Contra entry to said adjustment, net of deferred income tax and social contribution, was recognized under caption "Equity evaluation adjustments", in shareholders' equity. Realization of this reserve is recorded as a contra entry to account "Accumulated earnings" to the extent that depreciation or write-off of property, plant and equipment fair value adjustment is recognized in the Company's profit or loss.

d.2) Other comprehensive income

The account records the following variations of the fair value, net of deferred income and social contribution taxes: (i) obligations with the retirement benefits of defined benefit plans sponsored by the Company; and (ii) cash flow hedges of future commitments in foreign currency signed by the Company.

e) Non-controlling interest

Refers to 5% shareholding held by third parties in the capital of indirect subsidiary Ibitiúva.

NOTE 28 – DIVIDENDS AND INTEREST ON EQUITY

a) Calculation

	12.31.2016	12.31.2015
Adjusted dividend calculation basis		
Net income for the year attributable to controlling shareholders	1,547,303	1,500,392
Legal reserve	(76,658)	-
Tax incentive reserve	(17,703)	(22,891)
Realization of deemed cost of property, plant and equipment in retained earnings	34,399	40,274
Net income for the year adjusted for dividends purposes	**1,487,341**	**1,517,775**
Proposed dividends / interest on equity		
Interim dividends for the first half of the year	645,197	311,277
Interest on equity, net of withholding income tax	368,160	267,876
Additional dividends proposed	409,644	209,499
Subtotal	**1,423,001**	**788,652**
Withholding income tax on interest on equity	64,340	46,124
Total annual dividends and interest on equity	**1,487,341**	**834,776**
Percentage of adjusted net income	**100%**	**55%**
Dividends and interest on equity per common share (in Brazilian reais):	**2.2786046398**	**1.2788764646**

b) Dividend policy

The dividends policy established in EBE's Bylaws provides for a minimum mandatory dividend of 30% of net income for the year, adjusted pursuant to the terms of Law 6,404/76, and establishes the intention of paying, at every calendar year, dividends and/or Interest on equity at an amount not lower than 55% of adjusted net income, in half-annual installments.

c) Distribution and proposed distributions of net income for fiscal year 2016

c.1) Interim dividends related to the first six months of the year

The Board of Directors, in a meeting held on 7.28.2016, approved the distribution on interim dividends, based on the financial statements drafted on 6.30.2016, in the amount of R$ 645,197 corresponding to R$ 0.9884403986 per share. Said dividends started to be paid on 10.6.2016.

c.2) Interest on equity

In a meeting held on 10.27.2016, the Company's Board of Directors approved interest on equity from 1.1.2016 to 12.31.2016 in the gross amount of R$ 432,500, corresponding to R$ 0.6625893121 per share.

Credits of the Company's interest on equity were recognized as of 12.31.2016 based on shareholding position on 11.10.2016. The Company's shares were negotiated ex-Interest on equity beginning as of 11.11.2016.

Interest net of withheld income tax was charged to mandatory dividends and were paid on 2.1.2017.

c.3) Proposed additional dividends

The Company submitted to the Board of Directors, for approval in the meeting to be held on 2.23.2017, the proposal for payment of additional dividends on net income for fiscal year 2016, in the amount of R$ 409,644 (R$ 0.6275749291 per share).

The amount of dividends that is higher than minimum mandatory value established by the law or other legal instrument, and that is not approved by shareholders' meeting or the competent body, is presented and segregated in shareholders' equity. These dividends exceed minimum mandatory value and, therefore, will be presented in the shareholders' equity account denominated "Proposed additional dividends" until approval by the Annual Shareholders' Meeting (AGO).

NOTE 29 – RECONCILIATION OF NET REVENUE

In compliance with the requirements of CPC 30 - Revenues, the table below presents the reconciliation between gross operating income and net sales:

	Parent Company		Consolidated	
	2016	2015	2016	2015
GROSS OPERATING INCOME				
Electrical energy distributors	2,493,558	2,306,145	3,434,891	3,363,487
Electrical energy traders	1,800,412	1,631,061	362,043	239,918
Free consumers	272,675	266,768	3,133,989	3,238,782
Transactions in the short-term market	70,549	244,812	128,912	337,937
Other revenues	90,735	69,503	67,631	49,169
	4,727,929	**4,518,289**	**7,127,466**	**7,229,293**
DEDUCTIONS FROM OPERATING INCOME				
PIS and Cofins	(423,715)	(409,807)	(638,153)	(654,004)
ICMS	(10,248)	(23,786)	(10,248)	(23,847)
ISS	(1,705)	(1,532)	(1,705)	(1,532)
Research and development	(31,276)	(33,695)	(34,989)	(37,873)
	(466,944)	**(468,820)**	**(685,095)**	**(717,256)**
NET REVENUE	**4,260,985**	**4,049,469**	**6,442,371**	**6,512,037**

As of 12.31.2016, the customers that held interest higher than 5% of the Company's consolidated net revenue were the following: Celesc, CPFL Energia and Cemig Distribuidora.

NOTE 30 – DETAIL OF OPERATING EXPENSES BY NATURE

a) Costs of electrical energy production and services rendered:

	Parent Company				Consolidated			
	Power generation		Services		Power generation		Services	
	2016	2015	2016	2015	2016	2015	2016	2015
Depreciation and amortization	412,054	384,534	-	-	622,060	591,569	-	-
Personnel	214,127	197,574	24,245	22,424	218,553	202,229	24,280	22,437
Royalties	166,037	151,917	-	-	190,898	177,958	-	-
Fuel	131,005	230,716	-	-	141,000	249,984	-	-
Third party materials and services	119,328	154,684	4,790	4,884	178,662	207,896	4,790	4,884
Accrual of provisions, net	23,757	63,216	-	-	24,400	63,217	-	-
Other	58,846	56,862	1,269	1,088	72,400	69,263	1,269	1,088
	1,125,154	**1,239,503**	**30,304**	**28,396**	**1,447,973**	**1,562,116**	**30,339**	**28,409**

Personnel costs include, in addition to salaries and payroll charges, benefits such as health recovery aid, group life insurance, day care aid to female employees, meal voucher and transportation voucher, and pension plans, courses and training, and other.

Share-based payment

ENGIE Brasil Energia has no specific program of share-based payments. However, its indirect parent company ENGIE, headquartered in France, maintains the following stock plans for some executives and employees: (i) Paris Stock Exchange (France) stock option plan, established based on main responsibilities developed by beneficiaries; and (ii) share-based performance award or bonus. It also offers the program for free granting of shares to all employees.

Stock option plans and the share-based performance award are valid for four or five years and their values are related to the achievement of certain financial indicators of ENGIE. Due to global economic background, throughout the years, a reduction occurred in market value of these stock options and performance shares, which will possibly influence the exercise of options and the possibility of obtaining the benefit of performance shares on maturities.

These programs' costs are irrelevant and fully paid by ENGIE, and ENGIE Brasil Energia is not responsible for any disbursement related to them.

b) Selling, general and administrative expenses

	Parent Company				Consolidated			
	Selling		General and administrative		Selling		General and administrative	
	2016	2015	2016	2015	2016	2015	2016	2015
Personnel	5,930	5,714	76,785	74,894	5,930	5,714	77,444	75,520
Management	-	-	22,030	30,113	-	-	22,143	31,430
Third party materials and services	325	241	39,818	37,874	4,588	4,344	40,639	38,819
Depreciation and amortization	-	-	8,155	8,826	-	-	8,186	8,856
Rentals	85	108	5,966	5,839	85	108	8,009	7,310
Pension funds	-	-	6,473	5,186	-	-	6,473	5,186
Contributions and donations	3,135	3,468	6,639	7,510	5,427	5,874	7,334	8,273
Accrual (Reversal) of operating provisions	-	-	1,117	(8,539)	-	-	1,074	(9,024)
Other	249	431	13,187	16,021	1,216	1,421	13,946	16,387
	9,724	**9,962**	**180,170**	**177,724**	**17,246**	**17,461**	**185,248**	**182,757**

NOTE 31 – FINANCIAL RESULT

	Parent Company		Consolidated	
	2016	2015	2016	2015
Financial income				
Income from marketable securities	209,722	168,814	297,191	224,848
Interest monetary variation on court decision marketable securities	38,590	-	38,590	-
Interest on receivables	24,026	15,530	26,018	11,795
Income from restricted deposits	1,231	6,635	21,866	22,833
Monetary variation on judicial deposits	9,345	14,951	9,675	15,237
Other financial income	4,338	5,789	4,581	6,117
	287,252	**211,719**	**397,921**	**280,830**
Financial expenses				
Interest and monetary variation				
Concessions payable	333,194	354,328	341,315	363,786
Loans and financing	83,174	87,866	178,500	211,035
Fair value hedge on loans	74,714	110,733	74,714	110,733
Debentures	38,670	4,788	17,294	4,788
Transactions in the CCEE	54,078	-	57,553	-
Retirement benefit obligations	36,431	29,536	36,431	29,536
Provisions	33,912	13,140	34,421	13,571
Other	551	3,518	2,786	5,980
Exchange variation				
Loans	(181,654)	554,606	(181,654)	554,606
Fair value hedge on loans	181,654	(554,606)	181,654	(554,606)
Fair value adjustment	1,986	(1,772)	1,986	(1,772)
Other financial expenses	3,370	7,634	7,765	13,771
	660,080	**609,771**	**752,765**	**751,428**
Financial expenses, net	**372,828**	**398,052**	**354,844**	**470,598**

The amount of interest and inflation adjustment on receivables from energy sales arises from a favorable decision for the Company in a legal dispute related to the adjustment of amounts receivable from an industry player.

The financial expense relating to inflation adjustments in transactions within the CCEE refers to inflation adjustment of amounts payable at CCEE that were pending payment due to injunctions that hampered the application of GSF by CCEE.

NOTE 32 – INCOME TAXES RECONCILIATION, IN THE INCOME STATEMENT

	Parent Company			
	2016		2015	
	Income Tax	Social Contribution	Income Tax	Social Contribution
Income before taxes	**1,893,431**	**1,893,431**	**1,860,052**	**1,860,052**
Standard rates	25%	9%	25%	9%
Tax expense at standard rates	**(473,358)**	**(170,409)**	**(465,013)**	**(167,405)**
Permanent differences:				
Interest on equity	108,125	38,925	78,500	28,260
Equity in net income of subsidiaries	99,406	35,786	104,012	37,444
Tax incentives	20,119	-	25,390	-
Other	(3,993)	(729)	(163)	(685)
	(249,701)	**(96,427)**	**(257,274)**	**(102,386)**
Breakdown of taxes in the income statement				
Current	(360,966)	(137,793)	(120,610)	(54,497)
Deferred	111,265	41,366	(136,664)	(47,889)
	(249,701)	**(96,427)**	**(257,274)**	**(102,386)**
Effective rate	**13.2%**	**5.1%**	**13.8%**	**5.5%**

	Consolidated			
	2016		2015	
	Income Tax	Social Contribution	Income Tax	Social Contribution
Income before taxes	**2,066,773**	**2,066,773**	**2,033,232**	**2,033,232**
Standard rates	25%	9%	25%	9%
Tax expense at standard rates	**(516,693)**	**(186,010)**	**(508,308)**	**(182,991)**
Permanent differences:				
Difference between the calculation base of taxable and presumptive profit tax regimes	11,332	2,976	15,429	4,924
Tax incentives	20,119	-	25,390	-
Interest on equity	108,125	38,925	78,500	28,260
Other	1,523	1,231	5,655	1,212
	(375,594)	**(142,878)**	**(383,334)**	**(148,595)**
Breakdown of taxes in the income statement				
Current	(461,356)	(175,029)	(230,196)	(94,790)
Deferred	85,762	32,151	(153,138)	(53,805)
	(375,594)	**(142,878)**	**(383,334)**	**(148,595)**
Effective rate	**18.2%**	**6.9%**	**18.9%**	**7.3%**

NOTE 33 – TRANSACTIONS WITH RELATED PARTIES

a) Amounts recognized in balance sheet accounts:

	ASSETS			LIABILITIES		
	Accounts receivable			Supplier		IOE [34]
	Energy	Services	Dividends	Energy	Other	dividends
12.31.2016						
EBC	153,435	-	81,417	2,581	-	-
CEE	-	-	56,151	-	-	-
Lages	1,690	187	17,843	-	-	-
Itasa	-	1,371	11,791	9,549	-	-
ENGIE Participações	-	568	-	-	339	297,180
Ceste	-	1,577	-	-	-	-
ESBR[35]	-	-	-	1,252	-	-
ECP Subsidiaries	-	336	-	-	626	-
	155,125	**4,039**	**167,202**	**13,382**	**965**	**297,180**
12.31.2015	**162,998**	**3,524**	**208,777**	**41,365**	**-**	**183,393**

b) Amounts recognized in the income statement:

	Revenue			Cost	Expense	
	Supply of energy	O&M Services	Administrative services	Energy purchase	Third party services	Financial income
12.31.2016						
EBC	1,800,412	-	363	15,316	-	-
CEE	-	-	363	-	-	5,315
Lages	18,957	2,457	212	-	-	-
Itasa	-	18,173	-	109,790	-	-
Ceste	-	20,636	-	-	-	-
ESBR	-	-	-	3,386	-	-
ECP Subsidiaries	-	-	2,409	-	-	-
Degremont	-	-	-	-	3,018	-
Others	-	-	363	-	1,268	-
	1,819,369	**41,266**	**3,710**	**128,492**	**4,286**	**5,315**
12.31.2015	**1,638,960**	**37,075**	**2,520**	**366,421**	**3,728**	**8,003**

The transactions with related parties include mainly: (i) energy purchase and sale; (ii) operation and maintenance services of power plants; (iii) rendering of administrative services; and (iv) guarantees granted to third parties.

[34] Interest on equity

[35] Energia Sustentável do Brasil.

c) Future commitments

Main commitments contracted with related parties and whose recognition in the income statement will occur in future accrual periods over contract periods are as follows:

c.1) Purchase and sale of electrical energy

Contract	Maturity	Annual adjustment index	Adjustment base date	Future commitment Base 12.31.2016
Purchase EBE from Itasa	2030	IGP-M	January	869,074
Purchase EBE from Itasa	2030	Dollar variation + U.S. Inflation	October	682,425
Purchase EBE from ESBR	2042	IPCA	January	383,480
Purchase EBC from Geramamoré	2018	IPCA	January	204,472
Sale Trairí Project to EBC	2032	IPCA	December	1,815,724
Sale EBC to CEE	2041	IPCA	December	405,383
Sale Santa Mônica Project to EBC	2017	Fixed	-	88,504
Sale EBE to Lages	2017	IGP-M	February	5,471

In accordance with the Company's commercial policy, sales to free consumers are carried out preferably through subsidiary EBC, which purchases energy from the Trairí and Santa Mônica Projects.

c.2) Operation and maintenance

Related party	Maturity	Annual adjustment index	Future commitment Base 12.31.2016
Itasa	10.16.2030	IGP-M	305,344
Ceste	5.1.2025	INPC (80%) and IPCA (20%)	207,100
Lages	3.31.2016	Salary adjustment	3,171

The Company has the strategy of concentrating in ENGIE Brasil Energia the operation and maintenance of its subsidiaries' plants whenever they do not outsource these services. The negotiated prices are based on ENGIE Brasil Energia costs with personnel directly involved in the execution of these activities.

c.3) Administrative services

ENGIE Brasil Energia provides those services necessary to the administrative activities of the direct and indirect subsidiaries. Contract duration is 4 years and contracted values are defined based on the last billing of subsidiaries and annually adjusted at INPC. The amount annually contracted from its subsidiaries is R$ 3,958.

d) Guarantees

The Company intermediates financial contracts entered into by its direct and indirect subsidiaries with BNDES, Banks (BNDES onlending) and other financial agents. The main guarantees are shown as follow:

Bank	Type of guarantee	Amount of debt at 12.31.2016
BNDES onlending)Banks)	Pledge of all the shares issued by the following companies: CEE, Beberibe, Pedra do Sal, Areia Branca, Ibitiúva, Trairí, Guajiru, Fleixeiras I, Mundaú and Ferrari.	1,715,653
Banco do Brasil	Pledge of all the shares issued by the indirect subsidiary Hidropower.	3,326

e) Sureties and guarantees

The Company is the guarantor of and jointly liable for energy purchase transactions of certain subsidiaries, in the amount of R$ 391,520 at 12.31.2016. The guarantees' maturities are scheduled as follows: R$ 207,867 in 2017, R$ 29,482 in 2019, R$ 62,342 in 2020, R$ 20,974 in 2021, R$ 17,084 in 2022 and R$ 51,796 in 2023.

In addition, the Company is guarantor to the construction of four projects awarded in energy auctions promoted by Aneel in November 2014 and 2015: thermal power plant Pampa Sul (294.5 average MW), Santa Mônica Wind Power Project (97.2 average MW), Campo Largo Wind Power Project (82.6 average MW) and Photovoltaic power plant Assú V (30 average MW); for the total amount of R$ 154,789 at 12.31.2016, maturing R$ 20,233 in 2017 and R$ 134,556 in 2019.

f) Loan between Ibitiúva and Andrade Açúcar e Álcool (Andrade)

The indirect subsidiary Ibitiúva has a loan agreement with Andrade – its related party in the Andrade Consortium. The loan is restated by the variation of the IPCA and the loan matures in 2025. The balance payable on 12.31.2016 is R$ 15,574 (R$ 16,251 at 12.31.2015).

g) Remuneration of key management personnel

The remuneration of key Management personnel was R$ 21,148 at 12.31.2016 (R$ 23,566 at 12.31.2015) in the parent company and R$ 21,161 (R$ 24,883 at 12.31.2015) in the consolidated. The Management does not receive share-based compensation from ENGIE Brasil Energia.

NOTE 34 – INSURANCE

a) Operating and lost profit risks

The Company is covered by the international insurance policy for Property Damage and Business Interruption (PDBI) of the insurance program of its parent company ENGIE. The insurance is valid until 5.31.2017 and the coverage amount is R$ 11,857,523 in the parent company and R$ 15,217,728 in the consolidated statements, as shown below.

	Parent Company		Consolidated	
Type of plant	Material damages	Loss of profit	Material damages	Loss of profit
Hydroelectric power plants	8,099,302	489,026	9,779,785	489,025
Thermoelectric power plants	2,521,297	706,445	2,521,297	706,446
Complementary plants (wind, biomass and SHPP)	40,977	476	1,412,702	308,473
	10,661,576	**1,195,947**	**13,713,784**	**1,503,944**

The maximum combined limit of indemnification for material damages and loss of profits is R$ 1,789,020 per event.

b) Engineering risks

The projects for construction the Santa Mônica Wind Power Complex and Pampa Sul Thermal Power Plant has an engineering risk coverage of R$ 450,000 and R$ 1,830,000, respectively for the entire duration of construction works. Coverage for civil liability amounts to R$20,000 and R$ 190,000, respectively.

c) Other coverages

The Company also has insurance to cover national and international transportation risks, civil liability of the directors, officers and management, extended to its subsidiaries, as well as group life insurance for its officers and employees.

NOTE 35 – LONG-TERM COMMITMENTS

The Company has the following long-term commitments that are considered relevant:

a) Contract for connection

The Company has contract for connection with Eletrosul and Furnas Centrais Elétricas S.A. ("Furnas"), and the subsidiaries CEE and Trairí with Centrais Elétricas do Norte do Brasil S.A. ("Eletronorte") and Transmissora Delmiro Gouveia ("TDG"), respectively. The contracts are valid up to termination of the concessions and authorization of the Company's power plants linked to these contracts.

At 12.31.2016, value of future commitments deriving from connection contracts is R$ 169,975 (R$ 178,251 at 12.31.2015).

b) Agreement for the Use of the Transmission System (CUST).

For the use of the transmission system and basic network, the Company and its subsidiaries, CEE and Itasa, and the Wind Power Complexes of Trairi and Santa Mônica maintain contracts with The National Operator of the Power Grid (ONS). Contracts are valid up to the termination of Company's power plants concessions or authorizations.

At 12.31.2016, the value of future commitments deriving from these contracts amounts to R$ 6,415,488 (R$ 6,354,854 at 12.31.2015).

c) Contract for the Usage of Distribution System (CUSD)

For plants that are not directly connected to the basic network, contracts for the use of the distribution system are maintained with electrical energy distributors of the regions where these plants are installed. Contracts are normally valid up to the Company's power plants concessions or authorizations termination dates.

At 12.31.2016, the value of future commitments deriving from these contracts totals R$ 231,413 (R$ 257,914 at 12.31.2015). This amount includes estimated future payments of subsidiaries classified as "Non-current assets held for sale," in the amount of R$ 58,856.

d) Bilateral contracts for purchase and sale of electrical energy

According to data on guaranteed electrical energy and prevailing purchase and sale contracts, the Company's energy balance shows that current capacity has the following contracting levels for the next six years:

	Average MW					
	2017	2018	2019	2020	2021	2022
Own funds	3,518	3,536	3,962	3,989	3,998	4,013
Purchase for resale	1,105	1,012	715	415	317	314
Total availability	4,623	4,548	4,677	4,404	4,315	4,327
Contracted availability	4,178	4,122	3,987	3,119	2,562	2,349
Contracted %	90.37%	90.63%	85.25%	70.82%	59.37%	54.29%

e) Lease contracts

Lease contracts mentioned below were classified as operating leases as the ownership mainly because of the impossibility to transfer the ownership of the assets to the lessee at the end of contract period and there is no asset purchase option.

The Company's wind projects have lease contracts for pieces of land used to install and build wind electrical energy generator towers and associated substation and transmission facilities. Contracts have fixed and/or variable installments and are adjusted at inflation rates or percentages on the companies' gross operating revenue. Contract periods are normally equivalent to periods of authorizations granted by Aneel for electrical energy generation. Estimated future minimum payments with these commitments, at 12.31.2016, amount to R$ 223,256 (R$ 271,629 at 12.31.2015), which includes estimated future commitments of subsidiaries classified as "Non-current assets held for sale" totaling R$ 24,794.

f) Modernization of the Salto Santiago Hydroelectric Power Plant

The Company maintains a contract for the modernization of the Salto Santiago hydroelectric power plant. Future obligations at 12.31.2016 were R$ 42,653 (R$ 114,467 at 12.31.2015), which are scheduled to become effective in 2017.

g) Acquisition of interest in joint venture

On 4.19.2016, the Company completed the acquisition of 50% of the capital stock of ENGIE Solar, which operates in the distributed solar energy market. The estimated future commitment on 12.31.2016 amounted to R$ 16,557.

h) Contracts for ongoing construction

h.1) Santa Mônica Wind Power Project

In June 2014, the Company signed contracts with suppliers to execute the engineering and construction of foundations and the supply, transportation, assembly, installation and commissioning of wind turbines in the following companies: Estrela; Cacimbas; Santa Mônica; and Ouro Verde.

The future commitment assumed by the companies of the Project as consideration for the services rendered, at 12.31.2016, is R$ 49,736 (R$ 181,926 at 12.31.2015).

h.2) Pampa Sul Thermoelectric Plant

Pampa Sul signed contracts for the construction of its coal-fired plant in the state of Rio Grande do Sul, after selling 294.5 average MW through an Aneel auction held in November 2014, to be delivered as from January 1, 2019. Future commitments under these contracts amounted to R$ 1,295,299 at 12.31.2016 (R$ 1,603,486 at 12.31.2015).

h.3) Campo Largo Wind Power Complex

The Campo Largo Wind Power Complex signed contracts for the installation of eleven wind farms in the state of Bahia, five of which participated in the abovementioned auction, successfully selling 69.2 average MW to be delivered as from January 1, 2019. Future commitments under the construction contracts amounted to R$ 1,515,544 at 12.31.2016 (R$ 1,326,691 at 12.31.2015).

h.4) Assú Photovoltaic Solar Power Complex

The Assú Photovoltaic Solar Power Complex entered an agreement for the acquisition of photovoltaic modules for the construction of Assú V solar farm, after the sale of 9.2 average MW, through an auction conducted by Aneel in November 2015, to be delivered as of November 1, 2018. Future commitments under these contracts amounted to R$ 77,316 at 12.31.2016 (R$ 73,112 at 12.31.2015).

i) Lease agreement of registered office

The Company has a lease agreement for the registered office located in the municipality of Florianópolis, state of Santa Catarina, valid through 2025. Future commitments at 12.31.2016 amounted to R$ 37,540 (R$ 58,859 at 12.31.2015).

j) Renegotiation of hydrological risk

In December 2015, the Company joined the renegotiation of hydrological risk of plants whose energy was sold in ACR. This renegotiation was made through the transfer of hydrological risk to the consumer, with the payment of risk premium by the Company.

Based on the new risk level defined in the renegotiation, GSF for 2015 was recalculated, which resulted in an overpayment that is being offset by risk premiums due by the Company, calculated at present value. The estimated future payments of these risk premiums, after offsetting said amounts, amounted to R$ 116,204 on 12.31.2016.

NOTE 36 – ADDITIONAL CASH FLOW INFORMATION

The following complementary cash low transactions were as follows:

	Parent Company		Consolidated	
	12.31.2016	12.31.2015	12.31.2016	12.31.2015
Compensation of income and social contribution taxes	103,475	59,358	133,092	78,461
Suppliers of property, plant and equipment and intangible assets	(13,035)	32,597	(27,035)	69,244
Capitalized interest and monetary variation	16,824	34,077	113,557	67,808
Amounts payable from investment acquisition	-	-	11,698	29,157
Dividends receivable from subsidiaries	287,674	41,600	-	-
Interest on equity paid	432,500	314,000	432,500	314,000
Measuring of obligations with retirement benefits recorded under other comprehensive income	36,431	(21,013)	36,431	(21,013)
Non-current assets held for sale	-	-	339,641	-
Non-current liabilities held for sale	-	-	159,496	-

The Company recognized as investment activities the cash balance at 12.31.2016 from subsidiaries whose assets and liabilities were transferred to the item "Non-current assets held for sale", due to their future realization through the divestment of investments in specific purpose entities (SPEs). Further information is available in Note 11 – Non-current assets held for sale.

NOTE 37 – SUBSEQUENT EVENTS

a) Operational startup of Cacimbas wind farm

On 01.06.2017, Aneel authorized the commercial startup of the last four generating units of the Cacimbas wind complex located in the city of Trairi, state of Ceará, with installed capacity of average 18.9 MW and total commercial capacity of average 10.3 MW.

b) Payment of interest on equity for fiscal year 2016

The Board of Executive Officers of the Company announced on 1.17.2017 that interest on equity relating to the fiscal year ended 12.31.2016 will be credited starting from 2.1.2017. The gross amount credited was R$432,500, corresponding to R$0.6625893121 per share.

c) Prospecting potential buyers for coal-based energy generation assets

On 2.15.2017, the Company announced to its shareholders and the market that it engaged Banco Morgan Stanley S.A. to provide non-binding financial advisory services in a market study to identify possible buyers for its coal-based energy generation assets: (i) Jorge Lacerda Thermal Power Complex – with installed capacity of 857 MW; and (ii) Pampa Sul Thermal Power Plant – plant under construction, which will have installed capacity of 340 MW and whose commercial startup is scheduled for end-2018.

The potential Operation is in line with ENGIE's decarbonization strategy around the world, focused on low carbon emission activities, such as generation of renewable energy, natural gas and infrastructure.

d) Additional dividends proposed

The Board of Directors of the Company, at the meeting held on 02.23.2016, approved the proposal for additional dividends on the adjusted net income from the fiscal year ended 12.31.2016, in the amount of R$ 409,644, or R$ 0.6275749291 per share. The proposal shall be ratified by the Annual Shareholders Meeting, which will also set the dividend payment terms.

e) Contracting of loan from BNDES

The Company signed a contract with BNDES for R$ 353,515 to finance the construction of the Santa Mônica Wind Power Complex. Of the total amount, R$ 351,715 will carry interest equivalent to TJLP + 2.18% p.a. and monthly amortizations from June 2017 to May 2033; and R$ 1,800 will carry interest equivalent to TJLP and monthly amortizations from January 2018 to May 2033. On 02.22.2017, BNDES released a part of the funds amounting to R$ 217,516.

DECLARATION OF THE COMPANY'S MANAGEMENT

The Company's management declares that it has examined, discussed and reviewed all information contained in the Company's Financial Statements (individual and consolidated) and agrees with the opinion of the independent auditors of the Company, KPMG Auditores Independentes as presented in the Special Review Report of the Independent Auditors.

Eduardo Antonio Gori Sattamini
Chief Executive Officer

Carlos Henrique Boquimpani de Freitas
Chief Financial and Investor Relations Officer

Marco Antônio Amaral Sureck
Energy Commercialization Officer

Gustavo Henrique Labanca Novo
Business Development Officer

José Luiz Jansson Laydner
Generation Officer

Edson Luiz da Silva
Strategy and Regulation Officer

Júlio César Lunardi
Administrative Officer

Florianópolis, February 23, 2017.

BOARD OF DIRECTORS

Maurício Stolle Bähr
President

Manoel Arlindo Zaroni Torres
Vice-President

Pierre Jean Bernard Guiollot
Member

Paulo Jorge Tavares Almirante
Member

Dirk Achiel Marc Beeuwsaert
Member

Willem Frans Alfons Van Twembeke
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Member

José Pais Rangel
Member

Luiz Leonardo Cantidiano Varnieri Ribeiro
Member

BOARD OF EXECUTIVE OFFICERS

Eduardo Antonio Gori Sattamini
Chief Executive Officer

Carlos Henrique Boquimpani de Freitas
Chief Financial and Investor Relations Officer

Marco Antônio Amaral Sureck
Chief Commercialization Officer

Gustavo Henrique Labanca Novo
Chief Business Development Officer

José Luiz Jansson Laydner
Chief Generation Officer

Edson Luiz da Silva
Chief Strategy and Regulation Officer

Júlio César Lunardi
Chief Administrative Officer

ACCOUNTING DEPARTMENT

Marcelo Cardoso Malta
Accounting Department Manager
Accountant - CRC RJ 072259/O-5 T-SC

KPMG Auditores Independentes
Av. Prof. Othon Gama D´eça, 677 -
Salas 603, 604 e 605 - Centro - Ed. The Office
88015-240 - Florianópolis/SC - Brasil
Caixa Postal 1420
88010-970 - Florianópolis/SC - Brasil
Telephone +55 (48) 3205-5300, Fax +55 (48) 3205-5301
www.kpmg.com.br

Independent Auditors' Report on the Financial Statements

To the Directors, Executive Officers and Shareholders of
Engie Brasil Energia S.A. (formerly Tractebel Energia S.A.)
São Paulo – SP

Opinion
We have audited the accompanying individual and consolidated financial statements of Engie Brasil Energia S.A. (formerly Tractebel Energia S.A.) ("Company"), identified as parent company and consolidated, respectively, which comprise the balance sheets as of December 31, 2016, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as the significant accounting policies and other explanatory information.

Opinion on the individual financial statements
In our opinion, the individual financial statements referred to above present fairly, in all material respects, the financial position of Engie Brasil Energia S.A. (former Tractebel Energia S.A.) as of December 31, 2016, and its financial performance and their cash flows for the year then ended in accordance with the accounting practices adopted in Brazil.

Opinion on the individual financial statements
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Engie Brasil Energia S.A. (former Tractebel Energia S.A.) as of December 31, 2016, and its consolidated financial performance and their consolidated cash flows for the year then ended in accordance with the accounting practices adopted in Brazil and 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. In accordance with said standards, our responsibilities are described in the next section, namely "Responsibilities of the auditor for the audit of the individual and consolidated financial statements". We are independent in relation to the Company and its subsidiaries, in accordance with the relevant ethical principles set forth in the Code of Ethics for Professional Accountants and in the professional standards issued by the Brazilian Federal Accounting Council and we comply with the other ethical responsibilities in accordance with these standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Main audit issues
The main audit issues are those that in our professional judgment were most significant in our audit of the current year. These issues were treated within the scope of our audit of the individual and consolidated financial statements as a whole and in forming our opinion on said financial statements and, therefore, we do not express a separate opinion on said issues.

Post-employment Obligations – Parent Company and Consolidated
(Note 25)

The Company sponsors Defined Benefit plans that are closed for new members. The obligations of these plans are calculated based on actuarial assumptions that include, among others, mortality tables, inflation estimates, estimates of wage increase, employment termination and turnover, which may differ from actual results due to changes in economic and market conditions, regulatory events, court decisions or shorter or longer lifespans of participants. Since it is a material obligation that involves a high level of judgment by the Company in defining the assumptions for the measurement of actuarial obligations of defined benefit plans, and the impact that possible changes in assumptions may have on the individual and consolidated financial statements, we considered this a significant issue in our audit.

How our audit conducted this issue
Based on sampling, we validated the accuracy of the databases used for calculating obligations and, with assistance from our actuarial experts, we analyzed the reasonableness of the main assumptions used, such as mortality tables, discount rate, inflation rate and rate of wage increase, and carried out tests recalculating actuarial obligations of the most important defined benefits plan and also compared it with market expectations and information on the base date of the financial statements. We also evaluated the disclosures made by Engie in the financial statements.

Provisions and contingent liabilities – tax and labor – Parent Company and Consolidated
(Note 24)

The Company is a defendant in various civil, tax and labor proceedings. Estimated outcomes and financial effects are determined based on the nature of the proceedings and the Company's judgment, backed by the opinion of its legal counsel, considering the aspects of the proceeding, complemented by the experience with similar claims. Due to the relevance, complexity and judgment involved in the assessment, measurement, definition of timing for recognizing and disclosing information on Provisions and Contingent Liabilities and the impact that possible changes in assumptions used may have on the individual and consolidated financial statements, this is a significant issue for our audit.

How our audit conducted this issue
We evaluated the design and implementation of material manual and automated internal controls implemented by the Company relating to the capture of proceedings, evaluation of judicial risk, calculation of provision, progress of proceedings and the stages of conclusion. We evaluated the adequacy of measurement and recognition of the provision and the disclosure of contingent liabilities. Based on sampling, we conducted audit procedures on additions to and reversals of provision, as well as its sufficiency. We evaluated the determination of judicial risk of proceedings that are material in terms of subject and amounts to the Company, by evaluating the criteria for estimating losses used in the methodology to measure the amounts provisioned and/or disclosed, as well as historical data and information and we analyzed the changes in estimates compared to previous years, when applicable. We also evaluated if the information disclosed in the financial statements, described in Note 24, is in accordance with applicable rules.

Other issues

Statements of Value Added

The individual and consolidated statements of value added ("DVA") for the year ended December 31, 2016, prepared under the responsibility of the Company's management and presented as supplemental information for IFRS purposes, were submitted to audit procedures performed together with the audit of the financial statements of the Company. In forming our opinion, we assessed whether these statements are reconciled with the financial statements and accounting records, as applicable, and whether their form and content comply with the criteria set forth under Technical Pronouncement CPC 09 – Statement of Value Added. In our opinion, the statements of value added were presented fairly, in all material respects, in agreement with the criteria set forth under this Technical Pronouncement and are consistent with the individual and consolidated financial statements taken as a whole.

Other information that accompany the individual and consolidated financial statements and the auditor's report

The Company's management is responsible for such other information that comprises the Management Report. Our opinion on the individual and consolidated financial statements does not include the Management Report and we did not express an audit judgment on this report.

With reference to the audit of the individual and consolidated financial statements, our responsibility is to read the Management Report and assess if this report is substantially inconsistent with the financial statements or with the knowledge we gained in performing the audit, or otherwise, appears to be materially misstated. If, based on the work performed, we conclude that there is a material misstatement in the Management Report, we are required to communicate the fact. We have nothing to report in this regard.

Responsibilities of the management and the governance for the individual and consolidated financial statements

Management is responsible for the preparation and fair presentation of the individual financial statements in accordance with accounting practices adopted in Brazil and of the consolidated financial statements in accordance with accounting practices adopted in Brazil and 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 evaluating the Company's ability to continue as a going concern, disclosing, as applicable, the issues related with its operating continuity and the use of this accounting base in the preparation of the financial statements, unless management intends to liquidate the Company and its subsidiaries or close down their operations, or if it does not have any realistic alternative to prevent the closing down of operations.

The people in charge of the governance of the Company and its subsidiaries are responsible for supervising the process of preparation of the financial statements.

Responsibilities of the auditor for the audit of the individual and consolidated financial statements

Our objective is to obtain reasonable assurance that the individual and consolidated financial statements, taken as a whole, are free of material misstatements, whether caused by error or fraud, and to issue an audit report with our opinion.

Reasonable assurance is a high level of security, but it is not a guarantee that an audit performed in accordance with the Brazilian and international audit standards always detect a material misstatement. Misstatements may result from fraud or error and are considered relevant when, individually or taken together, they can influence, within a reasonable perspective, the economic decisions made by users based on said financial statements.

As part of the audit performed in accordance with Brazilian and international audit standards, we make a professional judgment and maintain an attitude of professional skepticism throughout the audit. In addition:

- We identify and assess the material misstatement risks in the individual and consolidated financial statements, whether caused by fraud or error, plan and carry out audit procedures in response to such risks, and obtain adequate and sufficient audit evidence to support our opinion. The risk of non-detection of material misstatement resulting from fraud is bigger than that arising out of error, as that fraud may involve bypassing the internal controls, collusion, forgery, omission or intentional misrepresentations.
- We gain an understanding of the internal controls relevant to the audit so that we can plan audit procedures suitable to the circumstances, but, not with the aim of expressing an opinion on the efficiency of the internal controls of the Company and its subsidiaries.
- We assess the appropriateness of accounting policies used and the reasonableness of accounting estimates and respective disclosures made by management.
- We issue an opinion on the appropriateness of the use by management of the operating continuity accounting base and, supported by the audit evidence obtained, if there is relevant uncertainty regarding events or conditions that might raise significant doubt as to the ability of the Company and its subsidiaries to continue as a going concern. If we come to the conclusion that there is relevant uncertainty, we must call attention in our audit report to the respective disclosures in the individual and consolidated financial statements or, should the disclosures be inappropriate, include a modification to our opinion. Our conclusions are grounded in the audit evidences obtained up to the date of our report. However, future events or conditions may impair the ability of the Company and its subsidiaries to continue as a going concern.
- We assess the general presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the corresponding transactions and the events in a manner compatible with the aim of a fair presentation.
- We obtain appropriate and sufficient audit evidence regarding the financial information of the entities or business activities of the Group to express an opinion on the individual and consolidated financial statements. We are responsible for the direction, supervision and performance of the audit of the group and, consequently, for the audit opinion.

We communicate with those in charge of governance regarding, among other aspects, the planned scope, the audit time and the significant audit findings, including any significant deficiency in the internal controls identified during our work.

We also provide those in charge of governance a declaration of our compliance with relevant ethical requirements, such as the applicable independence requirement, and we report all relationships or issues that may significantly affect our independence, including the respective safeguards when applicable.

Of the issues we discussed with those in charge of governance, we determined the most significant ones in the audit of the financial statements of the current year and, as such, they constitute the Main Audit Issues. We describe these issues in our audit report, unless any law or regulation prohibits disclosure of a certain issue to the public, or when, in extremely rare circumstances, we determine that the issue should not be mentioned in our report because the adverse consequences of such disclosure might reasonably overcome the benefits of its communication to the public.

Florianópolis, February 23, 2017

KPMG Auditores Independentes
CRC SC-000071/F-8

Claudio Henrique Damasceno Reis
Accountant CRC SC-024494/O-1

FISCAL COUNCIL'S OPINION

The undersigned members of the Fiscal Council of the Company, Paulo de Resende Salgado, Carlos Guerreiro Pinto and Manoel Eduardo Lima Lopes, having examined the Management's Annual Report, the Financial Statements and Management's proposal for Allocation of Net Income for the fiscal year ended December 31, 2016 to the legal reserve, the tax incentive reserve, and to the distribution of dividends and interest on equity, based on the report by the independent auditors – KPMG issued on February 23, 2017 on such financial statements, hereby state that they fairly represent in all material aspects the balance sheet and financial position of ENGIE Brasil Energia S.A. on December 31, 2016, and are appropriate for being submitted to the Company's Annual Shareholders' Meeting.

Rio de Janeiro, February 23, 2017

Paulo Resende Salgado
Chairman

Carlos Guerreiro Pinto
Member

Manoel Eduardo Lima Lopes
Member