

Management Report and Financial Statements for Fiscal Years 2017 and 2016

ENGIE Brasil Energia S.A.
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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 2017 and 2016 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, 2017. 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 6,404/76 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 Brazilian Electricity Regulatory 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 B3'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. In alignment with the recommendations of the International Integrated Reporting Council (IIRC), 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.

MESSAGE FROM THE MANAGEMENT

Throughout its history, the capacity of ENGIE Brasil Energia to deliver effective results despite adverse scenarios has been one of the Company's principal virtues. And 2017 was no different. The results of tireless team work, we have been able to report one more successful year in the execution of our strategy. The tangible consequence is that in the period, the Company recorded Ebitda of R$ 3,519.5 million and a net income of R$ 2,004.6 million, corresponding to increases of 10.8% and 29.5%, respectively, compared with 2016. Progress in results is due largely to the mitigation of the negative impact of the hydroelectric generation deficit (GSF) thanks to proactive portfolio management. The decrease in royalty costs due to reduced hydroelectric generation, the increase in energy sales volume together with the divestment of the Beberibe, Pedra do Sal and Areia Branca plants and improved net financial results, among other factors - all of which will be discussed in this report.

With an eye on the future, ENGIE Brasil Energia is focused on creating value in the present but also preparing for the transformations and opportunities arising from the energy transition as translated and encapsulated in our strategy based on the three pillars of decarbonization, decentralization and digitization. In this way, the Company was able to make further strides towards expanding its renewables matrix, the highlight of the year being the acquisition of two new concessions – the Jaguara and Miranda Hydroelectric Power Plants - which together have added 832 MW of installed capacity to our generator complex. Still with the focus on renewable energy, the Company acquired the Umburanas Wind Power Complex project in the state of Bahia, representing a further 605 MW to be harnessed. Thanks to its location adjacent to the Campo Largo Wind Complex, also pertaining to ENGIE Brasil Energia, the wind farms of the new project will enjoy significant optimization of resources as well as synergies.

Just as in the case of the acquisitions, in 2017 we were also able to commemorate the opening of the Santa Mônica Wind Power Complex (97.2 MW) and the startup in operations of the Assú V Photovoltaic Plant (30.0 MW) as well as progress made in work on the Pampa Sul Thermal Power Plant (345 MW) and Phase I of the Campo Largo Wind Power Complex (326.7 MW). In parallel, ENGIE Brasil Participações (the Company's controlling shareholder) saw the initial steps taken towards the transfer of its stake in the Jirau Hydroelectric Power Plant to ENGIE Brasil Energia, a process which we expect to accelerate in 2018 with the involvement of the Special Independent Committee for Transactions with Related Parties.

In alignment with the strategic guidelines of its Controlling Company, EBE took some important initiatives towards decarbonization. For instance, we continued our soundings in the market for identifying potential buyers for the Jorge Lacerda Thermal Complex and the Pampa Sul Thermal Power Plant. In this respect, we have already signed an exclusivity agreement for the conducting of due diligence by one of the potential acquirers. Cognizant of ENGIE Brasil Energia's commitment to transparency, we shall keep all interested parties informed as the process evolves.

The Company continued to grow its operations in the distributed generation segment anchored to the idea of greater proximity to the client and based on another of the three pillars, that of decentralization. In 2017, ENGIE Geração Solar Distribuída installed 1,493 systems in 14 states of the Federation with a total 7.714 kWp. Another highlight of the year was the expansion in the client portfolio for the second consecutive year: at the end of 2017, there were 280 clients, an increase of 22.8% compared to 2016, when significant growth had already been recorded. Combining decentralization with digitization, we began the operations of the energy retailer allowing us to increase our commercial reach and efficiency and become more competitive in the small client segment. In the light of the expected increase in the customer base, we are implementing a digital platform dedicated to the management and standardization of contracts and the necessary procedures for gains in scale.

ENGIE Brasil Energia's commercial activities over the course of 2017 reinforced its capacity to create shareholder value. With the focus on diversification and on an equilibrium between short, medium and long terms, the proactive management of the portfolio was instrumental in reducing the impact of one of the lowest GSFs on record.

Such commercial strategy is based on an operational soundness built up by the Company over the years. Considering 2017 as a whole, we achieved the landmark figure of 36,335 GWh generated (4,148 aMW) with an uptime rate of 95.2%, excluding scheduled stoppages. To ensure the efficiency of operations, we conduct a rigorous plan of maintenance and improvements to the generator complex. At the same time, we have proceeded apace with the integration of plants at the Generation Operations Center (COG) situated at our head offices in Florianópolis (SC) from where a further four generating units began operating on a remote basis during the year in addition to the three already being operated in this way – totaling seven, in so doing reinforcing the importance of another strategic pillar, that of digitization.

An ongoing quest for efficiency is conducted hand in hand with respect for the Company's socio-environmental commitments. Our teams remain dedicated to the systematic monitoring of the local environmental conditions, complementary to several voluntary initiatives together with partner organizations with a focus on the conservation of natural resources. The partnership also reflects ENGIE Brasil Energia's relationship with the communities in which it operates. In this context, the Sustainability and Cultural Centers – already installed in five towns – have become essential tools for an increasingly more effective contribution to economic and social development. A sixth Center is ready for inauguration in Minaçu (GO) and a further three projects have been approved by the Ministry of Culture for installation over the next three years.

With these communities as well as society as a whole, we share the hope for a more sustainable world in all spheres of activity. It is this aspiration which drives ENGIE Brasil Energia to innovate and transform the uncertainties inherent in the Brazilian context together with the energy transition into opportunities. Evidence of this was the Company's debut in the transmission segment with a successful bid for one of the lots at the Brazilian Electricity Regulatory Agency's (Aneel) Transmission Auction 2/2017. Located in the state of Paraná, the transmission lines total 1,050 kilometers in length and connect to five substations. This will ensure that the National Interconnected System operates in a more secure and efficient manner.

In addition to the goal of enhanced synergies in the Company's operations, this achievement is conducive to the diversification of risk as well as offering new possibilities for growth and the creation of stakeholder value. Conversely, the new operation presents fresh challenges, inherent to insertion in another segment of the sector. We are in no doubt as to ENGIE Brasil Energia's capacity to overcome these and other challenges that will arise. The Company's 2017 performance detailed in this Report, is indicative of this. With our thanks going to all the people and organizations that share our objectives, especially shareholders, employees and partners, we continue working to transmit trust and to generate results.

Maurício Stolle Bähr
Chairman of the Board of Directors

Eduardo Antonio Gori Sattamini
Chief Executive Officer

1. AWARDS AND RECOGNITIONS RECEIVED IN 2017

- 13th Brazil Environmental Award (the Rio de Janeiro American Chamber of Commerce – AmCham Rio)

Winning project: Conservation of endemic species of ichthyofauna in the Iguaçu River (PR)

- 24th *Expressão* Ecology Award

Winning projects:

Environmental and Socio-Cultural Management of Hydroelectric Power Plants
Actions for the conservation of ichthyofauna in the Upper Uruguay River

- 5th *Sustentar de Inovação* Ranking

Winning project: Program for Energy Efficiency Diagnosis

- *Época* Negócios magazine's 360º Award

Best company in Corporate Governance

- Institutional Investor magazine ranking 2017

Best Investor Relations Program (Sell-Side)
Best CEO for an electric sector company in Latin America (Sell-Side)

- Transparency Trophy of the National Association of Executives in Finance, Administration and Accounting (Anefac) in the "Companies with net revenue up to R$ 5 billion".

- Component of B3's ISE – Corporate Sustainability Index – 2018 Portfolio

Since inception of the ISE, for the 13th consecutive year, the Company has been included in the Index's portfolio which comprises companies recognized for their commitment and practices in relation to economic efficiency, environmental equilibrium, social justice and corporate governance.

2. THE COMPANY

The generation and commercialization of energy constitute the two key business axes of ENGIE Brasil Energia, which has its registered offices in Florianópolis, satate of Santa Catarina. In this context, the Company installs and operates generation projects involving conventional sources such as hydroelectric and thermoelectric plants as well as small hydroelectric, wind, biomass and photovoltaic plants. In addition to this, the Company buys and sells conventional and incentivized energy from and to clients nationwide. The year 2017 saw ENGIE Brasil Energia's debut in a new segment of the electric power industry, namely the transmission segment.

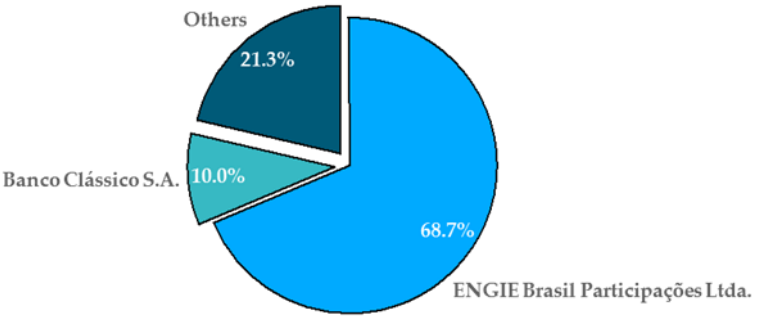
With 652,742,192 common shares trading regularly on B3, at the end of 2017, the Company reported a capital stock of R$ 2,829.1 million. ENGIE Brasil Energia is also present in the United States over-the-counter market, where Level I American Depositary Receipts (ADRs) are traded under the EGIEY symbol at a ratio of one ADR for every common share.

2.1 Controlling Company

A global leader in the independent production of energy with its activities in more than 70 countries, ENGIE is the controlling company of ENGIE Brasil Energia. The Controlling Company is a major operator in the electricity, natural gas and energy services businesses holding 68.7% of the Brazilian company through ENGIE Brasil Participações Ltda.

Worldwide, ENGIE employs some 153 thousand and operates 115.3 GW of installed electrical energy capacity in addition to a natural gas portfolio of 1,082 TWh/year. With its businesses oriented towards sustainable development, ENGIE seek to offers innovative solutions to people, cities and companies focusing on the energy transition to a low carbon economy. The Controlling Company's business strategy is to expand access to renewable energy, the mitigation of, and adaptation to, climate change, security of supply and the rational use of natural resources. In this way, its goal is to become a benchmark in energy services in emerging market economies, at the same time proposing to lead the energy transition movement in Europe founded on the pillars of decarbonization, decentralization and digitization.

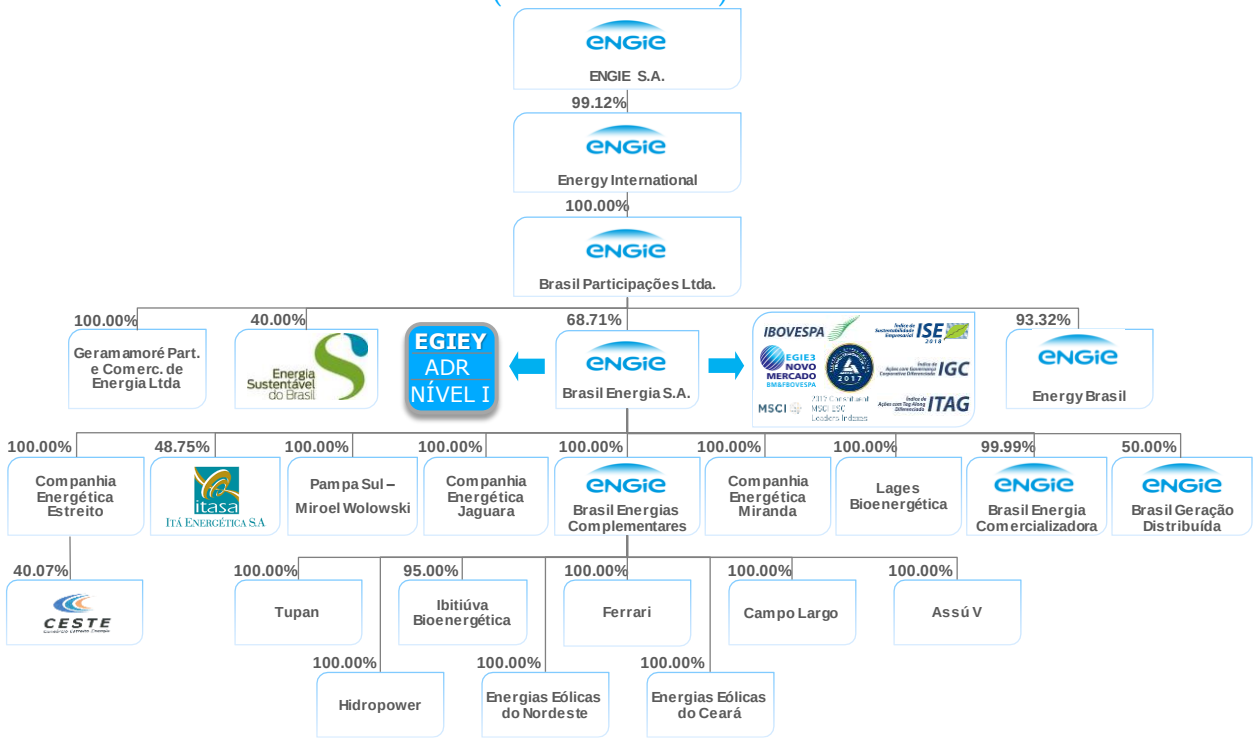
Shareholding structure – ENGIE Brasil Energia
(as at 12.31.2017)



2.2 Corporate Structure

As following infographic shows, ENGIE Brasil Energia controls subsidiaries and maintains stakes in concession consortia of plants in its generator complex. In 2017, Companhias Energéticas Jaguara and Miranda, acquired by the Company and already in operation, were added to the corporate structure while the Beberibe, Pedra do Sal and Areia Branca plants were sold during the course of the year. More information on these inclusions and exclusions are listed in the next item.

Corporate Structure*
(as at 12.31.2017)



** Simplified structure*

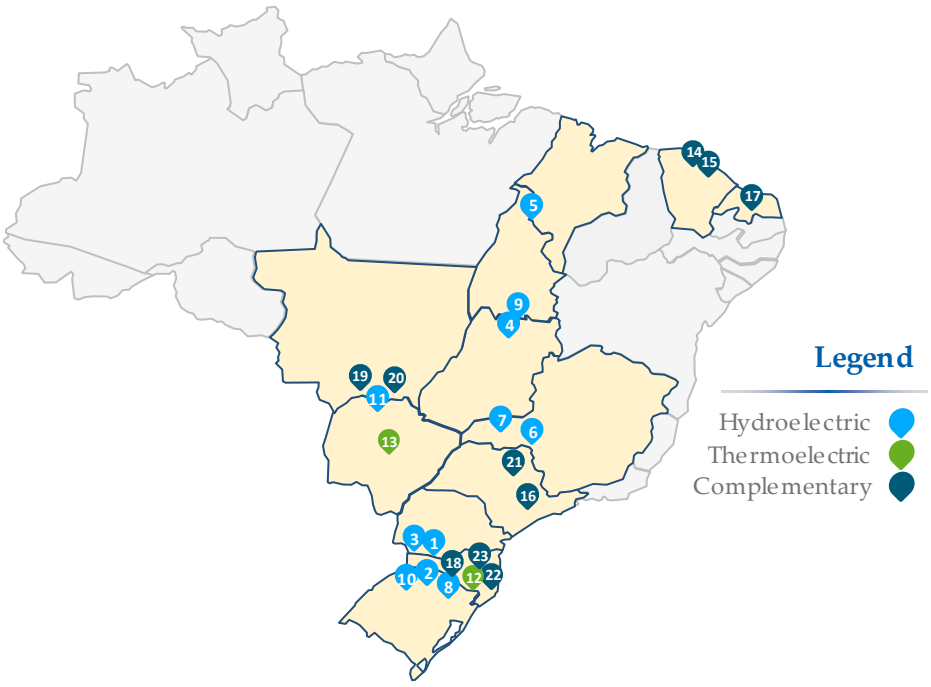
2.3 Generating Complex

At the end of 2017, ENGIE Brasil Energia's generating complex stood at 31 plants and 9,588.8 MW of installed operating capacity: 11 hydroelectrics, four conventional thermal power plants and 16 complementary operations – two of them small hydroelectric power plants (SHPPs), nine wind parks, three biomass and two photovoltaic plants. Of these projects, 27 are fully controlled by the Company, such that its proprietary installed capacity totals 7,868.1 MW.

If all the plants are considered, 86.7% of the proprietary generation matrix is made up of renewable sources. In 2017, two new concessions contributed to further enhancing this category: the Jaguara and Miranda Hydroelectric Power Plants. With 424 MW of installed capacity, Jaguara HPP is located in Rifaina (SP) and began commercial operations in 1971. In turn, Miranda HPP is situated in Indianópolis (MG), with 408 MW of installed capacity and will complete 20 years of operation in 2018. Both concessions were owned by Companhia Energética de Minas Gerais (Cemig) and auctioned on September 27, 2017 pursuant to the technical and economic parameters enshrined in Resolution 12/2017 of the National Energy Policy Council (CNPE).

Following the signature of the concession agreement, there was a short period of assisted operations in which the former and the new operators of the asset shared the daily routine. On December 29, the operation and maintenance of the plant was transferred in full to ENGIE Brasil Energia. The new concession agreement runs from this date for a 30-year period.

Geographical distribution of the generating complex
(as at 12.31.2017)



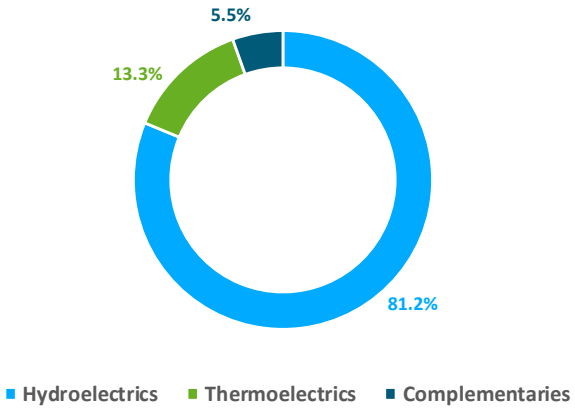
Composition of the generating complex
(as at 12.31.2017)

	Hydroelectric power plants	Total installed capacity (MW)	Total physical guarantee (MWa)	Owner-ship	Own installed capacity (MW)	Own physical guarantee (aMW)	Expiration of concession/ authorization
1	Salto Santiago	1,420.0	755.1	100%	1,420.0	755.1	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	Jaguara	424.0	341.0	100.0%	424.0	341.0	12.28.2047
7	Miranda	408.0	198.2	100.0%	408.0	198.2	12.28.2047
8	Machadinho	1,140.0	529.0	19.3%	403.9	147.2	07.14.2032
9	São Salvador	243.2	151.1	100%	243.2	151.1	04.22.2037
10	Passo Fundo	226.0	119.0	100%	226.0	119.0	09.27.2028
11	Ponte de Pedra	176.1	133.5	100%	176.1	133.5	09.30.2034
	Total	8,102.3	4,383.5		6,391.7	3,441.7	
	Thermoelectric power plants	Total installed capacity (MW)	Total physical guarantee (aMW)	Owner-ship	Own installed capacity (MW)	Own physical guarantee (aMW)	Expiration of concession/ authorization
12 [1]	Jorge Lacerda Complex	857.0	649.9	100%	857.0	649.9	09.27.2028
13	William Arjona	190.0	136.1	100%	190.0	136.1	04.28.2029
	Total	1,047.0	786.0		1,047.0	786.0	
	Complementary power plants	Total installed capacity (MW)	Total physical guarantee (aMW)	Owner-ship	Own installed capacity (MW)	Own physical guarantee (aMW)	Expiration of concession/ authorization
14 [2]	Trairi Complex (Wind)	115.4	63.9	100%	115.4	63.9	09.28.2041
15 [2]	Santa Mônica Complex (Wind)	97.2	47.4	100%	97.2	47.4	02.04.2045
16	Ferrari (Biomass)	80.5	35.6	100%	80.5	35.6	09.28.2041
17	Assu V (Solar)	30.0	9.2	100%	30.0	9.2	07.06.2051
18	Lages (Biomass)	28.0	11.1	100%	28.0	11.1	10.28.2032
19	Rondonópolis (SHP)	26.6	10.1	100%	26.6	10.1	07.26.2042
20	José G. da Rocha (SHP)	23.7	9.2	100%	23.7	9.2	12.18.2032
21	Ibitiúva (Biomass)	33.0	20.0	69.3%	22.9	13.9	08.03.2033
22	Cidade Azul R&D (Solar)	3.0	not applicable	100%	3.0	not applicable	not applicable
23	Tubarão R&D (Wind)	2.1	not applicable	100%	2.1	not applicable	not applicable
	Total	439.5	206.5		429.4	200.4	
	General total	9,588.8	5,376.0		7,868.1	4,428.1	

1 Complex made up of three plants
2 Complex made up of four wind farms

Based on Ministry of Mines and Energy Ordinance 178 of May 3, 2017, most of the hydroelectric power plants operated by the Company will have new values for physical guarantee from January 1, 2018, with amounts being revised upwards or downwards based on technical considerations. Complementary data on these alterations are listed in Item 6 – Management of Quality.

ENGIE Brasil Energia - Energy matrix*
(as at 12.31.2017)



** Based on proprietary installed capacity.*

During the year, negotiations for the sale of the Beberibe (with 25.6 MW in the state of Ceará) and Pedra do Sal (with 18 MW in state of Piauí) wind farms as well as the Areia Branca SHPP (with 19.8 MW in the state of Minas Gerais) were concluded with Companhia Energética de Petrolina as part of the process of prioritizing assets which offer the greatest synergy. Focusing on another front, that of decarbonization, ENGIE Brasil Energia began soundings in the market to identify potential purchasers for the Jorge Lacerda Thermal Power Plant in the state of Santa Catarina and for the Pampa Sul Thermal Plant, currently under construction. In this context, an exclusivity agreement has been signed with one of the potential parties interested in the assets, permitting it to undertake due diligence, a process which is expected to continue through 2018.

3. CORPORATE GOVERNANCE

ENGIE Brasil Energia is committed to guaranteeing the rights of the shareholders and the transparency of its acts. Based on ethics, one of its key values, the Company strives to match the best corporate governance practices adopted in the market, including adherence to such legislation as the Sarbanes-Oxley Act.

In this context, ENGIE Brasil Energia is a member of B3's Novo Mercado which requires the adoption of corporate rules for enhancing investors' rights, as well as a comprehensive policy for disclosing information to the market.

With the purpose of protecting their interests, ENGIE Brasil Energia guarantees the following rights to its shareholders:

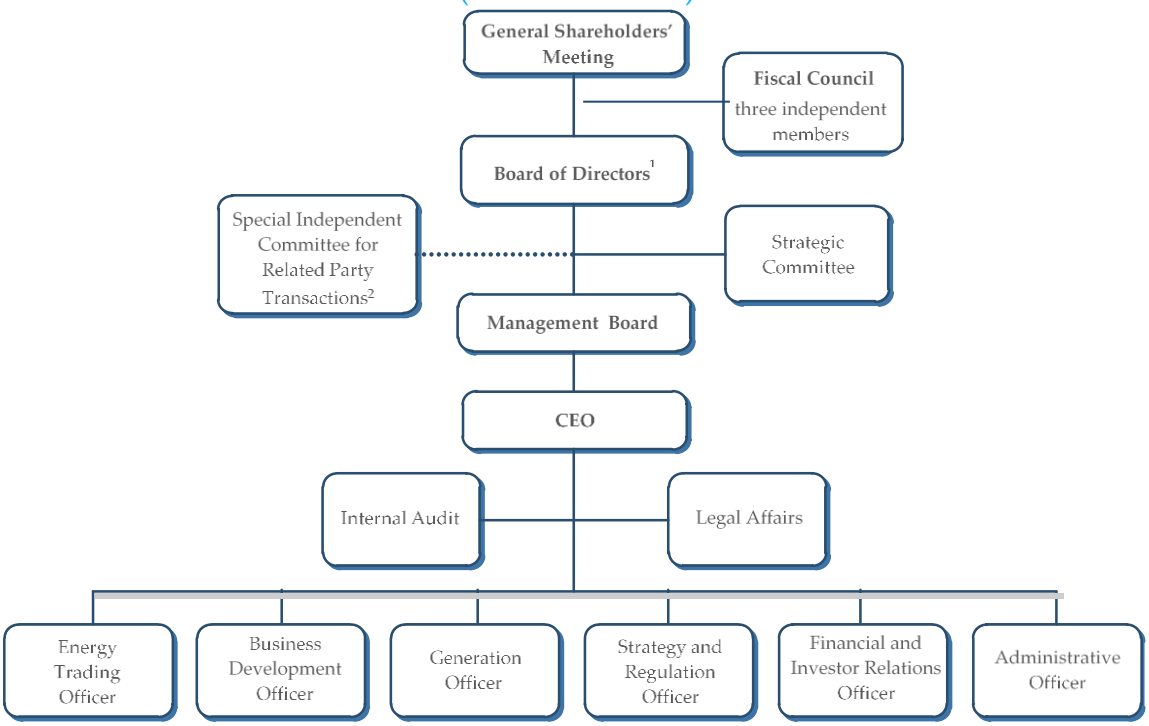
- Voting in General Meetings, both annual and extraordinary.
- Submitting recommendations to the Board of Directors through a specific channel in the website's Investors Portal.
- Receiving dividends and participating in the distribution of earnings or other distributions.
- Supervising management activities 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 in the light of a proposed sale of a controlling stake (100% tag along) in accordance with Novo Mercado listing regulations.

ENGIE Brasil Energia's corporate bylaws, available in the website (www.engieenergia.com.br), 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 B3 - for the solution of disagreements.

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 12.31.2017)



(1) Consists of nine members: chairman, vice chairman and seven directors: four representing the controlling company, two, minority interests and one a representative of the employees.

(2) Non-permanent and made up of independent members who are not appointed by the controlling company.

3.1.1 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. Thus, the analysis of aspects and impacts related to sustainability in the economic, environmental and social spheres are also the responsibility of the directors.

In 2017, the Board was made up of nine effective members and an equal number of alternates, elected by the Annual General Meeting of Shareholders in the preceding year. The term of office of these directors is two years, reelection being permitted, and the Chairman of the Board may not exercise an executive function in the Company. In line with B3's Novo Mercado listing regulations, the Company will have at least 20% of its number as independent directors. In 2017, of the nine members, one was an employee representative and two were representatives of minority interests.

Board of Directors
(as at 12.31.2017)

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*
Antonio Alberto Gouvêa Vieira* *Minority shareholders representative*	---
Paulo Jorge Tavares Almirante	Gustavo Henrique Labanca Novo
Pierre Jean Bernard Guiollot	Simone Cristina de Paola Barbieri **
Roberto Henrique Tejada Vencato *Employee Representative*	Luiz Antônio Barbosa *Employee Representative*
José Carlos Cauduro Minuzzo*	--

** In 2017, Antonio Alberto Gouvêa Viera and José Carlos Minuzzo, who were alternates, became effective members of the Board of Directors, replacing Luiz Leonardo Cantidiano Varnieri Ribeiro and Willem Frans Alfons Van Twembeke, respectively.*
*** Assumed the position of alternate director on April 17, 2017 as of the 20th AGM, replacing Marcelo Fernandes Soares.*

3.1.2 Fiscal Council

ENGIE Brasil Energia's Fiscal Council is permanently installed and responsible for examining the Company's Financial 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 function of auditing the Financial Statements.

In accordance with the Corporate Bylaws, the fiscal councilors are elected annually at the Annual General Meeting, reelection being permitted.

Fiscal Council
(as at 12.31.2017)

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

3.1.3 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 purview, although respecting the specific duties of each executive officer on the Board. In addition to the Chief Executive Officer, who is incumbent of coordinating and providing guidance to the other officers, other six officers act on executing the strategies outlined by the Board of Directors.

On January 9, 2017, Carlos Freitas assumed as Chief Financial and Investor Relations Officer, a position until that time exercised by the current Chief Executive Officer, Eduardo Sattamini.

Management Board
(as at 12.31.2017)

Name	Position
Eduardo Antonio Gori Sattamini	Chief Executive
Carlos Henrique Boquimpani de Freitas	Chief 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

3.1.4 Committees

A total of 13 committees assist the Board of Directors and the Management Board on an advisory basis in reaching decisions related to specific aspects of the business. In 2017, the Processes and Insurance committees were set up. Details of committee functions 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 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 associated risks as well as seeking to maximize 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.
- **Ethics Committee:** discloses, applies and monitors adherence to ethical benchmarks established by the Company with a view to the prevention of ethical risk and the promotion of good practices.
- **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.
- **Processes Committee:** selects and prioritizes key processes to be developed or fine-tuned for ensuring alignment with the Company's strategic objectives as well as creating value and optimizing the investigated processes.

- **Insurance Committee**: to advise and guide the Management Board in proposing and monitoring policies and activities related to insurance matters.
- **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 and recommending the execution of transactions.

3.2 Codes and Policies

ENGIE Brasil Energia's corporate policies establish guidelines for conducting the activities and relationships inherent to the businesses. Developed, revised and updated periodically, these documents express the Company's values, commitments and guidelines in relation to the themes deemed fundamental. Most of these policies and codes are available for public access from the Company's website as follows:

- **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.
- **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.
- **Environmental Code:** establishes the Company's commitments to environment and sustainable development.
- **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 on the use of derivatives.

4. BUSINESS MODEL AND VALUE CREATION

ENGIE Brasil Energia's business model reflects the movement towards decarbonization, decentralization and digitization, seen as core to the evolution of the sector towards sustainable development and part of the general energy transition to a low carbon economy.

Dedicated to creating value over the medium and long term, this model is based on generation – primarily from renewable sources – and energy commercialization. Additionally, the model increasingly incorporates the offer of integrated and innovative solutions for satisfying the demands of society in association with a vision of transforming the relationship of people with energy to the benefit of a more sustainable world.

Pursuing the guideline of diversification of activities in synergetic areas, which already have developed businesses, in 2017, the Company made its debut into a new segment, making the winning bid for one of the lots offered for auction at the Brazilian Electricity Regulatory Agency's (Aneel) 2/2017 Transmission Auction. With a bid of R$ 231.7 million in Annual Allowed Revenue (RAP), the ENGIE Brasil Transmissão Consortium, of which the Company is a part, successfully secured a lot of transmission lines for construction in the state of Paraná with an extension of 1,050 kilometers and five substations.

4.1 Strategy

At the heart of ENGIE Brasil Energia's business strategy lies the commercialization of energy, the responsible expansion of the generating complex as well as energy related infrastructure as shown below.

4.1.1 Energy commercialization

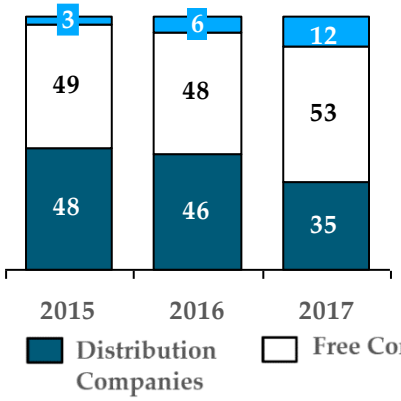
The Company commercializes energy both through the Regulated Contracting Environment (ACR) as well as the Free Contracting Environment (ACL). In the former, sales are conducted through auctions organized by Aneel, ENGIE Brasil Energia participating whenever the price ceiling proposed ensures the viability of the projects to be developed or is in line with the outlook for future prices in the case of existing energy.

In the free market, the Company adopts the practice of gradually selling available energy, seeking attractive values as well as minimizing the risks of exposure to short-term prices (spot or Price for Settlement of Differences — PLD). Thus, commercialization takes place when there is a greater propensity to buy in the market. In the light of constant deficits in hydro generation of recent years, ENGIE Brasil Energia has chosen to leave a larger volume of its commercial capacity decontracted in the short-term market and whenever necessary or opportune, acquire energy for resale.

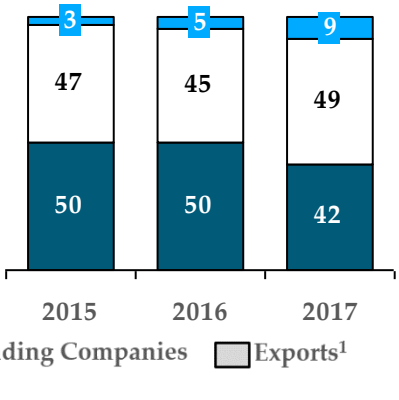
Additionally, diversification of the portfolio of clients – made up of companies of different sizes and sectors -, helps offset the impact of negative situations in certain segments, thus protecting the Company against declining revenue. Monitoring the dynamic of the free market, the Company began offering new models of contracting in 2017 and assisting the interaction of clients with different profiles. In this context, negotiations were intensified with medium sized retailers for example. During the year, ENGIE Brasil Energia expanded significantly the number of sale agreements through proactive management of the portfolio. At year-end, the Company reported 280 clients at 758 consumer units, 22.8% and 28.0% more than recorded in 2016.

In 2017, free consumers accounted for 53.4% of physical sales and 49.0% of net operational revenue (to distributors, trading companies, free clients and exports), decreases of 5.5 p.p. and 3.9 p.p., respectively compared with 2016.

Breakdown by clients by physical sales (%)



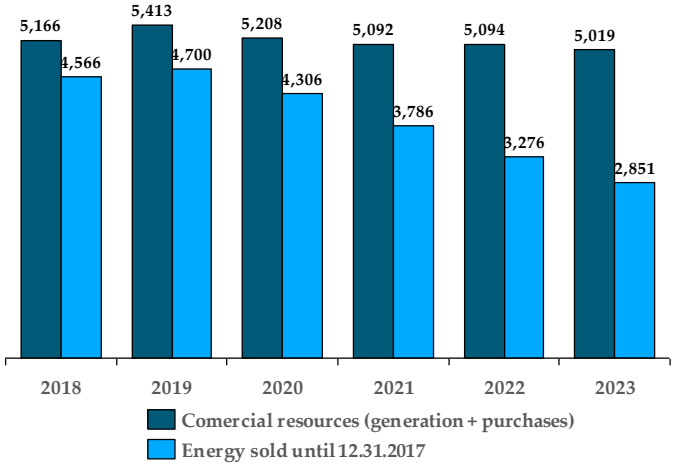
Breakdown of clients by contracted sales comprising net operational revenue (%)



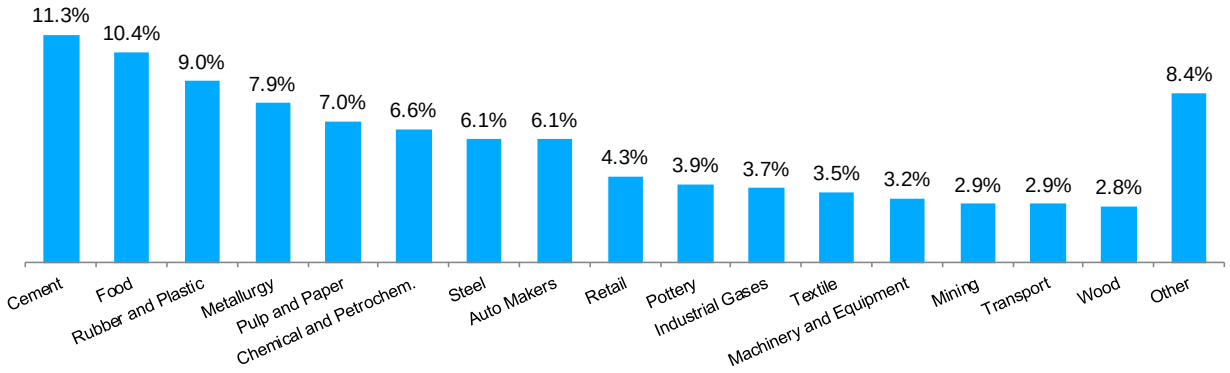
1- Energy exports as a share of physical sales was 0.01% in 2017 (0.22% in 2016) and of net operational revenue (except CCEE and other revenues), 0.01% (0.29% in 2016).

The growth in the share of sales to free consumers is a reflection of the greater volume of incentivized energy sales to clients that have migrated from the regulated environment. This process was enhanced with the startup in commercial operations at the Santa Mônica Wind Power Complex.

Energy balance
(average MW)



Diversification of client portfolio
(as at 12.31.2017)



ENGIE Brasil Energia's level of acceptance with this public reached 97.7% in 2017 thanks to an increasingly close relationship with clients as well as the Company's flexibility in attending their requirements. Among the qualities highlighted by the clients were the technical capacity of the team as well as the soundness, reliability and ethical conduct of ENGIE Brasil Energia.

4.1.1.1 Energy Retailer

ENGIE Brasil Energia's Energy Retailer was set up in 2017 with the aim of increasing the Company's share of the free market, principally through clients exiting the regulated market. This strategy is aligned to business objectives for achieving greater penetration in the retail market – an area consisting of companies smaller than those traditionally served by the Company. This will permit greater diversification of business segments based on the offer of new services to this class of industrial and commercial consumers, conditional on their eligibility to the free market.

In addition to the increase in the volume of business and the numbers of commercial partners, a further consequence of the expansion in the portfolio of small clients will be the increased investments in the Company's unconventional renewable generation and necessary to attend this category of consumer, the majority of the Energy Retailer's estimated portfolio. This will stimulate a chain reaction with an increase in the client base triggering greater investment in clean energy.

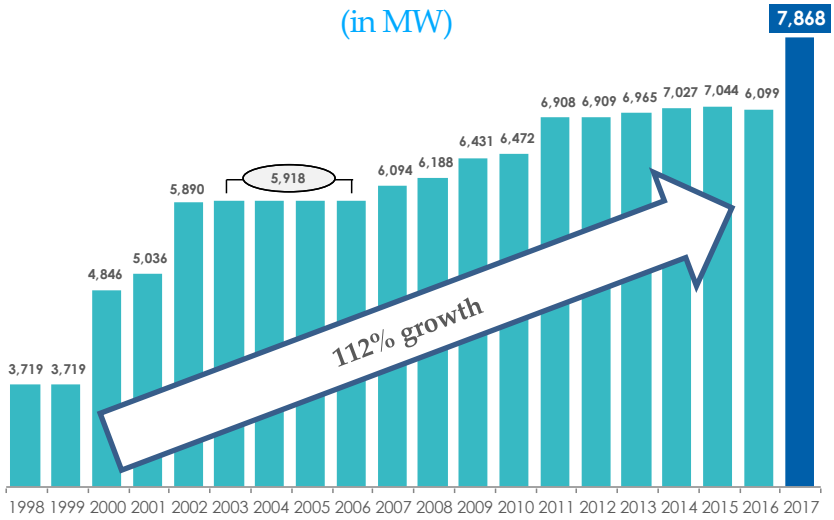
4.1.2 Responsible Growth

4.1.2.1 Centralized Generation

In its 19 years of activity in Brazil, ENGIE Brasil Energia has increased the installed capacity of its generating complex by 112% from 3,719 MW to 7,868 MW – these figures considering proprietary installed capacity alone. In 2017, this capacity jumped 12.4%. Despite the sale of generation assets in the period – the Beberibe and Pedra do Sal Wind Farms and the Areia Branca SHPP, growth was maintained due both because of the acquisition of existing operations – the Jaguara and Miranda Hydroelectric Power Plants –, and also the startup in operations of projects installed by the company over the past few years.

Worthy of mention in this context is the beginning of operations at full capacity of the Santa Mônica Wind Power Complex located in Trairi (CE) – the Estrela and Ouro Verde Wind Farms, components of the Complex, starting operations in the months of March and April, respectively. Another important event in the installation of new plants in 2017 was the rollout of the Assú V Photovoltaic Plant – the Company's first centralized solar plant on a large scale to be inaugurated.

Evolution in proprietary installed capacity in operation
(in MW)



Further growth in installed capacity will proceed in the next few years in line with the Company's strategic plan. This expansion will involve the projects in the following table.

Projects of expansion
(as at 12.31.2017)

Project	Total installed capacity (MW)	Total physical guarantee (aMW)	Owner-ship	Own installed capacity (MW)	Own physical guarantee (aMW)	Expiration of concession/ authorization
Jirau (Hydro)*	3750,0	2184,6	40%	1500,0	882,0	08.13.2043
Umburanas Complex - Phase I	360,0	207,5	100%	360,00	207,5	07.09.2050
Pampa Sul (Thermal)	345,0	323,5	100%	345,0	323,5	03.30.2050
Campo Largo Complex - Phase I (Wind)	326,7	164,9	100%	326,7	164,9	08.03.2050
Total	**4.781,7**	**2.880,5**		**2.531,7**	**1.577,9**	

** The project pertains to the Controlling Company in Brazil, ENGIE Brasil Participações Ltda. Possibilities exist for the plant to be transferred to ENGIE Brasil Energia.*

- **Jirau Hydroelectric Power Plant:** located on the Madeira River and headquartered in the city of Porto Velho (RO), the plant was unveiled on December 16, 2016. Jirau has 50 turbines in operation with a total installed capacity of 3,750 MW. ENGIE Brasil Participações Ltda. holds a 40% stake in the operation. In 2017, the Controlling Company began its evaluation for the eventual transfer of its stake to the Company, a process which is to continue in 2018 with the involvement of the Special Independent Committee for Transactions with Related Parties. ENGIE Brasil Participações announced in May that it had engaged Banco Itaú BBA S.A. to provide financial advisory services for preparing the economic and financial study and the proposal for the transfer of its stake in the project to ENGIE Brasil Energia.
- **Umburanas Wind Power Complex – Phase I**: On November 24, the Company concluded the acquisition of the Umburanas Wind Power Complex project from Renova Energia for R$ 16.9 million. Located in the municipal district of Umburanas, state of Bahia (BA), the project will harness wind power capacity of 605 MW, of which 360 MW are related to Phase I (257.5 MW for the ACL market and 102.5 MW already sold to the ACR market) with operations expected to begin in 2019. Total investments are estimated at R$ 1.8 billion. A further 245 MW are to be harnessed in due course. All environmental licensing has been regularized and work on the first phase already begun, civil construction having started in November 2017 with the mobilization of the contractor and the installation of the projects' internal accesses.
- **Pampa Sul Thermal Power Plant:** located in the municipality of Candiota, state of Rio Grande do Sul (RS), the plant will use mineral coal from a seam in the same region as fuel for powering its turbines. By the end of 2017, work on installation was 77% physically complete, notably the civil construction of the chimney stack together with finalization of the complex logistical operations for transportation and positioning of the turbine and generator. Work on the coal conveyor belt and dam were both almost complete. Start of commercial operations is scheduled for the first quarter of 2019.
- **Campo Largo Wind Power Complex – Phase I:** located in the municipal districts of Umburanas and Sento Sé (BA), the project is adjacent to the Umburanas Wind Power Complex, thereby generating significant synergies both during construction and subsequently at the operational stages. By the end of the year, all earthmoving and surfacing of internal accesses had been concluded as well as the concreting of the foundations of the 121 wind turbines. Construction work on the foundations of structures at the site and equipment supports is currently underway at the Campo Largo substation. A total of 70% of the work on assembling and 73% of tower earthing for the transmission line has been completed. Initial commercial operations, with the commissioning of three wind farms, are scheduled for second quarter 2018.

In addition to the foregoing projects, ENGIE Brasil Energia has projects at an advanced stage of development as shown in the following chart.

Projects under development
(as at 12.31.2017)

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	thermal	100%	Garuva (SC)
Campo Largo Complex - Phase II	330,0	wind	100%	Umburanas and Sento Sé (BA)
Umburanas Complex - Fase II	245,0	wind	100%	Umburanas (BA)
Alvorada Photovoltaic Complex	90,0	solar	100%	Bom Jesus da Lapa (BA)
Assú Complex - Units I, II, III e IV	146,8	solar	100%	Assú (RN)
Total	**2.011,8**			

- **Santo Agostinho Wind Power 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 project has been registered for the next A-4 energy auction scheduled for April 2018.
- **Norte Catarinense Thermal Power Plant:** 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.
- **Campo Largo Wind Power 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 Power Complex, this operation has already prepared full documentation necessary to participate in energy auctions. The Complex is also registered to take part in the energy auction programed for April.
- **Umburanas Wind Power Complex- (Phase II):** With an installed capacity of 245 MW, the environmental licensing for the Second Phase has been issued with energy under this second phase to be harnessed by EBE in due course alongside the Campo Largo Wind Power Complex, thus maximizing synergies during implementation and subsequent commercial operations.
- **Alvorada Photovoltaic Complex:** Located in the State of Bahia, this plant consists of three projects with a total installed capacity of up to 90 MWp. All projects are at the stage of raising solar irradiance data and received their Preliminary License in August 2016, qualifying them for participation in forthcoming new energy auctions.
- **Assú Photovoltaic Complex:** With a total installed capacity of approximately 183 MWp, consisting of five projects, among them Assú V. Assú V went into commercial operations in December 2017. The remaining projects are at the stage of evaluating

solar radiation data, with Preliminary License already issued, the plant being registered to take part in forthcoming new energy auctions.

In addition to the foregoing projects, the Company continues to examine the potential for photovoltaic solar generation in the areas where it is installing its wind farms as well as partnerships which may accelerate the development of this energy source in line with the worldwide energy transition movement.

4.1.2.2 Distributed generation

In response to the challenges of a dynamic energy matrix and closer to the final consumer, the Company has been operating since 2016 in the distributed generation market through ENGIE Geração Solar Distribuída S.A., in which it has a 50% stake. During 2017, there were significant advances in this segment.

On October 27, the Federation of Industries of the State of Santa Catarina (Fiesc) jointly with ENGIE Geração Solar Distribuída and WEG S.A. announced the launch of the Solar Industry Program with the aim of promoting the use of solar energy among more than 50 thousand industries in the state. The Program is divided into two phases. The first consists of a pilot project offering special conditions to employees of ENGIE Brasil Energia, WEG S.A., Fiesc, Social Service of Industry (Sesi/SC), National Service for Industrial Training (Senai/SC), Instituto Euvaldo Lodi (IEL) and Centrais Elétricas de Santa Catarina (Celesc). Enrollments for the first phase began on November 20, 2017 and by the end of December, amounted to more than 1,250. The second phase will involve the offer of the system to the industries of the state and their respective employees and scheduled to begin in the first quarter of 2018.

In addition to Santa Catarina, ENGIE Geração Solar Distribuída's systems are installed in a further 13 states around Brazil, 1,493 installed systems in all with a rating of 7,714 kWp.

4.1.2.3 Transmission

The Company was the winner of Lot 1 of Aneel's Transmission Auction 02 on December 15, 2017, with a length about 1,050 kilometers, connected to five substations, in the state of Paraná (PR). With the incorporation of ENGIE Transmission de Energia, this successful bid marked ENGIE Brasil Energia's debut into the energy transmission sector in Brazil. With an investment of approximately R$ 2.0 billion, the project includes also the installation of five power substations. The concession term for the public utility transmission service, including the construction, assembly and maintenance of the transmission line installations will be 30 years as from signature date of the concession agreement.

The final date for the transmission line to become fully operational is March 9, 2023, but EBE expects it can abbreviate this term as well as reduce the necessary investments estimated by Aneel.

4.2 Competitive advantages

Policies and practices focused on the creation of value differentiate ENGIE Brasil Energia from other market agents. Among the Company's principal advantages 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 both production and also a large part of society's everyday activities.
- **Sector Leadership:** the Company ranks among the leaders of independent energy production in Brazil. Its ultimate Controlling Company is the largest independent producer
  in the world, thus reinforcing ENGIE Brasil Energia's own credentials for capturing business opportunities.
- **A 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.
- **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 most of the plants possess.
- **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 in inclement macroeconomic scenarios. Additionally, as a solid organization with a market value of R$ 23.2 billion at the end of 2017, 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, prepared to take decisions covering the interests of the shareholders and other stakeholders involved. Thus, economic, social and environmental aspects are indissolubly part of the decision-making process.

4.3 Intangible Assets

Together with human capital and the corporate image described in item 8.2, research, development and innovation represent the principal intangible assets of ENGIE Brasil Energia — in addition to those considered in the financial statements. These activities are strategic for the Company and are increasingly directed to the creation of innovative solutions which meet the demands of society in the context of the energy transition.

ENGIE Brasil Energia Research's and Development Program features as an important tool in this sense. Regulated under Law 9.991/2010, which determines that energy generation, transmission and distribution companies must apply 1% of their annual net revenue in R&D projects, this Program is anchored in partnerships established with universities and research institutions, thus reinforcing the Company's culture of open innovation. Over the past five years, these projects have resulted in ten requests for patents and the awarding of various national and international prizes.

In 2017, ENGIE Brasil Energia's investments in its R&D Program amounted to R$ 31.5 million with the following allocation:

- R$ 12.6 million to the National Scientific and Technological Development Fund (FNDCT).
- R$ 6.3 million to the Ministry of Mines and Energy (MME) for funding the Energy Research Company (EPE).
- R$ 12.6 million to investments in new or pending R&D projects.

Out of the accumulated balance for investing in R&D, R$ 5.8 million was invested in projects at the Company with work in progress in the areas shown in the table below:

R&D project areas - 2017

Area	Amount invested (R$)
Alternative sources of electric energy	2,397,874.81
Supervision, control and protection of electric energy systems	1,082,174.72
Management of the R&D program	717,425.85
Environment	588,034.05
Quality and reliability of the electric energy services	432,225.31
Planning of the electric energy system	399,224.58
Thermoelectric generation	134,625.05
Energy efficiency	75,372.37
Operation of electric energy systems	7,609.76
Electric energy generation	6,068.28
Total	**R$ 5,840,634.70**

The currently pending projects include research related to the energy transition process and therefore aligned to the Company's business strategy. In 2017 for example, a project was begun for the technical, regulatory and economic development of energy storage systems, applicable to centralized and distributed generation. With a budget of R$ 25.4 million and a minimum duration of 36 months, this project involves the evaluation of electrochemical battery systems under differing conditions. Among the partners in the project are Universidade Federal de Santa Catarina (UFSC) and the Fundação de Ensino e Engenharia de Santa Catarina (FEESC).

On another front, in partnership with the Controlling Company's research centers in Europe, the Company has begun the development of a methodology for identifying natural hydrogen using detectors sited in various regions of Brazil. The aim is to locate areas rich in the production of this gas and monitor them for a 12-month period, in this way obtaining a better idea of hydrogen flows and the potential of these reserves for the production of energy.

Investment in open innovation is one more front on which the Company is working to develop creative ideas that can be transformed into future businesses. In the global scene, the Controlling Company has a digital platform for two areas: specific projects of corporate interest and innovative proposals of general interest. In the first, 44 indications were registered, receiving 967 replies and resulting in four projects. In the second area, 252 suggestions were made. In Brazil, a recent investment along these lines of innovation is LinkLab, a space sponsored by ENGIE Brasil Energia in Florianópolis (SC) for promoting the connection between startups and medium and large companies. Implemented by the Catarinese Association of Technology Companies (Associação Catarinense de Empresas de Tecnologia - Acate), LinkLab is a medium through which partners can be identified for developing innovative solutions of interest to the Company such as the daily routine of the client, energy resources, cyber-security, the internet of things, energy efficiency and sustainable urban mobility, among others.

Those initiatives developed with partner organizations are monitored through actions focused on consolidating a culture of innovation internally. An example of this is the Inove! Award, which encourages the Company's employees to propose innovative ideas and solutions for improving processes, products and services. In the 2017 edition of the Prize, 62 proposals were received of which 46 in the "Action" category with proposals for solutions to immediate challenges. A further 16 in the "Idea" category related to suggestions for improvements.

5. MANAGEMENT OF RISKS AND OPPORTUNITIES

Approved in 2016 by the Board of Directors, the Management of Risks and Opportunities Policy provides an analysis of the Company in relation to these aspects. Systematically permeating all activities and involving both senior management and staff, this analysis is based on three core principles:

- Creation and maintenance of value, reputation and internal motivation.
- Encouraging a certain degree of risk taking, deemed reasonable relative 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 Trading Chamber (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 as 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.
- **Ethical and human rights risk:** non-observance, internally or with external collusion, of ethical values and human rights – corruption, fraudulent use of the Company, infringements of the competition law and disrespect for labor conditions and relationships.

6. MANAGEMENT OF QUALITY

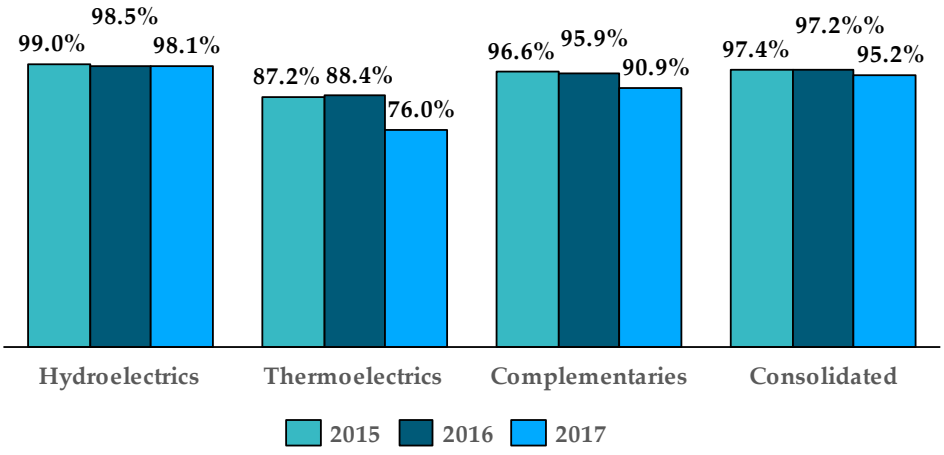
The five dimensions covered by the integrated Management System (SIG) and adopted at all the plants operated by ENGIE Brasil Energia are quality, the environment, occupational health and safety, social responsibility and energy management. In 2017, of the 31 plants in operation, 12 were certified according to NBR ISO 9001 (quality), NBR ISO 14001 (environment) and NBR OHSAS 18001 (Occupational Health and Safety) standards. In addition, the Jorge Lacerda Thermal Complex is NBR ISO 50001 certified with respect to Energy Efficiency.
Consequently, the percentage of certified installed capacity is 84.8%.
During 2018, the Company will undertake the certification of the Jaguara and Miranda power plants – already certified in the name of their former owner – thus further increasing the Company's percentage of certified capacity.

6.1 Operating performance

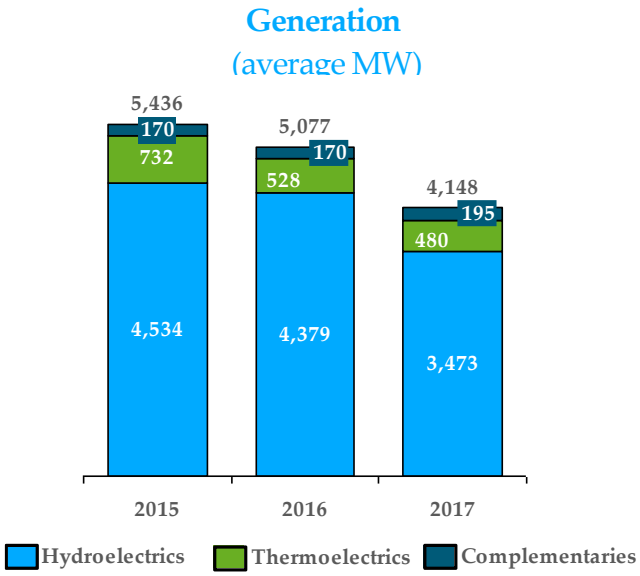
Essential to the generating complex's management of quality, reliability, uptime availability and safety are aspects measured by the Company through its plant internal availability indicator. This indicator shows the energy supply capacity of the installations and the hours of unscheduled downtime or downtime caused by events of an urgent nature at the generator units.

For the full 12 months of 2017, excluding scheduled shutdowns, plants reported uptime of 95.2%, namely 98.1% at the hydroelectric power plants, 76.0% at the thermoelectrics and 90.9% in the case of the units fired from complementary sources. If all scheduled shutdowns are considered, the aggregate uptime was 88.8% for the Company's plant complex, 93.7% for the hydroelectric operations, 55.8% for the thermoelectric units and 82.0% for the plants fired from complementary sources.

Plant uptime, excluding scheduled stoppages



The reduction in plant uptime in 2017 compared with the preceding year was due principally to a short circuit in the number 2 Unit's excitation transformer at the São Salvador HPP, the loosening of the Unit 2 turbine nose cone at the Passo Fundo Hydroelectric Power Plant and excessive bearing vibration in the number 2 Generator Unit at the Jorge Lacerda Thermal Plant A. All events were rectified until the end of the year.



Total electric energy production was, in 2017, 36,335 GWh (4,148 average MW), a reduction of 18.5% in relation to 2016. Of total volume generated, the hydro plants were responsible for 30,425 GWh (3,473 average MW), a reduction of 20.9%; the thermal plants for 4,204 GWh (480 average MW), a reduction of 9.4%; and the complementary plants for 1,706 GWh (195 average MW), representing an increase of 14.3%. In 2017, generation from the hydroelectric power plants was lower than 2016, due to reduced water flows in the respective hydrographic basins. Thermoelectric generation was lower than the preceding year due to the decommissioning of the Charqueadas Thermal Power Plant and the reduction of dispatch of William Arjona Thermal Power Plant. Increased generation from complementary power sources was essentially due to greater output from the Cacimbas, Estrela and Ouro Verde Wind Farms, which went into operation in 2017, as well as enhanced generation from the Lages Co-Generation Plant.

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.

6.2 Remote operations

In 2017, the Company made further progress towards operating its generating complex on a remote basis through the Generation Operations Center (COG) at the Company's head offices in Florianópolis (SC). The infrastructure of the COG is projected with a focus on digitization and operational excellence. It includes highly sophisticated technological resources which allow monitoring in real time and assure system reliability.

At year-end, seven plants were operated out of the COG as shown in the following table:

Plants operated via COG
(As at 12.31.2017)

Plant	Installed Capacity (MW)
Ponte de Pedra Hydroelectric Power Plant	176.1
José Gelazio da Rocha SHPP	23.7
Rondonópolis SHPP	26.6
Cana Brava Hydroelectric Power Plant	450.0
São Salvador Hydroelectric Power Plant	243.2
Passo Fundo Hydroelectric Power Plant	226.0
Assú V Photovoltaic Plant	30.0
TOTAL	**1,175.6**

6.3 Suspension – Operations at the William Arjona Thermal Plant

In 2017, the Company requested authority from Aneel to suspend its operations at the William Arjona Thermal Plant due to economic unviability. This followed a court agreement with the plant's natural gas supplier following a dispute in relation to fuel prices supplied in the period from September 2014 to June 2017. Aneel acceded to the Company's request through Dispatch 2638 SFG/Aneel of August 24, 2017. Thus, at year-end, the Plant was unavailable for dispatch by the National System Operator. Subsequently to this, on February 20, 2018, Aneel agreed to the revoking of the concession agreement for operating the Plant.

6.4 The Ordinary Revision of the Physical Guarantee of Energy generated by the Hydroelectric Power Plants

The physical guarantee sets the maximum amount of energy which a plant can sell and in the case of the hydro plants, establishes its quota for participation in the Energy Reallocation Mechanism (MRE). The criteria for calculating the physical guarantee of the system and the prorating among plants can be found in the specific regulations.

The prevailing legislation dictates that the physical guarantees of the hydroelectric power plants must be revised every five years (ordinary revision) or when materially significant facts arise (extraordinary revision). The revisions are designed to adjust the physical guarantees for all the plants whether through changing circumstances of the System, improvements in its representation, computational models, availability of data or other parameters (aversion to risk and cost of deficit for example).

Ministry of Mines and Energy Order 178 of May 3, 2017, announced a revision (ordinary), effective from January 1, 2018.

As from the foregoing date, the impact on the Company's plants is shown in the following chart:

Revision of physical guarantee of the generator complex's hydroelectric power plants

	Hydroelectric Power Plants	Total installed capacity (MW)	Ownership stake	Proprietary installed capacity (MW)	Proprietary physical guarantee (aMW) 2017	Proprietary physical guarantee (aMW) 2018	Difference (aMW)
1	Salto Santiago	1,420.0	100%	1,420.0	755.1	733.3	-21.8
2	Itá	1,450.0	69.0%	1,126.9	544.2	564.7	20.5
3	Salto Osório	1,078.0	100%	1,078.0	522.0	502.6	-19.4
4	Cana Brava	450.0	100%	450.0	273.5	260.8	-12.7
5	Estreito	1,087.0	40.1%	435.6	256.9	256.9	0.0
6	Jaguara	424.0	100.0%	424.0	341.0	341.0	0.0
7	Miranda	408.0	100.0%	408.0	198.2	198.2	0.0
8	Machadinho	1,140.0	19.3%	403.9	147.2	165.3	18.1
9	São Salvador	243.2	100%	243.2	151.1	148.2	-2.9
10	Passo Fundo	226.0	100%	226.0	119.0	113.1	-5.9
11	Ponte de Pedra	176.1	100%	176.1	133.5	133.6	0.1
	Total	8,102.3		6,391.7	3,441.7	3,417.7	-24.0

As can be seen, the results of the revision were negative for total physical guarantee at the Company. However, it is worth pointing out that the new physical amounts for the other plants in the National Interconnected System - SIN were proportionally even more negative than the revised amounts attributed to ENGIE Brasil Energia's plants. Consequently, there has actually been an increase in the Company's percentage share in the MRE and the domestic electrical system as a whole.

7. ECONOMIC-FINANCIAL MANAGEMENT

7.1 Macroeconomic Scenario

After two years of decline, the Brazilian economy began to show signs of recovery in 2017. While modest, these signs indicate potential for a more positive business climate in the next few years. In Focus Market Readout published on December 29, 2017, the Central Bank of Brazil forecasted that the Brazilian GDP in 2017 would grow about 1% compared with 2016, a year when GDP decreased approximately 3.5%.

Accounting for about 65% of GDP, household consumption resumed an upward trend in the second half of the year, recording the first improvement since the end of 2014. Among the factors behind this more vigorous consumption is the declining rate of inflation. The Expanded Consumer Price Index (IPCA) reported a year-end figure of 2.95% — against 6.29% in the preceding year[1]. Decreasing interest rates also contributed to the better scenario. During the course of the year, the key Central Bank Selic interest rate fell from 12.9% to 7.4% - the lowest level on record.

The Federal government's primary deficit was R$ 124.4 billion in the year, or 1.9% of GDP. This was the fourth consecutive year of deterioration in the public accounts, reflecting a considerable imbalance between revenues and public expenditure. In 2016, the result had been a negative R$ 154.3 billion (2.4% of GDP). The deficit in current transactions was US$ 9.762 billion, equivalent to 0.48% of GDP. While negative, this was the best result in 10 years. The result was positively impacted by the commercial trade balance, both in terms of volumes transacted as well as by more favorable prices for some key commodities in the roll call of Brazilian exports such as iron ore and oil.[2] The commercial dollar registered an increase of 1.99% against the Real, quoted at R$ 3.314 for the selling rate.

After three years of decline, industrial output in 2017 posted growth of 2.5% — the best performance since 2010[1]. In 2016, the sector had reported a decrease of 6.5%. Despite the recovery, 12.6 million Brazilians were still jobless in the final quarter of 2017, an unemployment rate of 12%, practically flat in relation to 2016. The slight increase in the level of employment is due to the increase in informal work and consequently job creation was slanted more towards the unskilled segment of the labor market.

7.2 Electricity Power Industry

The gradual recovery in economic activity had a significant effect on demand for electricity in 2017. Compared with 2016, the variation in consumption was 0.8% (463,948 GWh in 2017 against 460,078 GWh for the preceding year).[3]

[1] Source: IBGE – Instituto Brasileiro de Geografia e Estatística
[2] Source: Central Bank of Brazil
[3] Source: EPE – Energy Research Company

Industrial consumption of electricity ended the year at 165,883 GWh, an increase of 1.3% against 2016 following two years of consecutive declines. The highlight here was in the extractive and food segments which posted year-on-year growth of 4.9% and 3.6% respectively.[3]

Household consumption contributed with 133,904 GWh in the year, a rise of 0.8% compared with 2016. The South and Central/Western regions were the only ones to report significant growth in this consumer class with an increase of 2.2% and 3.0% respectively, compared with 2016. The remaining regions of the country registered largely flat results between the two years.[3]

In the commercial services class, annual growth was 0.3% at 88,129 GWh. Positive highlights were again the South and the Central/Western regions, which as in the case of the residential class, were the only regions to report significant growth of 1.9% and 1.8% respectively.[3]

Just as in 2016, it is important to note a significant increase in load destined for free consumers amounting to 145.5 TWh, a year-on-year increase of 18.4% and on a 2015 x 2016 comparative basis, 6.8%, evidence of the strong rate of migration to this segment of consumption. Load directed to captive consumers was 318.4 TWh, a 5.6% decrease relative to 2016.[3]

On another front in the electricity sector, that of distributed generation, Aneel data shows that Brazil has now surpassed the 10 thousand solar energy systems hooked up to the electricity network. This represents a sea change compared with 2012 for example when there was just one system in existence. Nevertheless, this number in 2017 shows how far below solar energy systems still are in relation to the country's potential. Aneel is forecasting that by 2024, there will be 1.2 million Brazilians generating their own energy. Hence, the outlook is for the expansion in distributed energy to advance exponentially in the next few years.

7.2.1 Influence of the hydrological scenario on the sector

The hydrological situation was even more critical in 2017 than in 2016 in terms of supply of hydroelectricity. Except for the North where the year closed with reservoirs at storage levels slightly above those of January, the other subsystems ended 2017 in a worse state than at the outset of 2017.

This restricted supply of hydro energy together with a recovery in consumption of electricity generally pushed up PLD prices to considerably higher levels than 2016. In the second half of 2017 (largely the period in Brazil with lower rainfall), PLD prices were particularly strong, hitting their ceiling simultaneously in all submarkets for eight weeks in a row.

According to the CCEE's information bulletin for January 2018, the Generation Scaling Factor (GSF, which represents the percentage of the Physical Guarantee generated by the hydroelectric power plants) was 79.4% in 2017, less than the 87% reported in 2016.

7.3 Economic-financial performance of the Company

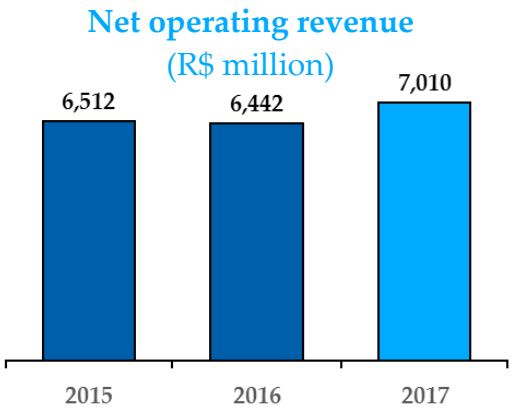
The following table shows the leading indicators of the Company's economic-financial performance in 2017 compared with the results in the preceding two years.

	2015	2016	2017	Variation 2017/2016
Financial Information (R$ million)				
Total assets	15,289.4	14,419.7	19,568.5	35.7%
Shareholders' equity	6,642.1	6,614.4	6,834.7	3.3%
Net operating revenue	6,512.0	6,442.4	7,010.0	8.8%
Gross income	2,708.9	2,740.9	3,006.0	9.7%
Income before financial result/taxes (Ebit) (1)	2,503.8	2,421.6	2,850.2	17.7%
Income before taxes	2,033.2	2,066.7	2,623.4	26.9%
Net income	1,501.3	1,548.3	2,004.6	29.5%
Ebitda (2)	3,114.6	3,175.6	3,519.5	10.8%
Financial Indicators (R$ million)				
Total debt (loans, financing, debentures and promissory notes, net of hedge operations)	3,758.4	3,088.7	6,738.2	118.2%
Cash and cash equivalents and restricted deposits	2,543.6	1,995.5	2,155.6	8.0%
Net debt	1,214.8	1,093.2	4,582.6	319.2%
Roce [3] (%)	23.1	21.9	18.0	-3,9 p.p.
Gross Debt/Ebitda	1.2	1.0	1.9	0,9 p.p.
Net debt/Ebitda	0.4	0.3	1.3	1,0 p.p.
Participation of third party capital in relation to total assets (%)	56.6	54.1	65.1	11,0 p.p.
Operational margin (%)	31.2	32.1	37.4	5,3 p.p.
Net margin (%)	23.1	24.0	28.6	4,6 p.p.
Shares				
Net earnings per share (R$)	2.300	2.372	3.071	29.5%
Average price per share [4] – ON (R$)	31.72	35.99	33.91	-5.8%
Dividends per share (R$)	1.2789	2.2786	3.0643	34.5%
Employee salaries and benefits	292.3	297.5	277.1	-6.9%
Payments to government	1,858.7	1,814.5	1,759.4	-3.0%

(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.

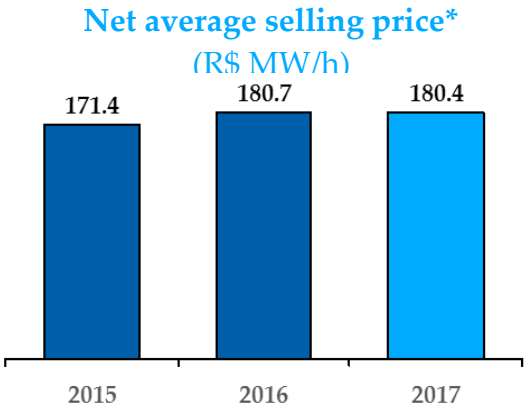
7.3.1 Net operating revenue

Net operating revenue increased from R$ 6,442.4 million in 2016 to R$ 7,010.0 million in 2017, an increase of R$ 567.6 million (8.8%). The increase is due largely to a combination of the following factors: (i) R$ 350.4 million, from an increase in operations transacted in the short-term market, particularly the CCEE; (ii) R$ 165.1 million due to greater volumes of energy sold partially offset by a slight easing in average sales price to trading companies and free consumers; and (iii) R$ 47.9 million, from booking of initial revenues from the operation of the Jaguara and Miranda Hydroeletric Plants.



7.3.1.1 Net average selling price

The average energy selling price, net of revenue taxes, reached R$ 180.39/MWh, 0.2% lower than the average price prevailing in 2016, which was R$ 180.68/MWh. Price reductions occurred essentially due to the sale of decontracted energy with distributors to free consumers following the termination of the Existing Energy Auction contract at the end of 2016 at lower prices than previously practiced.

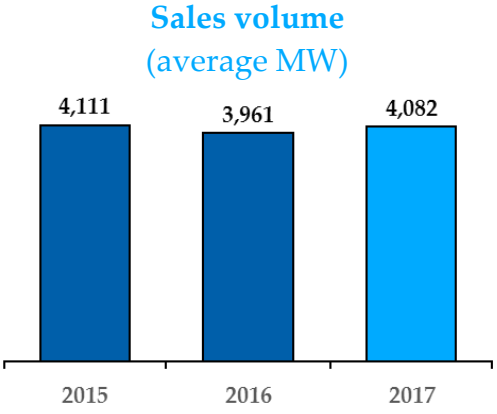


Net of exports and sales taxes

7.3.1.2 Sales volume

In 2017, sales volume was 35,761 GWh (4,082 average MW), against 34,789 GWh (3,961 average MW) recorded in 2016, a growth of 972 GWh (121 average MW) or 2.8%.

These variations reflect in large part, a combination of growth in conventional energy sales to trading companies and the sale of incentivized energy to free consumers - including energy resulting from initial commercial operations at the Santa Mônica Wind Power Complex with an assured guarantee of 47.4 average MW. Most of the Complex's wind farms went into commercial operations in early 2017.



7.3.2 Comments on Variation in Net Operating Revenue

✓ **Distribution Companies**

Revenue from sales to distributors was R$ 2,687.3 million, a decline of 13.7% in relation to fiscal year 2016, when revenues totaled R$ 3,113.8 million. This decrease reflects the decline of 3,483 GWh (393 average MW) in energy volume sol, partially offset by an increase in net average sales price due to the readjustment for inflation in the period.

The decrease in sales volume between the periods under review is largely due to expiry of the Existing Energy Auction agreement at the end of 2016 (343 average MW), combined with the reductions arising from the Surplus and Deficits Compensation Mechanism (MCSD). In addition, the variation in average selling price was due to the termination of the agreement under the same 2016 Auction, the price of which was less than the average practiced for prevailing agreements in the market.

✓ **Trading Companies**

Net revenue from sales to trading companies amounted to R$ 600.9 million, 88.0% higher than 2016, when net sales were R$ 319.7 million. The increase reflects the following factors: (i) R$ 293.3 million – a rise of 95.3%, or 2,088 GWh (239 average MW) in volumes of energy sold; and (ii) R$ 12.1 million – a decrease of 3.8% in net average selling price.

The variation in volume during the period under review was due principally to an increase in sales of conventional energy, concomitantly with the purchase of incentivized energy from trading companies for resale to free consumers, which had migrated from the Regulated Contracting Environment (ACR) to the Free Contracting Environment (ACL). The decline in prices was principally a reflection of new agreements at prices lower than the average practiced for existing contracts.

✓ **Free Consumers**

In 2017, revenues from sales to free consumers reached R$ 3,162.1 million, 11.6% greater than the R$ 2,834.2 million registered in 2016. This increase is related to the following: (i) R$ 404.2 million – an increase of 2,443 GWh (284 average MW) or 14.7% in energy sales volume; and (ii) R$ 76.3 million – a decrease of 2.7% in average energy sales price. The portfolio of free consumers increased from 228 in 2016 to 280 in 2017, a rise of 22.8%.

The increase in volume is largely related to higher volume sales of incentivized energy to clients migrating from the ACR to the ACL, including energy generated by the Santa Mônica Wind Power Complex. Price decline was in large part due to the expiry of sales agreements at prices higher than the average of those practiced for new commercial contracts.

✓ **Export of Electric Energy**

In 2017, the Company exported 2 GWh (0.23 average MW) to Argentina, at the average price of R$ 298.47, producing net revenue of R$ 0.6 million, against 78 GWh (9 average MW) in 2016 to the same country at the average price of R$ 232.28, yielding net revenues of R$ 18.1 million.

✓ **Transactions in the short-term market – especially those conducted through the Electric Energy Trading Chamber (CCEE)**

In 2017, revenue raised in the short-term market – especially within the scope of the CCEE, was R$ 467.5 million as opposed to R$ 117.1 million in 2016, an increase of R$ 350.4 million. A more detailed explanation of these variations is to be found in the item below "Details of Short-Term Operations - especially Transactions conducted through the CCEE".

✓ **Remuneration of operational financial assets**

The equivalent to 70% of the physical guarantee of the Jaguara and Miranda Hydroelectric Power Plants, acquired on September 27, 2017, will be remunerated according to the unconditional right to receive cash through the Grant Bonus Return (RBO) scheme. Consequently, accounting practices provide that the part equivalent to the amount paid for the concession be recorded as a financial asset and the remuneration of this same asset be recognized as operating financial revenue.

The amount of this remuneration recognized in the period from November 10 to December 31, 2017 for the Jaguara and Miranda Hydroelectric power Plants was R$ 29.7 million and R$ 18.2 million, respectively.

7.3.3 Costs of Electric Energy and Services

Costs of energy and services sold increased by R$ 302.4 million, (8.2%), between compared years, from 3,701.5 million in 2016 to R$ 4,003.9 million in 2017. These variations reflect largely tendencies in the following components:

✓ **Electric energy purchased for resale:** an increase of R$ 102.6 million compared to 2016, due to the following items: R$ 392.8 million – rise of 2,346 GWh (672 average MW) in average and long-term purchases; and (ii) R$ 290.2 million – reduction in the average price of these acquisitions, principally due to the expiry of agreements for the acquisition of energy at prices higher than the average of those practiced for prevailing agreements and for new ones.

✓ **Transactions in the short-term market - especially those within the scope of the CCEE:** Between 2016 and 2017, costs of these transactions increased by R$ 177.8 million. Details are described in the specific item below.

✓ **Charges for use of and connection to the electricity grid:** costs of these transactions increased by R$ 26.1 million between fiscal years of 2016 and 2017 due principally to the annual readjustment in transmission charges.

✓ **Fuels for the generation of electricity:** growth of R$ 313.6 million when comparing both years, basically due to the recognition of a court agreement with a natural gas supplier in a lawsuit over a price difference for gas supplies in the period between September 2014 and June 2017, in the amount of R$ 216.6 million in second quarter of 2017 and R$ 140.0 million in fourth quarter of 2017.

✓ **Financial compensation for use of water resources (royalties):** a decrease of R$ 73.6 million in 2017 in relation to the twelve months of 2016, reflecting principally reduced generation from the hydroelectric power plants as well as a reduction in the Restated Reference Tariff (TAR) of 22.7% in 2017.

✓ **Personnel:** reduction of R$ 25.0 million between the periods under review due mainly to readjustments in headcount and a reduction in costs arising from the Voluntary Severance Plan (PDV), the latter having been concluded in November 2016.

✓ **Material and third-party services:** On an annual basis, this item recorded an increase of R$ 22.8 million, principally reflecting the following items: (i) recognition of extraordinary gains in 1Q16 of R$ 15.3 million, following the claw back of a PIS and Cofins tax credit on materials and third party services; and (ii) payment in 2017 of a success fee following a court agreement with a natural gas supplier in a lawsuit over a price difference for fuel supplies in the period between September 2014 and June 2017.

✓ **Depreciation and appreciation:** an increase of R$ 17.8 million between comparable fiscal years, the result primarily a reflection of the following factors: (i) entry into commercial operations of the Santa Mônica Wind Power Complex; and (ii) amortization of the intangible asset pertaining to acquisition of the Jaguara and Miranda Hydroelectric Power Plants at Aneel Auction 001/2017 of September 29, 2017. These variations were partially offset by a decline in depreciation on thermoelectric generation assets, the latter reduced by impairment.

✓ **Reversal of operating provisions, net:** positive effect of R$ 264.4 million between fiscal years. The variation shown is largely the result of the signing and judicial ratification of an agreement on natural gas prices for electricity generation between the Company and the supplier of the fuel, for this reason prompting a reversal of the amount booked to provisions of R$ 219.2 million in the second quarter of 2017. This result was also influenced by the reversal of a provision for a loss on sales of fuel oil for the Alegrete Thermal Power Plant, the concession for which is being returned to the Federal government. Also impacting this item is the reversal of a provision for decommissioning costs at the Charqueadas Thermal Power Plant. The reversals relative to both plants are due to the Company incurring lower losses and costs than initially estimated.

7.3.4 Details of Short Term Operations – especially Transactions in 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, 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 despite 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 "submarket risk"; (iv) dispatch driven by the Risk Aversion Curve (CAR); (v) the application of System Service Charge (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.

In 2017, the net result from short-term transactions – in particular, those conducted across the CCEE – was positive at R$ 107.3 million. On the other hand, in 2016, the result was negative at R$ 65.3 million, that is between the fiscal years under comparison, there was a favorable variation of R$ 172.6 million.

This variation reflects essentially a combination of the following factors: (i) greater revenue arising from the long position on the CCEE, the result of the strategy for allocating hydro resources, combined with proactive portfolio management; (ii) recognition of the effects from the rebooking resulting from the increase in the Unit Variable Cost (CVU) of the Willian Arjona Thermal Power Plant, following the judicial agreement with the natural gas supplier; (iii) the positive result from thermal generation which, despite being reduced in 2017, the physical guarantee for this source was reduced in the light of the decommissioning of operations at the Charqueadas Thermal Power Plant at the end of 2016; (iv) recognition of the reconstitution of revenue in the CCEE due to the reimbursement of an insurance claim on a fault at a generator unit; (v) due to the higher hydroelectric generation deficit, the increased negative effects of the GSF, already netted out for the positive effects of the renegotiation of the hydrological risk; and (vi) a reduction of revenue in the MRE in the light of lower hydro generation in the period.

Comparing the annual periods, the average PLD posted an increase of 244.1%, rising from R$ 93.16 to R$ 320.59 in 2016 and 2017, respectively. Important to consider that the increase in average PLD in 2017, as noted above, contributed substantially to the positive effects of the excess energy settled on the CCEE and greater thermoelectric dispatch as well as, on the other hand, increasing the negative effects of the application of the GSF.

7.3.5 Selling, General and Administrative Expenses

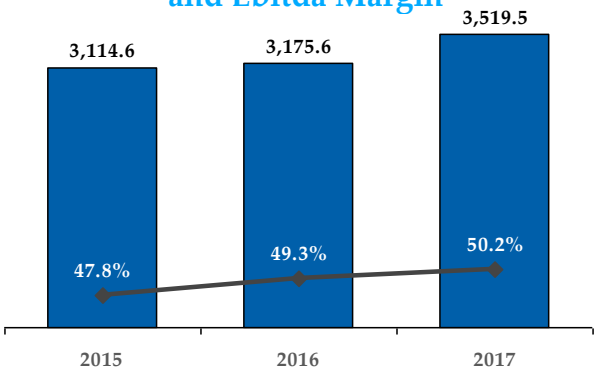
Comparing successive fiscal year periods, selling, general and administrative expenses fell R$ 6.5 million, principally due to the reversal of the provision relating to a legal dispute over retirement benefits, following an agreement reached with the members of one of the pension funds sponsored by the Company, partially attenuated by the recognition of a provision for the voluntary severance program and variable compensation as well as outsourced service expenditures.

7.3.6 Result from the Sale of Investments

Following the fulfillment of all conditions precedent, on October 31, 2017 the Company concluded the divestment of the Beberibe and Pedra do Sal Wind Farms and the Areia Branca SHPP in the fourth quarter 2017, recognizing the result of the sale of these investments in the amount of R$ 56.9 million.

7.3.7 Ebitda e Ebitda Margin

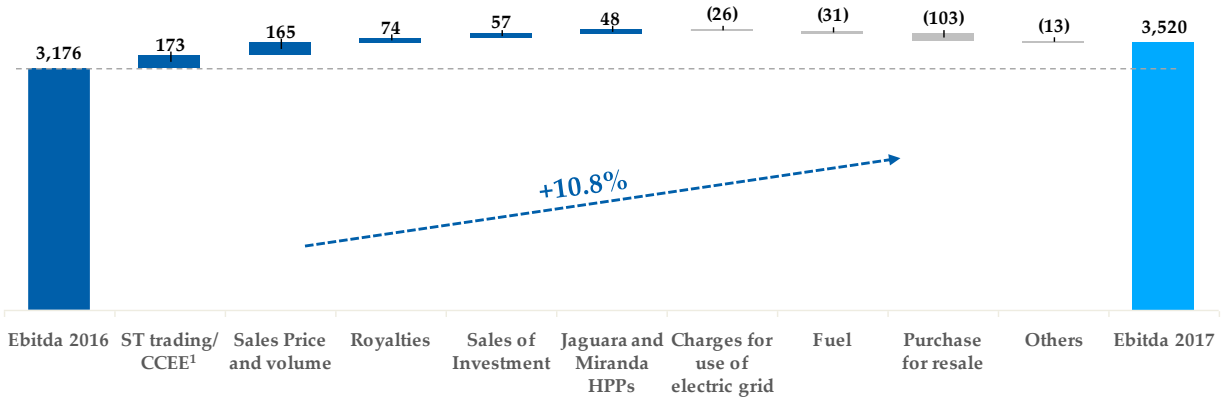
Ebitda* (R$ million) and Ebitda Margin



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

Set against the background of the effects already discussed, in 2017, Ebitda increased R$ 343.9 million (10.8%), from R$ 3,175.6 million in 2016 to R$ 3,519.5 million in 2017. Ebitda margin in 2017 was 50.2%, an increase of 0.9 p.p. compared with 2016. Improvement in these indicators is a reflection of a combination of the following factors: (i) a positive variation of R$ 172.6 million in operations conducted in the shortterm market – especially those within the scope of the CCEE; (ii) an increase of R$ 165.1 million in the combination of price and volume of contracted energy; (iii) a decline of R$ 73.6 million in royalty costs; (iv) positive results from the sale of investments of R$ 56.9 million; (v) the booking of R$ 47.9 million in operating revenue from the Jaguara and Miranda Hydroelectric Power Plants in 2017; (vi) an increase of R$ 26.1 million in charges for use of the grid; (vii) a rise of R$ 30.5 million in fuel costs; (viii) growth of R$ 102.7 million energy purchases for resale; and (ix) an increase of R$ 12.9 million in other costs and operating expenses.

Ebitda Change (R$ million)



1 - Considers the combined effect of changes in revenue and expenses.

The following table reconciles net income with Ebitda:

Reconciliation of net income with EBITDA

(In millions of R$)	2015	2016	2017	Chg. % 2017/ 2016
Net income	1,501.30	1,548.3	2,004.6	29.5
(+) Income tax and social contribution	531.90	518.4	618.8	19.4
(+) Net financial result	470.60	354.9	226.8	-36.1
(+) Depreciation and amortization	600.50	630.3	649.0	3.0
Ebitda	**3,104.30**	**3,051.9**	**3,499.2**	**14.7**
(+) Impairment	10.30	120.9	18.4	-84.8
(+) Equity loss	0.00	2.8	1.9	-32.1
Adjusted Ebitda	**3,114.60**	**3,175.6**	**3,519.5**	**10.8**

7.3.8 Provision for Reduction in Recoverable Value (Impairment)

In 2017, the Company recognized a complement to a provision for a reduction in asset impairment value amounting to R$ 18.4 million, initially recognized in 2016 for R$ 120.9 million. Of the total provisioned in 2017, R$ 16.0 million (R$ 44.9 million in 2016) corresponds to thermoelectric generation assets and R$ 2.4 million (R$ 76.0 million in 2016) to inoperant assets pertaining to the Jacuí Thermoelectric Project, generating a positive fiscal year-on-fiscal year effect of R$ 102.5 million.

7.3.9 Financial result

7.3.9.1 Financial Income

On a fiscal year comparative basis, financial revenues fell R$ 174.4 million (43.8%) from R$ 397.9 million in 2016 to R$ 223.5 million in 2017. The explanation for this variation is essentially as follows: (i) a decrease of R$ 127.8 million in revenue from financial investments due to declining amounts invested and the decline in interest rates; (ii) reduction of R$ 38.8 million in monetary restatement following the successful outcome for the Company to a legal dispute in 2016 on the collection of monetary restatement on receivables from a sector agent; (iii) decline of R$ 14.0 million in monetary restatement on accounts receivable due to delinquency of a financial settlement on the CCEE in 2016; (iv) increased interest on amounts of income tax and social contribution recoverable relative to previous years of R$ 9.1 million; and (v) a decrease of R$ 3.6 million in monetary restatement on court escrow accounts.

7.3.9.2 Financial Expenses

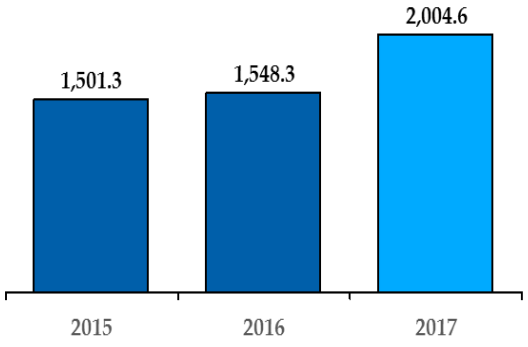
On an annualized basis, financial expenses fell from R$ 752.8 million in 2016 to R$ 450.3 million in 2017, a difference of R$ 302.5 million (40.2%), the result of a combination of the following principal variations: (i) a decrease of R$ 136.2 million in monetary restatement on concessions payable, given the decline in inflation rates; (ii) recognition in 2016 of R$ 57.6 million of monetary restatement on amounts payable to the CCEE pending payment in the light of court injunctions impeding the CCEE from applying the GSF; and (iii) a decrease of R$ 103.3 million in interest and monetary restatement on debt due to declining leverage during 2017 as well as a fall in inflation rates.

7.3.10 Income Tax and Social Contribution on Net Income

Income tax and social contribution expenses increased R$ 100.4 million from R$ 518.4 million in 2016 to R$ 618.8 million in 2017. Growth largely reflects the increase in before tax profits, partially attenuated by the initial receipts of Superintendence for the Development of the Amazon (Sudam) tax breaks – for the Ponte de Pedra Hydro Power Plant – and of the Superintendence for the Development of the Northeast (Sudene) tax breaks - for Estreito Hydro Power Plant - approved in 2017. The effective rate of Income tax and social contribution in 2017 was 23.6% compared to 25.1% in 2016.

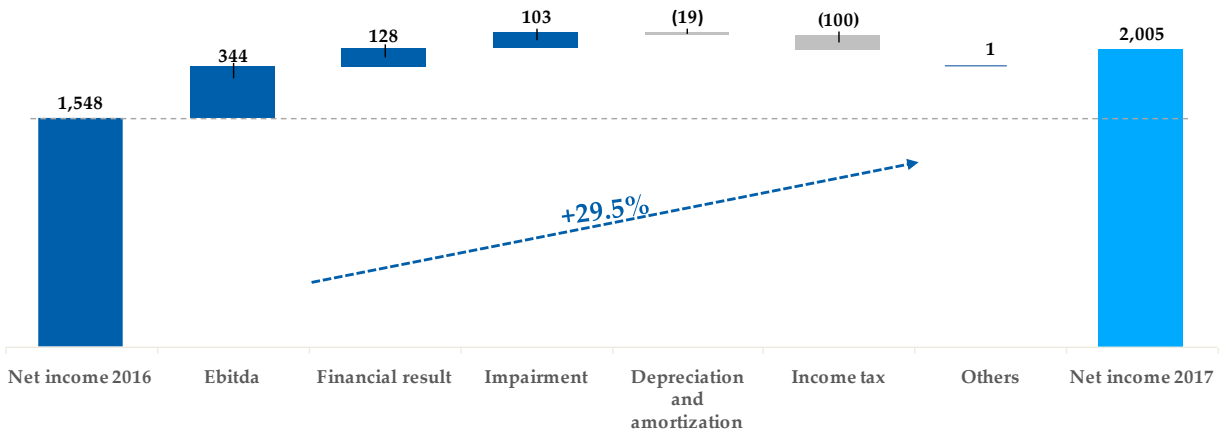
7.3.11 Net income

Net income (R$



Net income increased from R$ 1,548.3 million in 2016 to R$ 2,004.6 million, that is an increase of R$ 456.3 million or 29.5%. This variation is due in large part to the following: (i) an increase of R$ 343.9 million in Ebitda; (ii) an increase of R$ 128.1 million of net financial revenue; (iii) reduction in asset impairment of R$ 102.5 million; (iv) growth of R$ 18.7 million of depreciation and amortization; (v) an increase of R$ 100.4 million in income tax and social contribution; and (vi) a reduction in the negative result for equity income of R$ 0.9 million.

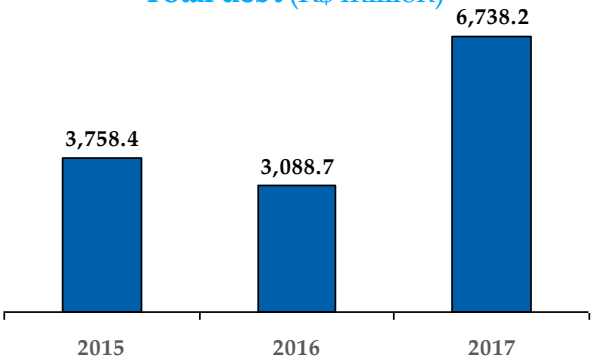
Net income change (R$ million)



7.3.12 Debt

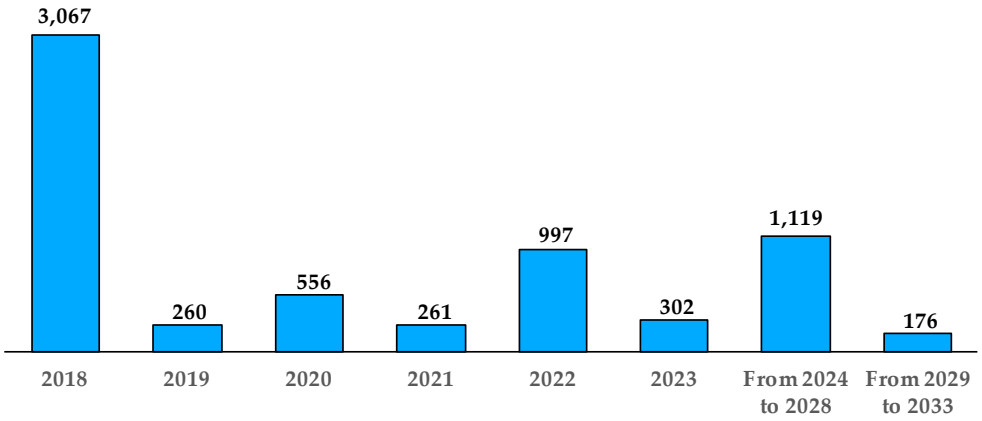
The Company's total gross consolidated debt as at December 31, 2017, represented mainly by loans, financing, debentures, promissory notes, net of hedge operations, totaled R$ 6,738.2 million, an increase of 118.2% (R$ 3,649.5 million) compared to the position as at December 31, 2016, net of the hedge operations.

Total debt (R$ million)



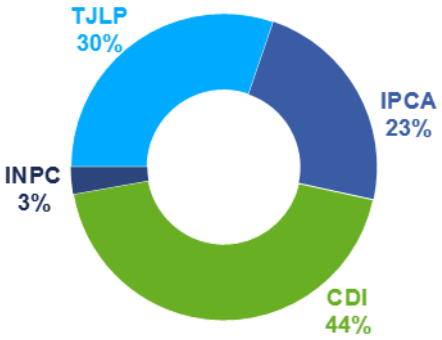
The variation in Company debt is largely related to a combination of the following factors occurring: (i) drawdowns from the BNDES and its financial agents in the aggregate amount of R$ 320.5 million for investments in the modernization of the Salto Santiago HPP and for the construction of the Santa Mônica Wind Power Complex; (ii) issue of promissory notes for payment of the Jaguara and Miranda Hydroelectric Power Plant concessions in the amount of R$ 2,096.1 million; (iii) contracting of loans, protected by swap operations directed principally for the refinancing of debt and the implementation of the Company's business plan – substantially, capital contribution to the subsidiaries Jaguara and Miranda for the payment of the bonus for the granting of concessions, in the amount of R$ 1,630.9 million; (iv) R$ 344.3 million in charges payable together with monetary restatement and currency translation effects; (v) R$ 749.2 million in amortization of loans, financing and debentures, of which, R$ 256.1 million refers to the early payment of the São Salvador Hydroelectric Power Plant and the Jorge Lacerda Thermal Complex' financing with the BNDES and onlending banks; and (vi) R$ 13.0 million transfer of financing of subsidiaries and reclassified as assets held for sale.

Maturity term loan (R$ million)



The average weighted nominal cost of debt at the end of 2017 was 8.1% (10.5% at the end of 2016).

Debt breakdown (as at 12.31.2017)



On December 31, 2017, the Company's net debt (total debt less result of derivatives operations, deposits earmarked to the guarantee of debt servicing and cash and cash equivalents) was R$ 4,582.6 million, an increase of 319.2% compared with the end of 2016.

Net Debt (R$ million)

	12/31/2015	12/31/2016	12/31/2017	Chg. % 2017/ 2016
Gross debt	4,247.2	3,088.7	6,756.4	118.7
Result of derivatives operations	(488.8)	0.0	(18.2)	0.0
Deposits earmarked for the payment of debt	(146.8)	(180.2)	(225.5)	25.2
Cash and cash equivalents	(2,396.9)	(1,815.3)	(1,930.1)	6.3
Total net debt	**1,214.8**	**1,093.2**	**4,582.6**	**319.2**

7.3.13 Capital expenditures

In 2017, the Company invested R$ 5,538.1 million. A total of R$ 3,531.0 million was invested in the acquisition of the Jaguara and Miranda Hydroelectric Power Plants and R$ 4 million refers to the development costs of these projects. A further R$ 1,976.2 million was injected into the construction, maintenance and revitalization of the generating complex and in the acquisition of projects:

a) R$ 1,738,3 million in the construction of the Santa Mônica, Campo Largo and Umburanas Wind Power Farms, the Pampa Sul Thermal Power Plant and the Assú Photovoltaic Plant;

b) R$ 171.5 million in maintenance work on the generator complex; and

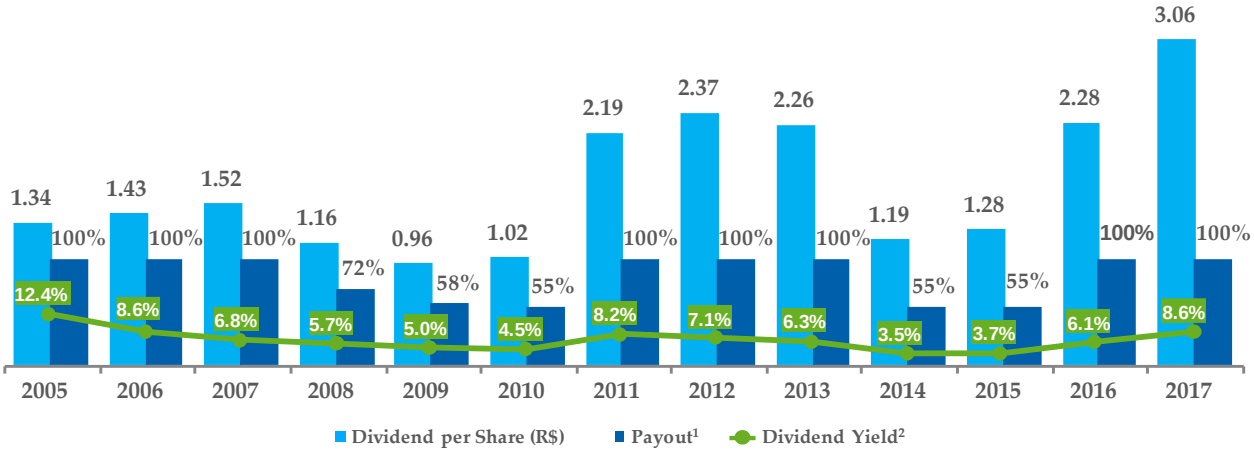
c) R$ 66.4 million in modernization of the Salto Santiago Hydroelectric Power Plant.

In addition, in 2017, the Company acquired projects worth a total of R$ 26.9 million.

7.3.14 Proposed Complementary Dividends

At a meeting held on February 22, 2018, ENGIE Brasil Energia's Board of Directors approved the proposal for a payout of complementary dividends for the period from January 1 to December 31, 2017 in the amount of R$ 636.8 million (R$ 0.9755096548 per share). This proposal is to be ratified by the Annual General Meeting, on which it is also incumbent to establish conditions for payout.
Total payout of earnings in 2017 will amount to R$ 2,000.2 million, equivalent to R$ 3.0642635985 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.*

7.4 Capital Markets

The Company's shares are traded on the Brazilian stock exchange under the ticker EGIE3 (100% common shares). In addition, the Company has a Level I American Depositary Receipts (ADR) Program, the securities for which are traded on the United States Over-The-Counter (OTC) market under the ticker EGIEY at a ratio of one ADR to every one common share.

The listing on the Novo Mercado – B3's highest level of corporate governance – enhances shareholders' rights and provides guarantees as to the quality of disclosed information in relation to the businesses. During the year, changes were made to the regulations for this listing segment. ENGIE Brasil Energia voted in favor of all the proposed changes to the regulations, believing that they are material to advances in the aspects of transparency, equitability, accountability and corporate responsibility applicable to companies listed in the segment. Companies must implement the new requirements by early 2021, and those superseding rules already in place, will come into effect as from January 2018. The Company views these new requirements as a valuable contribution to its management and governance and is dedicating maximum effort in implementing the changes as soon as possible. A working party has already been set up and the planning and study of the necessary measures to be taken are already in progress.

Below are some of 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
- FTSE4Good

7.4.1 Share performance

For the full year of 2017, ENGIE´s shares appreciated 9.3%, slightly below the gains recorded in 2016 of 9.9%. Meanwhile, IEEX rose 10.0% in 2017 the Ibovespa posted gains of 26.9%. The closing price of EGIE3 in the year was R$ 35.51/share, translating into a market value for the Company of R$ 23.2 billion.

Average traded volumes reached R$ 31.0 million, a decrease of 7.4% in relation to 2016, when volumes amounted to R$ 33.5 million.

EGIE vs. Ibovespa vs. IEEX
(Base 100 – 12.31.2016)



7.4.2 Ratings

The Company's ratings were reaffirmed in April and September 2017 with no changes in relation to 2016.

Fitch Ratings	
Issue	**Classification**
Domestic Rating	AAA(bra)
International Rating – Issues in Reais	BBB
International Rating – Foreign Currency issues	BB+
Sixth debenture issue	AAA (bra)

8. SOCIO-ENVIRONMENTAL MANAGEMENT

The socio-environmental management model adopted by ENGIE Brasil Energia in its operations has a broad-based vision which reflects the inclusion of the principle of sustainability in its business strategy. Consequently, the Company's conduct is driven by natural, human and relational capital.

8.1 Natural capital

ENGIE Brasil Energia is developing a series of voluntary initiatives which focus on the conservation of natural resources and are complementary to actions adopted for compliance with the prevailing environmental legislation. On the legal front, preventive procedures are adopted so that there is no interruption to plant authorizations and environmental licenses required by the appropriate agencies. During the course of 2017, the following operating licenses were renewed:

- LO 65002804 – Ferrari Thermal Power Plant issued by Companhia Ambiental do Estado de São Paulo (Cetesb) – the state of São Paulo environmental protection agency - on October 17, 2017, expiring October 17, 2022.

- LO 314411/2017 – 138kV Transmission Line (Engenheiro José Gelazio da Rocha SHPP), issued by the State Environmental Secretariat for the Environment of Mato Grosso (SEMA-MT) on March 10, 2017, expiring on March 9, 2020.

- LO 315583/2017 – Rondonópolis SHPP, issued by SEMA-MT on September 1, 2017, expiring on August 31, 2022.

- LO 68/99 (3rd Renewal) – Itá Hydroelectric Power Plant, issued by Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis (Ibama), the Federal Government environmental protection agency, on August 3, 2017, expiring August 3, 2027.

- LO 395/2004 (Renewal) - Ponte de Pedra Hydroelectric Power Plant, issued by Ibama-MS on May 02, 2017, expiring May 2, 2023.

The year was also dedicated to the Biodiversity Matrix. This is designed to identify species of fauna and flora present in areas surrounding the Company's operations. Unique in the sector, the project covers six Brazilian biomes and will contribute to the establishment of guidelines for environmental management and supervision, reinforcing mechanisms for protecting the species and ecosystems in regions where ENGIE Brasil Energia is present.

Planned to be executed in three stages, the project started in 2016. The first stage, concluded in September 2017, began with the benchmarking of the largest energy generators in Brazil to evaluate their sustainability policies and the establishment of a research methodology. This was followed by a preliminary evaluation of the status of biodiversity of 26 energy generation projects and their areas of influence based on a detailed survey of national and international scientific studies.

At a second stage, two plants will be used in pilot field studies: Cana Brava Hydroelectric Power Plant (GO) in the Cerrado or savanna biome and the Trairi Wind Power Complex (CE) located in the Caatinga or semi-arid biome. The final stage from 2019 will be dedicated to validating the methodology used at all the plants with a focus on the possibilities of acting in partnership with local organizations.

Another important initiative in the natural capital sphere is the Headwaters Protection Program executed in partnership with government organizations and the third sector. In addition to the conservation of natural resources, the program endeavors to contribute to the improvement in the quality of water consumed by the community, thus reducing diseases caused by pathogenic organisms. At the end of the year, 1,577 springs had been protected, 219 of them in 2017 within the area of influence of 12 plants operated by the Company.

8.2 Human capital

At the end of 2017, ENGIE Brasil Energia had a direct payroll of 1,048. Out of this total, 1,039 have labor contracts with no fixed duration, nine were part of the Young Apprentice program and 35 with disabilities or special needs. In addition, the Company employed 41 interns and another 83 professionals at controlled companies (28 at Companhia Energética Estreito, seven at Itá Energética and 48 at Pampa Sul Thermal Power Plant).

Direct payroll numbers in 12.31.2017 by gender and functional category

Category	men	% men	women	% women	total	% total
Managerial	165	84%	31	16%	196	**18.7%**
Analysts, engineers and specialists	249	76%	79	24%	328	**31.3%**
Operators, maintenance technicians and administrative personnel	448	85%	76	15%	524	**50.0%**
Total	**862**	**82.3%**	**186**	**17.7%**	**1.048**	**100%**

Direct payroll numbers in 12.31.2017 by gender and age group

Age group	men	women	total	% total
Less than 30	133	40	173	**16.5%**
Between 30 and 50	515	124	639	**61.0%**
More than 50	214	22	236	**22.5%**

New hires and terminations in 2016 by gender and age group*

Age group	men		women	
	New hires	terminations	New hires	terminations
Less than 30	16	2	10	3
Between 30 and 50	10	17	8	3
More than 50	0	13	0	1
Total	**26**	**32**	**18**	**7**

** Not including interns and members of the young apprentice program*

Average training hours in 2017 by gender

Year	men	women	total	Variation
2017	46,956.00	4,873.00	**51,829.00**	**19.9%**
2016	38,570.00	4,668.00	**43,238.00**	**-45.6%**
2015	71,852.70	7,641.70	**79,494.40**	

The Company adopts a policy of promoting quality of life and ensuring suitable conditions for career development as part of the process of providing an ethical, fair and responsible working environment.

Among the various initiatives taken in 2017 to the benefit of internal stakeholders was the intensification of Occupational Health and Safety campaigns. As part of the process of raising awareness, the Company ran an endomarketing campaign for upgrading its Risk Situations and Near Accidents system (GSR system), encouraging employees to indicate such situations for subsequent appropriate treatment. The campaign was implemented in the light of the unusually reduced number of existing notifications as well as the need to act in occupational accident prevention through the registration and handling of situations of risk and near accidents. The effectiveness of the campaign can be shown by the increase in the number of notifications of risk and near accidents, in 2017 amounting to 627 as opposed to 93 in 2016.

Complementary lectures and communication initiatives of a preventive nature have also been held to raise employee awareness as to good occupational health and safety practices principally at work patios of plants under construction, where specific seminars were held on the subject during the year. Despite all the preventive measures taken during the year, there was one fatal accident at one of the Company's construction sites.

Work related accidents

	2017	2016
Direct employees		
Number of hours of exposure to risk	1,910,390	2,024,902
Number of occupational and commuting accidents with and without absence from work	8	5
Number of lost days – occupational accidents with absence from work	8	5
Number of work-related accidents with fatalities	0	0
Employees from contracted companies		
Number of hours of exposure to risk	6,311,671	3,247,650
Number of occupational and commuting accidents with and without absence from work	31	22
Number of work-related accidents with fatalities	1	1

Occupational health and safety (OH&S) indicators

Indicator	2016	2017	Goal Achieved?	Variation 2017 x 2016	Goal 2018
Frequency Rate – own employees[1]	0.490	1.050	-	↑	-
Severity Rate – own employees[2]	0.002	0.004	**Yes** (< 0.030)	↑	≤ 0.020
Frequency Rate – own employees + long-term service providers[1]	1.520	1.030	**No** (< 1.00)	↓	≤ 0.80
Frequency Rate – short-term service providers + construction work in progress[2 3]	-	0.690	**Yes** (≤ 2.40)	-	≤ 2.40

1) Number of occupational accidents for every million hours of exposure to hazards
2) Number of days lost due to occupational accidents for every thousand hours of exposure to hazards
3)Monitoring of this indicator began in 2017. Data excludes the Pampa Sul TPP construction site

.Occupational Health and Safety Indicators (SST) – Pampa Sul Thermal Plant

Indicator	2017	2016	Variation
Frequency Rate – own employees[1]	0.000	0.000	-
Severity Rate - own employees[2]	0.000	0.000	-
Frequency Rate – including service providers[1]	2.220	4.900	↓
Frequency Rate – including service providers[2]	0.028	0.032	↓

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

8.3 Relationship capital

8.3.1 Communities

The communities surrounding its operations are priority stakeholders for ENGIE Brasil Energia, acting as partners in the drive for sustainable development. For this reason, the Company makes every effort to maintain open channels for dialog as well as mechanisms to support community initiatives.

In 2017, investments in social responsibility totaled R$ 22.0 million between own and incentivized resources as shown in the following table.

Investments in social responsibility (in thousands of R$)

Indicator	2017	2016	Variation
Non-incentivized investments	2,898.14	5,044.28	-42.5%
Investments through the Infancy and Adolescence Fund (FIA)	2,022.85	2,544.27	-20.5%
Investments through the Culture Incentive Law (Lei Rouanet)	9,537.11	10,184.72	-6.4%
Investments through the Sport Incentive Law	1,895.20	2,565.29	-26.1%
Investments through the National Support Program for Oncological Care (Pronon)	2,118.97	2,573.80	-17.7%
Investments through the National Care Support Program for People with Special Needs (Pronas/PCD)	1,383.46	1,310.20	5.6%
Investments through the Municipal Fund for the Elderly	2,423.19	2,348.33	3.2%
TOTAL	**22,278.92**	**26,570.89**	**-16.2%**

Already installed in five towns, the Sustainability and Cultural Centers have become essential tools of transformation in the consolidation of this relationship. The spaces are dedicated to stimulating cultural and educative initiatives and provide opportunities for community coexistence as well as a channel for accessing artistic manifestations in addition to theater, music, dance and cinema performances. In 2017, the Centers were:

Sustainability and Cultural Center	Visitors (estimated)	Students - workshops
Alto Bela Vista - SC	7,000	190
Capivari de Baixo - SC	280,000	118
Concórdia – SC	35,000	71
Quedas do Iguaçu - PR	15,000	143
Entre Rios do Sul - RS	3,000	294

The Company is supporting sustainability and economic viability using its own funds (not incentivized) to acquire solar panels for donation to four of the centers. This equipment should be installed during the first half of 2018. Also, in the same period, a sixth cultural center is to be unveiled in Minaçu (GO), in the area of influence of the Cana Brava Hydroelectric Power Plant. In 2017, preliminary approvals were issued by the Ministry of Culture for new centers in three municipalities: Trairi (CE), close to the Trairi and Santa Monica wind complexes; Saudades do Iguaçu (PR), near the Salto Santiago Hydroelectric Power Plant; and Itá (SC), in the sphere of influence of the Itá Hydroelectric Power Plant. Such approvals are an indication that the projects can raise funds with immediate effect.

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 generator complex. During these visits, presentations are made regarding plant operations and the implementation of socio-environmental programs. Complementary to the 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 2017, nearly 85 thousand visitors took part in the program.

8.4 Social balance

1 – Calculation basis	2017 (R$ thousand)				2016 (R$ thousand)			
Net Revenues (NR)	7,009,957				6,442,371			
Operating Income (OI)	2,623,380				2,066,773			
Gross Payroll (GPR)	155,113				182,630			
Total Value Added (TVA)	4,454,017				4,199,756			
2 – Internal social indicators	**R$ thousand**	**% over GPR**	**% over NR**	**% over TVA**	**R$ thousand**	**% over GPR**	**% over NR**	**% over TVA**
Meals	20,927	13.49	0.30	0.47	16,477	9.02	0.26	0.39
Compulsory social charges	61,371	39.57	0.88	1.38	63,868	34.97	0.99	1.52
Private pension	38,413	24.76	0.55	0.86	42,331	23.18	0.66	1.01
Health	19,659	12.67	0.28	0.44	16,954	9.28	0.26	0.40
Occupational health and safety	5,396	3.48	0.08	0.12	6,078	3.33	0.09	0.14
Education	393	0.25	0.01	0.01	512	0.28	0.01	0.01
Culture	25	0.02	0.00	0.00	24	0.01	0.00	0.00
Professional training and development	3,830	2.47	0.05	0.09	5,274	2.89	0.08	0.13
Daycare or daycare assistance	252	0.16	0.00	0.01	178	0.10	0.00	0.00
Sport	566	0.36	0.01	0.01	500	0.27	0.01	0.01
Profit-sharing	43,019	27.73	0.61	0.97	44,126	24.16	0.68	1.05
Transportation	4,543	2.93	0.06	0.10	4,290	2.35	0.07	0.10
Others	1,338	0.86	0.02	0.03	1,456	0.80	0.02	0.03
Total – internal social indicators	**199,732**	**128.77**	**2.85**	**4.48**	**202,068**	**110.64**	**3.14**	**4.81**

3 – External social indicators	R$ thousand	% over OI	% over NR	% over TVA	R$ thousand	% over OI	% over NR	% over TVA
Education	176	0.11	-	-	120	0.07	-	-
Culture	11,457	7.39	0.16	0.26	13,692	7.50	0.21	0.33
Health and sanitation	3,502	2.26	0.05	0.08	3,884	2.13	0.06	0.09
Sports	1,906	1.23	0.03	0.04	2,575	1.41	0.04	0.06
Others	5,236	3.38	0.07	0.12	6,297	3.45	0.10	0.15
Total contributions to society	**22,277**	**14.36**	**0.32**	**0.50**	**26,568**	**14.55**	**0.41**	**0.63**
Taxes (excluding social charges)	1,400,037	902.59	19.97	31.43	1,179,104	645.62	18.30	28.08
Total – external social indicators	**1,422,314**	**916.95**	**20.29**	**31.93**	**1,205,672**	**660.17**	**18.71**	**28.71**
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	10,797	6.96	0.15	0.24	10,170	5.57	0.16	0.24
Technological and industrial development program	3,452	2.23	0.05	0.08	9,959	5.45	0.15	0.24
Sector indicator	2,689	1.73	0.04	0.06	-	-	-	-
Others	567	0.37	0.01	0.01	991	0.54	0.02	0.02
Total investment related to the operation/production of the company	**17,505**	**0.67**	**0.25**	**0.39**	**21,120**	**1.02**	**0.33**	**0.50**
4.2 – Investment in external programs and/or projects								
Environmental education projects in communities	734	0.03	0.01	0.02	934	0.05	0.01	0.02
Preservation and/or revitalization of degraded environments	4,731	0.18	0.07	0.11	4,254	0.21	0.07	0.10
Others	9,172	0.35	0.13	0.21	5,467	0.26	0.08	0.13
Total investments in external programs and/or projects	**14,637**	**0.56**	**0.21**	**0.33**	**10,655**	**0.52**	**0.17**	**0.25**
Total environmental investment (4.1 + 4.2)	**32,142**	**1.23**	**0.46**	**0.72**	**31,775**	**1.54**	**0.49**	**0.76**
Distribution of environmental investment	**R$ thousand**		**% over total**		**R$ thousand**		**% over total**	
Total investment in environmental prevention activities	5,749		17.89		8,823		27.77	
Total investment in environmental maintenance activitie	25,013		77.82		20,745		65.29	
Total investment in environmental compensation activit	1,380		4.29		2,207		6.95	
Number of environmental, administrative and legal claims filed against the company:	41				21			
Total fines and indemnifications judicially or administratively determined for environmental matters:	7.00				36.00			
5 – Workforce indicators	**2017 (in units)**				**2016 (in units)**			
Number of employees at the end of the period	1048				1044			
Number of new hires in the period	44				83			
Number of dismissals in the period	39				174			
Number of interns	41				81			
Number of employees by age group:								
Less than 30	173				183			
From 30 to 50	639				681			
Over50	236				180			
Number of employees by education level:								
Illiterate	0				0			
Elementary education	4				4			
High school education	547				565			
Higher education	332				294			
Postgraduate	165				181			

Number and percentage of women working at the Company	186 (17.7%)	173 (16.5%)
Percentage of management positions held by women	15.8%	13.1%
Number and percentage of men working at the Company	862 (82,3%)	871 (83,46%)
Percentage of management positions held by men	84.2%	86.9%
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
Proportion between the highest salary paid by the company and the average salary of the other employees	5.0	N.d

6 – Relevant corporate citizenship information	**2017**	**2016**
Ratio of highest to lowest salary at the company	19.1	20.4
Total on-the-job accidents	ENGIE: 8 Service provider: 31	ENGIE: 5 Service provider: 22
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

Distribution of Value Added:	**R$ thousand**	**% over total**	**R$ thousand**	**% over total**
Government	1,759,449	39.5	1,814,508	43.2
Employees	277,097	6.2	297,492	7.1
Shareholders	1,966,945	44.2	1,453,940	34.6
Third Parties	412,912	9.3	539,455	12.8
Retained	37,614	0.8	94,361	2.3

7 – Other information	**2017**	**2016**
Water consumption	6,540,736.79 m3	7,367,730.60 m3
Electric energy consumption	258.8 GWh	150.7 GWh
Annual amount of waste produced	1,058,862.33 ton	1,778,045.81 ton
Annual amount of waste recycled	1,057,886.29 ton	1,743,850.87 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 2018.

Exploitation of children, forced and compulsory labor, and anti-discriminatory 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 engage 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 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.

Again, 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 responsibility for information on the Company's socially responsible activities and form of contact

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

Independent Auditors

In accordance with Article 2 of CVM Instruction No. 381/03, ENGIE Brasil Energia states that in 2017 Deloitte Touche Tohmatsu 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, 2017 AND 2016

(In thousands of Brazilian reais)

ASSETS

	Note	Parent Company		Consolidated	
		12.31.2017	12.31.2016	12.31.2017	12.31.2016
CURRENT ASSETS					
Cash and cash equivalents	4	1,305,015	1,175,259	1,930,070	1,815,340
Trade accounts receivable	5	689,885	505,348	1,058,469	824,079
Dividends receivable from subsidiaries	33	30,550	167,202	-	-
Inventories	6	94,946	102,085	98,249	105,541
Tax credits recoverable	7	9,709	10,457	15,674	14,589
Restricted deposits	8	10,751	2,485	15,423	8,760
Hydrological risk renegotiation to be recognized	9	23,991	23,991	26,064	26,064
Concession financial asset	10	-	-	301,904	-
Other current assets		123,803	107,006	284,357	141,115
		2,288,650	**2,093,833**	**3,730,210**	**2,935,488**
Non-current assets held for sale	11	5,569	10,922	5,569	419,603
		2,294,219	**2,104,755**	**3,735,779**	**3,355,091**
NON-CURRENT ASSETS					
Long Term Assets					
Tax credits recoverable	7	8,948	35,894	13,043	37,991
Restricted deposits	8	9,546	8,500	231,489	185,768
Judicial deposits	12	98,646	148,390	100,095	149,730
Hydrological risk renegotiation to be recognized	9	115,406	139,398	144,950	171,015
Concession financial asset	10	-	-	2,245,463	-
Other non-current assets		27,562	12,208	91,608	67,798
		260,108	**344,390**	**2,826,648**	**612,302**
Investments	13	**7,523,753**	**4,442,140**	**19,027**	**4,886**
Property, plant and equipment	14	**5,043,803**	**5,276,572**	**11,678,108**	**10,194,898**
Intangible assets	15	**30,823**	**20,838**	**1,308,951**	**252,514**
		12,858,487	**10,083,940**	**15,832,734**	**11,064,600**
TOTAL		**15,152,706**	**12,188,695**	**19,568,513**	**14,419,691**

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, 2017 AND 2016

(In thousands of Brazilian reais)

LIABILITIES AND SHAREHOLDERS' EQUITY

	Note	Parent Company		Consolidated	
		12.31.2017	12.31.2016	12.31.2017	12.31.2016
CURRENT LIABILITIES					
Suppliers	16	408,772	211,777	617,396	371,149
Dividends and interest on equity	28	1,300,237	371,478	1,300,516	372,040
Loans and financing	17	787,856	137,759	948,158	283,196
Debentures and promissory notes	18	17,849	16,547	2,127,760	16,547
Concessions payable	19	61,367	59,907	67,051	65,408
Income tax and social contribution payable	21	166,346	54,210	181,351	81,023
Other tax and regulatory liabilities	22	56,639	61,370	93,668	88,632
Labor obligations	23	93,115	90,655	94,879	94,753
Provisions	24	10,647	34,020	11,651	35,001
Retirement benefits obligations	25	30,683	27,219	30,683	27,219
Other current liabilities		171,130	117,540	203,358	206,330
		3,104,641	**1,182,482**	**5,676,471**	**1,641,298**
Liabilities related to non-current assets held for sale	11	-	-	-	159,496
		3,104,641	**1,182,482**	**5,676,471**	**1,800,794**
NON-CURRENT LIABILITIES					
Loans and financing	17	1,291,810	578,234	2,867,783	2,001,081
Debentures	18	812,715	787,908	812,715	787,908
Concessions payable	19	2,385,027	2,235,059	2,432,348	2,281,968
Provisions	24	71,349	287,382	77,723	292,106
Retirement benefits obligations	25	280,971	272,248	280,971	272,248
Deferred income tax and social contribution	26	340,204	214,112	507,905	311,331
Other non-current liabilities		35,395	20,043	77,872	57,861
		5,217,471	**4,394,986**	**7,057,317**	**6,004,503**
SHAREHOLDERS' EQUITY	27				
Capital		2,829,056	2,829,056	2,829,056	2,829,056
Profit reserves		2,963,983	2,926,369	2,963,983	2,926,369
Proposed additional dividends		636,755	409,644	636,755	409,644
Valuation adjustments		400,800	446,158	400,800	446,158
		6,830,594	**6,611,227**	**6,830,594**	**6,611,227**
Non-controlling interest		-	-	4,131	3,167
		6,830,594	**6,611,227**	**6,834,725**	**6,614,394**
TOTAL		**15,152,706**	**12,188,695**	**19,568,513**	**14,419,691**

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, 2017 AND 2016

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

	Note	Parent Company		Consolidated	
		12.31.2017	12.31.2016	12.31.2017	12.31.2016
NET OPERATING REVENUE	29	**4,405,774**	**4,260,985**	**7,009,957**	**6,442,371**
Cost of energy sold and services rendered					
Electricity purchased for resale		(548,232)	(474,330)	(1,745,974)	(1,643,327)
Transactions in the short-term energy market		(154,348)	(143,242)	(360,168)	(182,416)
Charges for the use of and connection to the power grid		(347,249)	(326,668)	(423,490)	(397,402)
Cost of electricity production	30	(1,096,061)	(1,125,154)	(1,443,369)	(1,447,973)
Cost of services rendered	30	(30,834)	(30,304)	(30,870)	(30,339)
		(2,176,724)	**(2,099,698)**	**(4,003,871)**	**(3,701,457)**
GROSS PROFIT		**2,229,050**	**2,161,287**	**3,006,086**	**2,740,914**
Other operating income (expenses)					
Selling expenses	30	(10,511)	(9,724)	(17,347)	(17,246)
General and administrative expenses	30	(173,251)	(180,170)	(178,617)	(185,248)
Provision for asset impairment	14	(14,863)	(106,226)	(18,419)	(120,869)
Income (loss) from divestments	11	-	-	56,892	-
Other operating income, net		3,417	6,811	3,498	6,898
		(195,208)	**(289,309)**	**(153,993)**	**(316,465)**
Equity income (loss)					
Equity	13	685,025	397,622	(1,883)	(2,832)
Amortization of goodwill	13	(3,341)	(3,341)	-	-
		681,684	**394,281**	**(1,883)**	**(2,832)**
INCOME BEFORE FINANCIAL INCOME (LOSS) AND TAXES		**2,715,526**	**2,266,259**	**2,850,210**	**2,421,617**
Financial result					
Financial income	31	114,753	287,252	223,483	397,921
Financial expenses	31	(421,692)	(660,080)	(450,313)	(752,765)
		(306,939)	**(372,828)**	**(226,830)**	**(354,844)**
INCOME BEFORE INCOME TAXES		**2,408,587**	**1,893,431**	**2,623,380**	**2,066,773**
Income tax and social contribution					
Current	32	(276,713)	(498,759)	(419,560)	(636,385)
Deferred	32	(128,462)	152,631	(199,261)	117,913
NET INCOME FOR THE YEAR		**2,003,412**	**1,547,303**	**2,004,559**	**1,548,301**
NET INCOME ATTRIBUTABLE TO:					
Shareholders of ENGIE Brasil Energia		**2,003,412**	**1,547,303**	**2,003,412**	**1,547,303**
Non-controlling shareholder		**-**	**-**	**1,147**	**998**
		2,003,412	**1,547,303**	**2,004,559**	**1,548,301**
BASIC AND DILUTED EARNINGS PER SHARE – IN BRAZILIAN REAIS	27	**3.0692**	**2.3705**	**3.0710**	**2.3720**

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, 2017 AND 2016

(In thousands of Brazilian reais)

	Note	Parent Company		Consolidated	
		12.31.2017	12.31.2016	12.31.2017	12.31.2016
NET INCOME FOR THE YEAR		**2,003,412**	**1,547,303**	**2,004,559**	**1,548,301**
Other comprehensive income that in the future:					
- Will not be reclassified as profit or loss					
Remeasurement of retirement benefits obligations	25	(6,970)	(7,255)	(6,970)	(7,255)
Deferred income tax and social contribution		2,370	2,467	2,370	2,467
		(4,600)	**(4,788)**	**(4,600)**	**(4,788)**
- Will be reclassified as profit or loss					
Fair value of cash flow hedge					
Unrealized gains (losses) generated in the fiscal year		-	-	16,447	(437,494)
Deferred income tax and social contribution		-	-	(5,592)	148,748
Realized (losses) gains in the year		-	-	(17,238)	4,782
Equity income (loss) of the effects above		(6,383)	(283,964)	-	-
	20	**(6,383)**	**(283,964)**	**(6,383)**	**(283,964)**
COMPREHENSIVE INCOME FOR THE YEAR		**1,992,429**	**1,258,551**	**1,993,576**	**1,259,549**
INCOME ATTRIBUTABLE TO:					
Shareholders of ENGIE Brasil Energia		**1,992,429**	**1,258,551**	**1,992,429**	**1,258,551**
Non-controlling shareholder		**-**	**-**	**1,147**	**998**
		1,992,429	**1,258,551**	**1,993,576**	**1,259,549**

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, 2017 AND 2016

(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 dividends	Retained earnings	Attributed cost	Other comprehensive income	Parent Company Shareholders' Equity	Non-controlling interest	Consolidated Shareholders' Equity
Balances at 1.1.2016		**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 of 2015 credited		-	-	-	-	-	(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**
Re-measurement of retirement benefits obligations	25	-	-	-	-	-	-	-	-	(4,788)	**(4,788)**	-	**(4,788)**
Fair value of 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 credited	28	-	-	-	-	-	-	(645,197)	-	-	**(645,197)**	(95)	**(645,292)**
- Interest on equity credited	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**
Additional dividends of 2016 credited		-	-	-	-	-	(409,644)	-	-	-	**(409,644)**	-	**(409,644)**
Net income for the year		-	-	-	-	-	-	2,003,412	-	-	**2,003,412**	1,147	**2,004,559**
Re-measurement of retirement benefits obligations	25	-	-	-	-	-	-	-	-	(4,600)	**(4,600)**	-	**(4,600)**
Fair value of cash flow hedge at subsidiaries	20	-	-	-	-	-	-	-	-	(6,383)	**(6,383)**	-	**(6,383)**
Realization of attributed cost		-	-	-	-	-	-	34,375	(34,375)	-	**-**	-	**-**
Allocations proposed to ASM:													
- Tax incentive reserve	27	-	-	-	37,614	-	-	(37,614)	-	-	**-**	-	**-**
- Interim dividends credited	28	-	-	-	-	-	-	(938,918)	-	-	**(938,918)**	(183)	**(939,101)**
- Interest on equity credited	28	-	-	-	-	-	-	(424,500)	-	-	**(424,500)**	-	**(424,500)**
- Additional dividends proposed	28	-	-	-	-	-	636,755	(636,755)	-	-	**-**	-	**-**
Balances at 12.31.2017		**2,829,056**	**-**	**565,811**	**151,073**	**2,247,099**	**636,755**	**-**	**379,612**	**21,188**	**6,830,594**	**4,131**	**6,834,725**

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, 2017 AND 2016

(In thousands of Brazilian reais)

	Parent Company		Consolidated	
	12.31.2017	12.31.2016	12.31.2017	12.31.2016
Cash flow from operating activities				
Income before income taxes	2,408,587	1,893,431	2,623,380	2,066,773
Reconciliation of net income with cash generated by operations:				
Equity income (loss)	(681,684)	(394,281)	1,883	2,832
Depreciation and amortization	416,587	420,209	648,947	630,246
Provision for asset impairment	14,863	106,226	18,419	120,869
Monetary variance	35,415	149,348	38,800	172,971
Interest	356,152	432,184	354,199	473,894
Remuneration of the concession financial asset	-	-	(47,917)	-
(Reversal) accrual of operating provisions	(258,703)	24,874	(257,636)	25,474
Income (loss) from divestments	-	-	(56,892)	-
Other	3,568	2,322	2,264	2,798
Adjusted net income before taxes	**2,294,785**	**2,634,313**	**3,325,447**	**3,495,857**
(Increase) decrease in assets				
Trade accounts receivable	(180,259)	(39,873)	(222,910)	(44,149)
Inventories	11,345	(22,179)	11,499	(22,906)
Tax credits recoverable	7,499	(104,805)	(7,184)	(96,776)
Restricted and judicial deposits	47,314	(2,137)	49,158	(2,855)
Hydrological risk renegotiation to be recognized	23,991	23,991	26,064	26,064
Concession financial asset	-	-	(2,499,450)	-
Other assets	(13,911)	137,499	(6,760)	132,376
(Decrease) increase in liabilities				
Suppliers	208,991	(201,768)	225,277	(231,649)
Income tax and social contribution payable	5,978	4,014	3,328	(1,010)
Other tax and regulatory liabilities	(8,826)	(15,491)	(1,597)	(19,845)
Retirement benefits obligations	(26,250)	(21,349)	(26,250)	(21,349)
Other liabilities	64,785	74,630	13,765	85,247
Cash generated from operations	**2,435,442**	**2,466,845**	**890,387**	**3,299,005**
Payment of interest on debt, net of hedge	(99,148)	(171,002)	(243,844)	(316,595)
Payment of income tax and social contribution	(174,363)	(365,573)	(314,741)	(457,616)
Net cash generated from operating activities	**2,161,931**	**1,930,270**	**331,802**	**2,524,794**

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	Parent Company		Consolidated	
	12.31.2017	12.31.2016	12.31.2017	12.31.2016
Investment activities				
Dividends received from subsidiaries	558,301	329,249	-	-
Capital increase at subsidiaries and joint ventures	(2,969,949)	(896,503)	(8,012)	(3,859)
Capital decrease in subsidiaries	150,000	-	-	-
Acquisition of investment	(8,012)	(3,859)	(37,448)	(23,631)
Investment in property, plant and equipment	(161,286)	(254,636)	(1,904,866)	(1,166,583)
Investment in intangible assets	(15,890)	(8,266)	(1,051,482)	(9,000)
Receivables from divestments	-	-	212,091	-
Cash and equivalents from divested subsidiaries	-	-	(19,263)	(69,040)
Net cash from investment activities	**(2,446,836)**	**(834,015)**	**(2,808,980)**	**(1,272,113)**
Financing activities				
New loans and financing	1,656,297	35,339	1,951,482	35,339
Issue of debentures and promissory notes	-	585,784	2,096,112	585,784
Loans and financing paid, net of hedge	(340,525)	(1,055,201)	(505,399)	(1,209,544)
Payment of concession installments payable	(62,760)	(58,809)	(68,719)	(64,491)
Payment of dividends and interest on equity	(838,155)	(1,162,928)	(838,621)	(1,164,012)
Others	(196)	(4,189)	(42,947)	(17,271)
Net cash from financing activities	**414,661**	**(1,660,004)**	**2,591,908**	**(1,834,195)**
Increase (decrease) in cash and cash equivalents	**129,756**	**(563,749)**	**114,730**	**(581,514)**
Reconciliation of cash and cash equivalents				
Opening balance	1,175,259	1,739,008	1,815,340	2,396,854
Closing balance	1,305,015	1,175,259	1,930,070	1,815,340
Increase (decrease) in cash and cash equivalents	**129,756**	**(563,749)**	**114,730**	**(581,514)**

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, 2017 AND 2016

(In thousands of Brazilian reais)

	Parent Company		Consolidated	
	12.31.2017	12.31.2016	12.31.2017	12.31.2016
GENERATION OF ADDED VALUE				
Gross operating revenue	4,875,069	4,727,929	7,734,910	7,127,466
Revenue from construction of plants	-	-	1,767,570	1,022,182
Other	5,606	23,635	62,579	23,722
	4,880,675	**4,751,564**	**9,565,059**	**8,173,370**
(-) Inputs				
Electricity purchased for resale	(548,232)	(474,330)	(1,745,974)	(1,643,327)
Transactions in the short-term energy market	(154,348)	(143,242)	(360,168)	(182,416)
Charges for the use of and connection to the power grid	(347,249)	(326,668)	(423,490)	(397,402)
Fuels used in energy production	(442,809)	(131,005)	(454,600)	(141,000)
Materials and services	(188,082)	(164,261)	(256,481)	(228,679)
Insurance	(25,777)	(24,903)	(32,289)	(31,153)
Reversal (accrual) of operating provisions	258,703	(24,874)	257,636	(25,474)
Provision for asset impairment	(14,863)	(106,226)	(18,419)	(120,869)
Expenses with construction of plants	-	-	(1,600,575)	(925,449)
Other	(44,504)	(38,447)	(49,335)	(42,688)
	(1,507,161)	**(1,433,956)**	**(4,683,695)**	**(3,738,457)**
GROSS ADDED VALUE	**3,373,514**	**3,317,608**	**4,881,364**	**4,434,913**
Depreciation and amortization	(416,587)	(420,209)	(648,947)	(630,246)
NET ADDED VALUE GENERATED	**2,956,927**	**2,897,399**	**4,232,417**	**3,804,667**
ADDED VALUE RECEIVED IN TRANSFER				
Financial income	114,753	287,252	223,483	397,921
Equity income (loss)	681,684	394,281	(1,883)	(2,832)
ADDED VALUE TO DISTRIBUTE	**3,753,364**	**3,578,932**	**4,454,017**	**4,199,756**

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Continued

DISTRIBUTION OF ADDED VALUE

	Parent Company				Consolidated			
	12.31.2017	%	12.31.2016	%	12.31.2017	%	12.31.2016	%
Remuneration:								
Labor								
Remuneration and charges	162,343	4.3	186,563	5.2	167,849	3.8	189,851	4.5
Benefits	65,452	1.7	61,703	1.7	66,295	1.5	62,321	1.5
Profit sharing	29,104	0.8	31,712	0.9	29,301	0.7	31,907	0.8
FGTS	13,317	0.4	13,149	0.4	13,652	0.3	13,413	0.3
	270,216	**7.2**	**293,127**	**8.2**	**277,097**	**6.3**	**297,492**	**7.1**
Government								
Federal taxes	877,875	23.4	821,690	22.9	1,345,665	30.2	1,209,936	28.8
State taxes	19,237	0.5	16,476	0.5	19,458	0.4	16,708	0.4
Municipal taxes	2,591	0.1	3,010	0.1	2,765	0.1	3,238	0.1
Sectorial charges	147,660	3.9	211,558	5.9	170,819	3.8	243,311	5.8
Charges on concessions payable	214,188	5.7	333,194	9.3	220,742	5.0	341,315	8.1
	1,261,551	**33.6**	**1,385,928**	**38.7**	**1,759,449**	**39.5**	**1,814,508**	**43.2**
Third-party capital								
Interest and monetary variation	199,565	5.3	320,979	9.0	216,235	4.9	398,913	9.4
Capitalized financial interest and monetary variation	2,189	0.1	16,824	0.4	169,184	3.8	113,557	2.7
Rentals	9,078	0.2	9,237	0.3	15,299	0.3	14,956	0.4
Other financial expenses	7,353	0.2	5,534	0.2	12,194	0.3	12,029	0.3
	218,185	**5.8**	**352,574**	**9.9**	**412,912**	**9.3**	**539,455**	**12.8**
Own capital								
Tax incentive reserve	37,614	1.0	17,703	0.5	37,614	0.8	17,703	0.4
Legal reserve	-	-	76,658	2.1	-	-	76,658	1.8
Realization of attributed cost	(34,375)	(0.9)	(34,399)	(1.0)	(34,375)	(0.8)	(34,399)	(0.8)
Interest on equity	424,500	11.3	432,500	12.1	424,500	9.5	432,500	10.3
Dividends	1,575,673	42.0	1,054,841	29.5	1,575,673	35.4	1,054,841	25.2
Non-controlling shareholder	-	-	-	-	1,147	-	998	-
	2,003,412	**53.4**	**1,547,303**	**43.2**	**2,004,559**	**44.9**	**1,548,301**	**36.9**
	3,753,364	**100.0**	**3,578,932**	**100.0**	**4,454,017**	**100.0**	**4,199,756**	**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") 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 on the Novo Mercado segment of B3 S.A. – Brasil, Bolsa, Balcão (B3) 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"), 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.

At 12.31.2017, the ENGIE group was the largest private energy generator in Brazil's electric power industry, accounting for approximately 7.2%[4] of the country's installed capacity. At 12.31.2017, its installed capacity, including its stakes in energy generation consortiums, is 7,868.1 MW. Out of this total, 81.2% arises from hydroelectric power plants, 13.3% from thermal power plants and 5.5% from complementary energy (wind, solar, biomass and small hydroelectric plants). The physical guarantee for commercialization purposes was 4,428.1average MW at 12.31.2017. Due to the MME's ordinary revision of the physical guarantee of energy in 2017, the Company's commercial capacity as of 1.1.2018 is 4,404.1 average MW.

The Company's generation facilities in operation consist of 31 plants, of which 11 hydroelectric power plants, seven thermal power plants (three coal, three biomass and one natural gas plant), nine wind farms, two photovoltaic solar power plants and two small hydroelectric plants (SHPP).

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

The main corporate and operational events occurred in 2017 are summarized as follows:

a) Commercial startp-up of the Wind Farms Cacimbas, Estrela and Ouro Verde

In the first half of 2017, Aneel authorized the commercial startup of the Wind Farms Cacimbas, Estrela and Ouro Verde, which belong to the Santa Mônica Wind Power Complex (CESM), located in the city of Trairi, state of Ceará, increasing the Company's installed capacity by 70.2 MW and its commercial capacity by 33.0 Average MW. With that, all wind farms comprising CESM (installed capacity of 97.2 MW and physical guarantee of 47.4 Average MW) have completed their commercial startup.

b) Payment of interest on equity for fiscal year 2016

Interest on equity for fiscal year 2016 was paid on 2.1.2017. The gross amount credited was R$ 432,500, corresponding to R$ 0.6625893121 per share.

c) Potential divestment of coal-fired 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-fired generation assets: (i) Jorge Lacerda Thermal Power Complex ("CTJL") – with installed capacity of 857.0 MW; and (ii) Pampa Sul Thermal Power Complex – formed by the plant under construction – Pampa Sul Thermal Power Plant, which will have installed capacity of 345.0 MW – and by the project under development called Pampa Sul 2, with installed capacity of 340.0 MW.

At 12.13.2017, the Company granted exclusive rights to a potential buyer of the assets to conduct due diligence, which had not been concluded until the reporting date of these financial statements. Moreover, the Company has not received a formal proposal for the acquisition of assets and does not consider the sale as highly probable in accordance with the requirements of CPC 31 - Non Current Assets Held for Sale. On the same date, the Board of Directors of the Company approved the transfer of the assets of CTJL to Diamante Geração de Energia Ltda. ("Diamante"), a subsidiary of EBE. The transfer was concluded on 1.1.2018, through a capital increase of Diamante via payment of the value of property, plant and equipment and inventories linked to CTJL.

The potential divestment 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) Conclusion of modernization works at the Salto Santiago Hydroelectric Power Plant

On 3.25.2017, modernization works at the Salto Santiago Hydroelectric Power Plant, which were begun in late 2012, were concluded, increasing the Plant's commercial capacity by 24.2 average MW. Investments made as a result of the modernization project, which focused mainly on the acquisition of new rotors to improve output in the generation units, came to approximately R$ 400,000.

e) Agreement for natural gas supply

On 5.24.2017, the Company and its fuel supplier signed a consent order, which was ratified on 6.20.2017, ending the legal dispute regarding divergence in the definition of fuel prices. Of the total restated amount of the agreement, R$ 246,099 has been paid and R$ 109,437 will be paid upon receipt of the amounts from the Electric Energy Trading Chamber (CCEE). For more information see Note 16 – Provisions.

f) Payment of additional dividends for fiscal year 2016

On 6.21.2017, the Company paid additional dividends for fiscal year 2016 in the amount of R$ 409,644, corresponding to R$ 0.6275749291 per share.

g) Acquisition of concessions of the Jaguara and Miranda Hydroelectric Power Plants

On 9.27.2017, the Company won the Non-extended Concessions Auction held by Aneel for the Jaguara and Miranda Hydroelectric Power Plants, which have installed capacities of 424.0 MW and 408.0 MW and commercial capacity of 341.0 average MW and 198.2 average MW, respectively. EBE submitted the highest bonus for the concession of electricity generation under the quota system, observing the threshold 70% of the physical guarantees of the Hydroelectric Power Plants allocated to the Regulated Contracting Environment (ACR). The balance 30% will be allocated to the Free Contracting Environment (ACL).

On 12.29.2017, the Company assumed control of the operation, after a period of transition called "assisted operation," which started on 11.10.2017, when the concession contracts were signed. The bonus amount of R$ 3,531,000 was paid for the grant of concession. For more information, see Note 10 – Concession financial asset.

h) Sale of equity interest

On 10.31.2017, the sale of the entire equity interest held by the direct subsidiary ENGIE Brasil Energias Complementares Participações Ltda. ("ECP") in the subsidiaries Eólica Beberibe S.A., Eólica Pedra do Sal S.A. and Hidrelétrica Areia Branca S.A. was concluded after all the conditions precedent in the stock purchase agreement were met, for R$ 320,541. The plants owned by the indirect subsidiaries sold have total installed capacity of 63.4 MW and total commercial capacity of 23.9 average MW. Further information is available in Note 11 – Non-current assets held for sale.

i) Acquisition of the Umburanas Wind Power Complex

On 11.24.2017, the Company concluded the acquisition, through its direct subsidiary ECP, of the entire capital of the companies comprising the Umburanas Wind Power Complex ("Umburanas Project"), in the state of Bahia, for R$ 16,938. The Umburanas Project is composed of the right to build and operate a potential wind power installed capacity of 605.0 MW, of which 360.0 MW should be implemented by mid-2019. The total installed capacity of 257.5 MW will be sold in the free market and the remaining 102.5 MW were sold in Auction A-5/2014 held by Aneel. The remaining 245.0 MW will remain in the Company's portfolio for future development. For more information, see Note 13 – Investments.

j) Issue of promissory notes

On 11.27.2017, the direct subsidiaries Companhia Energética Jaguara ("Jaguara") and Companhia Energética Miranda ("Miranda") issued promissory notes in the amounts of R$ 1,320,000 and R$ 780,000, respectively, to finance the payment of a part of the bonus for the concession. Further information is available in Note 18 – Debentures and promissory notes

k) New loans

In October and November 2017, the Company took loans from financial institutions abroad in the amount of US$ 500,000, equivalent to R$ 1,631,280 and, at the same time, contracted swap operations with the Brazilian subsidiary of the same financial institution that granted the loan, in order to hedge all future cash flows. These loans were used largely as capital injections in the subsidiaries Jaguara and Miranda for the payment of bonus for the concession. Additional information is available in Note 17 - Loans and financing.

l) Participation in Transmission Auction 02/2017

On 12.15.2017, in Transmission Auction 02/2017, held by Aneel, the Company won Lot 1, in the state of Paraná, totaling approximately 1,050 km of transmission lines. The Permitted Annual Revenue (RAP) submitted by the Company was R$ 231,725, a discount of 34.8% from the maximum revenue determined by Aneel, of R$ 355,407.

The term of the concession of the public transmission service, including construction, assembly, operation and maintenance of transmission facilities will be 30 years from the date of execution of the concession agreement, scheduled for 3.9.2018.

m) Operational startup of the Assú V Photovoltaic Plant ("Assú V")

On 12.23.2017, Aneel authorized the startup of commercial operation of the indirect subsidiary Assú V Photovoltaic Plant, located in the city of Assú, state of Rio Grande do Norte, which increased the Company's installed capacity by 30.0 MW and commercial capacity by 9.2 average MW.

n) Net working capital

The negative net working capital recorded on the balance sheet at 12.31.2017 is primarily due to the issue of promissory notes and new loans contracted to finance the payment of concession fees of the Jaguara and Miranda Hydroelectric Plants, which mature in 2018. The promissory notes will be paid through the issue of long-term debt in the capital markets or with financial institutions, as mentioned in Note 18 – Debentures and promissory notes or, if necessary, through funds generated by the operating activities of ENGIE Brasil Energia.

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, which is consistent with that used by the Management in its activities.

The Company is presenting one package, containing these 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 joint venture Itá Energética S.A. which, under Brazilian rules, is recognized by the equity method, whereas, according to IFRS, it is recognized 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 2017 and 2016.

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

The Company prepared the Added-Value Statements (DVA) in accordance with CPC 09 – Statements of Value Added. Under IFRS, presentation of these statements is not mandatory and, consequently, these statements are presented as supplementary information, without prejudice to the financial statements.

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, particularly the present value of the "Concession financial asset" and "Concessions payable"; (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 2.22.2018.

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 the Company. The companies consolidated with ENGIE Brasil Energia are the following:

	Investor	Equity interest (%) 12.31.2017	12.31.2016
Direct subsidiaries			
ENGIE Brasil Energia Comercializadora Ltda. ("EBC")	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")[5]	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	99.99
Companhia Energética Jaguara ("Jaguara")	EBE	99.99	-
Companhia Energética Miranda ("Miranda")	EBE	99.99	-
Diamante Geração de Energia Ltda. ("Diamante")	EBE	99.99	-
ENGIE Transmissão de Energia Ltda. ("ETE")	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
Ibitiúva Bioenergética S.A. ("Ibitiúva")	ECP	95.00	95.00
Ferrari Termoelétrica S.A. ("Ferrari")	ECP	99.99	99.99
Energias Eólicas do Nordeste S.A. ("EEN")[6] e controladas[6]	ECP	99.99	99.99
Energias Eólicas do Ceará S.A. ("EEC")[6] e controladas[7]	ECP	99.99	99.99
CLWP Brasil Participações Ltda. ("CLWP")[6] e controladas[7]	ECP	99.99	99.99
CLWP Brasil II Participações Ltda. ("CLWP II")[6] e controladas[7]	ECP	99.99	99.99
Santo Agostinho Participações Ltda. e parques eólicos Santo Agostinho[7]	ECP	99.99	99.99
Alvorada Participações Ltda. ("Alvorada")[6] e controladas	ECP	99.99	99.99
Central Fotovoltaica Assú I, II, III, IV e V ("Assú")[7]	ECP	99.99	99.99
Parques Eólicos Umburanas ("Umburanas")[7]	ECP	99.99	-
Hidrelétrica Areia Branca S.A. ("Areia Branca")	ECP	-	99.99
Eólica Beberibe S.A. ("Beberibe")	ECP	-	99.99
Eólica Pedra do Sal S.A. ("Pedra do Sal")	ECP	-	99.99
Exclusive investment funds			
Fundo de Investimento Energy Renda Fixa[7]	-	100	100

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

[5] Holding company.
[6] For more information, see Note 13 – Investments
[7] Fixed income investment fund that has ENGIE Brasil Energia and its subsidiaries as shareholders, managed by Votorantim Asset Management D.T.V.M. Ltda.

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) Trade accounts receivable

These are initially recorded at sale or collection value and then at the amortized cost, deducted from estimated losses with doubtful accounts. These allowance estimated losses are recognized 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 their amortized cost.

a.4) Concession financial asset

Initially recorded at the present value of the future cash flows resulting from the Return of the Grant Bonus (RBO) and, subsequently, at the amortized cost based on the interest rate used to calculate the present value. The RBO will be received through the sale of energy to distributors in the ACR in accordance with the quota regime, free of demand, market and hydrological risks.

a.5) Loans, financing, debentures and promissory notes

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.6) 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.

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.

Derivative financial instruments held by the Company and its subsidiaries correspond to hedging operations against exposure to risks related to exchange variation and interest rates 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 following hedge operations of the Company and its subsidiaries qualify for hedge accounting:

b.1.1) Fair value hedge

Hedge operations to protect against any fluctuation in exchange and interest rates affecting the Company's foreign currency loans are designated as "Fair value hedge". In these transactions, any gains or losses arising from fair value measurement of loans and hedge operations are recognized as financial income (loss).

b.1.2) Cash flow hedge

Hedging against exposure to foreign currencies of highly probable financial commitments for acquisition of goods and services for property, plant and equipment is designated as "Cash flow hedge". 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. These assets 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

f.1) Investments in directly or indirect subsidiaries

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 initially recorded at cost and subsequently using the equity method.

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" in investment acquisition

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 book value of the shareholders' equity of acquired companies is recognized in the investment as "goodwill", whose economic ground is primarily 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 recognizes 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 procedure was adopted in view of the impossibility of these fixed and intangible assets to be sold or transferred separately and to the similar durations of said rights and 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.

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 relevant.

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, which are 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 and experience of the Management, together with its legal advisors, considering cases of jurisprudence, decisions taken at lower and higher levels, and other applicable aspects.

u) New standards, amendments a and interpretations

u.1) Applicable to the financial statements of 12.31.2017

The following new and revised International Financial Reporting Standards, applicable for periods starting on or after 1.1.2017, were adopted in the financial statements and did not have any material impact on the amounts reported for the period:

- Amendments to IAS 7 – Reporting initiative;

- Amendment to IAS 12 – Recognition of deferred tax assets for unrealized losses; and

- Annual IASB revision of the cycle 2014-2017, with amendments to the following standards: IFRS

1 – First-time adoption of International Financial Reporting Standards, IFRS 12 – Disclosure of interests in other entities, and IAS 28 – Investment in associates, subsidiaries and joint ventures.

u.2) New standards, amendments and interpretations not yet adopted

As of the fiscal years started 1.1.2018, accounting pronouncements CPC 47 – Revenue from contracts with customers (IFRS 15) and CPC 48 – Financial Instruments (IFRS 9) are effective. Additionally, as of 1.1.2019, the revised CPC 06 – Leases (IFRS 16) will be effective. The Company has not adopted these standards in these financial statements.

u.2.1) CPC 47 – Revenues from contracts with customers (IFRS 15)

CPC 47 introduces a comprehensive structure to determine if and when a revenue is recognized and for how long it should be measured, and replaces the current standards addressing revenue recognition, including CPC 30 – Revenues (IAS 18), CPC 17 – Construction contracts (IAS 11) and CPC 30 Interpretation A – Customer loyalty programs (IFRIC 13).

The Company plans to adopt CPC 47 for the comparison period shown on the initial date, i.e. 1.1.2017. Additionally, it plans to use the practical expedient for concluded contracts, which means that concluded contracts that started and ended in the same comparison period, as well as contracts concluded in the beginning of the oldest comparison period will not be resubmitted.

The Company does not expect any significant impacts in its separate and consolidated financial statements from the application of these standards.

u.2.2) CPC 48 – Financial instruments (IFRS 9)

CPC 48 replaces CPC 38 – Financial instruments: recognition and measurement (IAS 39) and establishes new requirements for classification, measurement, impairment, hedge accounting and recognition of financial assets and liabilities.

- Classification – Financial Assets

The new standard introduces a new approach to the classification and measurement of financial assets, which reflects the business model in which the assets are managed and their cash flow characteristics.

CPC 48 contains three main categories for classification of financial assets: measured at amortized cost, at fair value through other comprehensive income, and at fair value through profit or loss. The standard eliminates the categories existing under CPC 38.

Based on its assessment, the Company does not expect the new classification requirements to have any impact on the accounting of its financial assets. Presentation of the separate and consolidated balances at 12.31.2017, to be presented as of the adoption of the new standard, for comparison purposes, is as follows:

Presentation in accordance with CPC 48	12.31.2017 Parent Company	12.31.2017 Consolidated
Financial assets		
Amortized cost		
Cash and bank deposits	2,331	21,809
Trade accounts receivable	689,885	1,058,469
Dividends receivable from customers	30,550	-
Restricted deposits	20,297	246,912
Fuel to be reimbursed	44,089	44,089
Concession financial asset	-	2,521,336
Fair value through profit or loss		
Financial investments	1,302,684	1,908,261
Fair value hedge on loans	18,207	18,207
	2,108,043	**5,819,083**

- Impairment – Financial Assets

CPC 48 replaces the "incurred losses" model of CPC 38 with a prospective model of "expected loan losses." This requires from the Company significant judgment of how changes in economic factors impact expected loan losses, which will be determined based on weighted probabilities.

The new model of expected losses applies to financial assets measured at amortized cost and at fair value through other comprehensive income, namely:

(i) Cash, bank deposits and restricted deposits: held with top-tier financial institutions. The Company considers these assets to have low credit risk based on external credit score assessments of the counterparties.

(ii) Trade accounts receivable and other receivables: the Company calculated estimated losses based on its actual loan loss experience in recent years. The amounts under trade accounts receivable do not have significant financial components, so the Company decided to apply a simplified approach, under which the loan loss is expected through the asset's life. Additionally, when calculating expected losses, the Company used a matrix, from the segregation of clients based on common characteristics. Note that the Company does not have a history of losses.

(iii) Concession financial asset: the bonus for grant of the Jaguara and Miranda Hydroelectric Plants provides an unconditional right to receive cash flow without market risks.

- Classification – Financial liabilities

CPC 48 retains most of the requirements of CPC 38 for the classification of financial liabilities, except the treatment of the fair value of liabilities designated as measured at fair value through profit or loss.

The Company has not designated and does not intend to designate financial liabilities as measured at fair value through profit or loss, and hence it does not expect any impacts on the classification of financial assets at 1.1.2018.

- Hedge accounting

CPC 48 requires the Company to ensure that the hedge accounting relationships are aligned with the Company's risk management objectives and strategies, and to ensure the application of a qualitative and prospective approach to assess the effectiveness of the hedge.

In order to hedge all of its future payment flows against fluctuations in the U.S. dollar, the Company contracted swap operations with Brazilian subsidiaries of the same financial institutions that granted loans, for the same amounts and maturities of interest and principal.

Additionally, the Company contracted a Non-Deliverable Forward (NDF) operation to hedge all of its future foreign currency payments resulting from contractual commitments in the construction contracts of the Pampa Sul Thermal Power Plant.

The Company concluded the initial assessment of the potential impact on its separate and consolidated financial statements and does not expect significant impacts from the adoption of the abovementioned standard.

u.2.3) CPC 06 (R2) – Leases (IFRS 16)

CPC 06 (R2) replaces the existing standards on leases, including CPC 06 – Leases (IAS 17) and ICPC 03 – Complementary aspects of leases (IFRIC 3).

The standard 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 is currently conducting a detailed assessment of the impacts resulting from applying the standard. The actual impact from applying CPC 06 on the financial statements for the period of first-time adoption will depend on future economic conditions, including the composition of the Company's lease portfolio on this date and on the Company's assessment of whether or not to exercise any options to renew its leases. Due to the different alternatives available and the complexity of estimates, the Company has not yet concluded its assessment and hence it did not present in these financial statements an estimate of the impact of the first-time adoption of the revised version of CPC 06.

So far, the following contracts have been identified as coming under the scope of the new standard: contract for use of the headquarters building and leases of areas where wind farms are or will be build. With the application of the standard, these lease contracts will be recognized as a right to use the asset in exchange for an obligation.

The Company does not expect the adoption of CPC 06 (R2) to affect its capacity to comply with the covenants described in Note 17 - Loans and financing and in Note 18 – Debentures and promissory notes, in case such obligations are included in the calculation of the covenants.

NOTE 4 – CASH AND CASH EQUIVALENTS

	Parent Company		Consolidated	
	12.31.2017	12.31.2016	12.31.2017	12.31.2016
Cash and bank deposits	**2,331**	**1,418**	**21,809**	**12,007**
Marketable securities:				
Exclusive Investment Fund				
Repurchase transactions backed by federal bonds	1,302,541	1,173,841	1,899,491	1,793,540
Other marketable securities	143	-	8,770	9,793
	1,302,684	**1,173,841**	**1,908,261**	**1,803,333**
	1,305,015	**1,175,259**	**1,930,070**	**1,815,340**

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 2017 and 2016 was 99.9% and 99.8% of the CDI (the reference rate of Interbank Deposit Certificates), respectively.

NOTE 5 – TRADE ACCOUNTS RECEIVABLE

	Parent Company		Consolidated	
	12.31.2017	12.31.2016	12.31.2017	12.31.2016
Distributors	248,206	286,312	309,080	386,139
Traders	182,214	153,436	78,148	21,384
Free Consumers	23,969	24,802	373,494	329,956
Transactions within the CCEE	241,676	46,978	304,216	93,069
Estimated losses with doubtful accounts	(6,180)	(6,180)	(6,469)	(6,469)
	689,885	**505,348**	**1,058,469**	**824,079**

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	
	12.31.2017	12.31.2016	12.31.2017	12.31.2016
Overdue up to 30 days	503	431	3,442	1,153
Overdue more than 30 days	6,920	10,047	7,626	12,332
	7,423	**10,478**	**11,068**	**13,485**

Estimated losses with doubtful accounts are accrued on overdue accounts receivable, for which the risk of recovery is deemed as probable.

In addition to the estimated losses mentioned above, the Company also recognized estimated losses with receivables from transactions conducted in the Wholesale Electricity Market (MAE), currently CCEE, between 2000 and 2002. 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 estimated losses were recognized due to uncertainty 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.

NOTE 6 – INVENTORIES

	Parent Company		Consolidated	
	12.31.2017	12.31.2016	12.31.2017	12.31.2016
Supplies	60,058	57,711	62,445	59,987
Inputs for energy production	36,219	49,159	37,089	50,305
Reduction to net realizable value	(1,987)	(6,194)	(1,987)	(6,194)
Other	656	1,409	702	1,443
	94,946	**102,085**	**98,249**	**105,541**

NOTE 7 – TAX CREDITS RECOVERABLE

	Parent Company		Consolidated	
	12.31.2017	12.31.2016	12.31.2017	12.31.2016
Current				
PIS[8] and Cofins[9]	-	-	7,340	5,633
ICMS[10]	18,657	40,063	21,377	40,659
INSS	-	6,288	-	6,288
	18,657	**46,351**	**28,717**	**52,580**
Classification in the balance sheet				
Current assets	9,709	10,457	15,674	14,589
Non-current assets	8,948	35,894	13,043	37,991
	18,657	**46,351**	**28,717**	**52,580**

[8]Social Integration Program
[9]Contribution for Social Security Funding
[10]Value-Added Tax on Sales and Communication and Transport Services

NOTE 8 – RESTRICTED DEPOSITS

	Parent Company		Consolidated	
	12.31.2017	12.31.2016	12.31.2017	12.31.2016
Financing guarantees	9,095	8,406	225,516	180,183
Contractual commitment guarantees	-	-	1,094	6,264
Guarantees for negative balance at CCEE	7,510	65	11,088	76
Reinvestment deposits	3,241	2,420	3,241	2,420
Other	451	94	5,973	5,585
	20,297	**10,985**	**246,912**	**194,528**
Classification in the balance sheet				
Current assets	10,751	2,485	15,423	8,760
Non-current assets	9,546	8,500	231,489	185,768
	20,297	**10,985**	**246,912**	**194,528**

Guarantees for loans are aimed at ensuring the payment of debt with the Brazilian Development Bank (BNDES) and onlending banks and are mostly constituted for the amount equivalent to 3 months of debt service and contractual operating and maintenance expenses for plants that hire third-party services to perform these activities.

The average yield of restricted deposits in 2017 and 2016 was 99.9% and 98.6%, respectively, of the overnight rate (CDI).

NOTE 9 – HYDROLOGICAL RISK RENEGOTIATION TO BE RECOGNIZED

a) Breakdown

	Parent Company		Consolidated	
	12.31.2017	12.31.2016	12.31.2017	12.31.2016
Itá HPP	45,633	49,690	45,633	49,690
Cana Brava HPP	35,537	38,696	35,537	38,696
Ponte de Pedra HPP	18,571	22,165	18,571	22,165
São Salvador HPP	18,182	19,376	18,182	19,376
Machadinho HPP	11,414	12,428	11,414	12,428
Salto Santiago HPP	10,060	21,034	10,060	21,034
Estreito HPP	-	-	31,617	33,690
	139,397	**163,389**	**171,014**	**197,079**
Classification in the balance sheet				
Current assets	23,991	23,991	26,064	26,064
Non-current assets	115,406	139,398	144,950	171,015
	139,397	**163,389**	**171,014**	**197,079**

In December 2015, Aneel approved the renegotiation of hydrological risk relating to the Company's plants whose energy was being sold in the 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 (GSF)

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 in relation to the calculated amount, which is being offset by "risk premiums" due by the Company and calculated at present value.

	Parent Company	Consolidated
Balances at 1.1.2016	**187,379**	**223,143**
Amortization of the "risk premium"	(23,990)	(26,064)
Balances at 12.31.2016	**163,389**	**197,079**
Amortization of the "risk premium"	(23,992)	(26,065)
Balances at 12.31.2017	**139,397**	**171,014**

b) Expected realization of non-current assets

	Parent Company	Consolidated
2019	13,016	15,090
2020	13,016	15,090
2021	13,016	15,090
2022	13,016	15,090
2023	10,021	12,094
2024 to 2028	47,110	57,477
2029 to 2033	6,211	15,019
	115,406	**144,950**

NOTE 10 – CONCESSION FINANCIAL ASSET

On 9.27.2017, Aneel conducted the Auction of non-Extended Concessions (Auction 001/2017), in which the Company won two lots, corresponding to the concessions of the Jaguara and Miranda Hydroelectric Power Plants and the consequent allocation in quotas of their physical guarantees of energy and capacity, pursuant to Law 12,783/2013, as amended.

The execution of the concession agreements of these plants, on 11.10.2017, allows for the operation of the concessions for the next 30 years starting from 12.29.2017.

The Jaguara Hydroelectric Plant ("Jaguara HPP") is located in the city of Rifaina, São Paulo, and started operating commercially in 1971. It has installed capacity and physical guarantee of 424.0 MW and 341.0 average MW, respectively. The Miranda Hydroelectric Plant ("Miranda HPP"), located in the city of Indianópolis, Minas Gerais, started operating commercially in 1998. It has installed capacity of 408.0 MW and physical guarantee of 198.2 average MW.

The installed capacity of the plants will be allocated at the proportion of 70% to the ACR, in the Physical Guarantee Quota System, and 30% to the ACL. The portion allocated to the ACR is guaranteed by the Government and has no demand, market or hydrological risk.

The bonus grant for 30 years of the Jaguara HPP and Miranda HPP was R$ 2,171,000 and R$ 1,360,000, respectively. Payment was made in a single installment on 11.30.2017.

The Company calculated the present value of future cash flows of energy to be settled in the ACR, based on the discount rate before taxes, determined for the purpose of this calculation, of 6.9% p.a., which best represents the expected return on this portion of investments. The amount represents an unconditional right of the Company to receive cash during the concession period and, therefore, it was classified as a financial assets.

Changes in financial assets were as follows:

	Consolidated		
	Jaguara HPP	Miranda HPP	Total
Balance at 1.1.2017	**-**	**-**	**-**
Grant bonus	1,550,673	948,777	**2,499,450**
Interest	21,913	13,402	**35,315**
Monetary variation	7,811	4,791	**12,602**
Balance at 12.31.2017	**1,580,397**	**966,970**	**2,547,367**
Classification in the balance sheet			
Current assets	187,304	114,600	**301,904**
Non-current assets	1,393,093	852,370	**2,245,463**
	1,580,397	**966,970**	**2,547,367**

a) Realization profile of the concession financial asset presented under non-current assets

	Consolidated		
	Jaguara HPP	Miranda HPP	Total
2019	140,732	86,105	226,837
2020	127,281	77,875	205,156
2021	115,141	70,448	185,589
2022	104,162	63,731	167,893
2023	94,230	57,654	151,884
2024 to 2028	352,217	215,503	567,720
2029 to 2047	459,330	281,054	740,384
	1,393,093	**852,370**	**2,245,463**

NOTE 11 – NON-CURRENT ASSETS HELD FOR SALE

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

	Parent Company		Consolidated	
	12.31.2017	12.31.2016	12.31.2017	12.31.2016
Property, plant and equipment held for sale	5,569	10,922	5,569	10,922
Investments held for sale				
Assets	-	-	-	408,681
Related liabilities	-	-	-	(159,496)
Net assets	**-**	**-**	**-**	**249,185**
	5,569	**10,922**	**5,569**	**260,107**
Classification in the balance sheet				
Assets	5,569	10,922	5,569	419,603
Liabilities[11]	-	-	-	(159,496)
	5,569	**10,922**	**5,569**	**260,107**

a) Property, plant and equipment held for sale

Refers to assets from the non-operational thermal power project Jacuí, which had been offered as guarantee and were received as a result of the favorable decision for the Company, in 2014, on a claim for enforcement filed to collect the amounts receivable from the sale of said plant.

The Company is in the process of divesting assets and, based on the quoted price for similar non-operating assets (Level 2), it recognized a provision for asset improments in 2016 and 2017, as follows:

	Parent Company and Consolidated
Balance at 1.1.2016	**86,886**
Provision for asset impairment	(75,964)
Balance at 12.31.2016	**10,922**
Write-off due to divestment	(2,962)
Provision for asset impairment	(2,391)
Balance at 12.31.2017	**5,569**

b) Held-for-sale investments

The Board of Directors' meeting held on 12.23.2016 approved the sale of the indirect subsidiaries 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

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

The sale of the companies was concluded on 10.31.2017, after all the conditions precedent were met. The sale price, after price adjustments, net of PIS and Cofins taxes, was R$ 320,541, of which R$ 210,859 was received on the closing date. The outstanding amount, restated at the National Broad Consumer Price Index (IPCA) through 12.31.2017 is R$ 111,752 and is presented under "Other current assets." Additionally, the Company incurred sales expenses of R$ 2,933. Held-for-sale assets were measured at book value, which was R$ 260,716 on 10.31.2017. Accordingly, the result of the divestment recorded in the Company's income statement was R$ 56,892.

NOTE 12 – JUDICIAL DEPOSITS

a) Breakdown

	Parent Company		Consolidated	
	12.31.2017	12.31.2016	12.31.2017	12.31.2016
Tax and social security	75,136	125,900	75,945	126,645
Civil	18,784	17,711	19,318	18,175
Labor	4,726	4,779	4,832	4,910
	98,646	**148,390**	**100,095**	**149,730**

In September 2017, retained judicial deposits related to lawsuits whose final and unappealable decisions were in favor of the company were released in the amount of R$55,212. The lawsuit required the maintenance of the non-cumulative system for calculating PIS and Cofins taxes on revenues arising from "predetermined price" contracts.

Of the total amount of judicial deposits, R$21,650 (R$20,809 at 12.31.2016), in the parent company and consolidated, are directly related to probable-risk contingencies recognized as provision in the Company's liabilities.

b) Changes

	Parent Company	Consolidated
Balance at 1.1.2016	**130,020**	**132,480**
Additions	12,149	12,489
Restatements	9,345	9,675
Write-offs and redemptions	(3,124)	(3,125)
Reclassification to non-current assets held for sale	-	(1,789)
Balance at 12.31.2016	**148,390**	**149,730**
Additions	1,452	7,251
Restatements	5,890	6,112
Write-offs and redemptions	(57,086)	(62,601)
Reclassification to non-current assets held for sale	-	(397)
Balance at 12.31.2017	**98,646**	**100,095**

NOTE 13 – INVESTMENTS

a) Breakdown

	Parent Company	
	12.31.2017	12.31.2016
Interest on subsidiaries:		
Measured at the equity method		
Equity in earnings of subsidiaries	7,445,053	4,368,111
Goodwill from investment acquisition	68,016	70,556
Goodwill from expected future profitability	10,684	3,473
	7,523,753	**4,442,140**

b) Changes in investments evaluated through the equity method

	Balance at 12.31.2016	Capital increase	Capital decrease	Equity in earnings of subsidiaries	Dividends	Other comprehensive income	Balance at 12.31.2017
Itasa	**254,655**	-	-	10,788	(18,072)	-	**247,371**
CEE	**1,100,780**	-	-	135,154	(169,053)	-	**1,066,881**
Lages	**42,985**	-	-	17,784	(22,467)	-	**38,302**
EBC	**136,806**	-	-	162,391	(18,584)	-	**280,613**
ECP	**1,989,942**	648,617	(150,000)	260,810	(191,000)	14,418	**2,572,787**
Pampa Sul	**833,924**	875,826	-	73,644	-	(20,801)	**1,762,593**
Jaguara	**-**	854,319	-	16,292	(1,547)	-	**869,064**
Miranda	**-**	582,573	-	9,746	(926)	-	**591,393**
ECV	**4,403**	600	-	299	-	-	**5,302**
ENGIE Solar	**1,027**	8,012	-	(1,883)	-	-	**7,156**
Other	**3,589**	2	-	-	-	-	**3,591**
	4,368,111	**2,969,949**	**(150,000)**	**685,025**	**(421,649)**	**(6,383)**	**7,445,053**

	Balance at 1.1.2016	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 Sul	**362,389**	629,519	28,300	-	(186,284)	**833,924**
ECV	**-**	4,400	3	-	-	**4,403**
ENGIE Solar	**-**	3,859	(2,832)	-	-	**1,027**
Other	**1**	3,588	-	-	-	**3,589**
	3,645,624	**896,503**	**397,622**	**(287,674)**	**(283,964)**	**4,368,111**

Funds from the capital increase of ECP and Pampa in 2017 were mainly allocated to the construction of the Campo Largo Wind Power Complex, the Assú V Photovoltaic Plant and the Pampa Sul Thermal Power Plant.

The capital increases in Jaguara and Miranda were allocated to the payment of the bonus for concession grant of these hydroelectric plants, which were awarded in the Auction of Non-Extended Concessions, held by Aneel in September 2017.

The capital reimbursement occurred in 2017 at the subsidiary ECP was due to the release of financing by BNDES in 2017 for the four Specific Purpose Entities (SPEs) comprising the Santa Mônica Wind Complex, which had been funding the construction of their plants using their own capital until the financing was released.

b.1) Information on the main subsidiaries related to the fiscal year ended 12.31.2017

	Capital	Assets	Liabilities	Adjusted shareholders' equity	Net revenue	Adjusted net income (loss)	Interest (%)
Itasa	510,135	547,936	40,508	507,428	168,195	22,129	**48.75**
CEE	920,380	2,357,189	1,290,308	1,066,881	479,169	135,154	**99.99**
Lages	30,530	40,867	2,565	38,302	45,689	17,784	**99.99**
EBC	4,200	649,007	368,394	280,613	3,685,073	162,391	**99.99**
ECP	2,107,024	3,216,427	723,272	2,576,918	403,327	261,957	**99.99**
Pampa Sul	600,000	1,695,329	42,834	1,762,593	-	73,644	**99.99**
Jaguara	854,319	2,201,594	1,332,530	869,064	31,836	16,292	**99.99**
Miranda	582,573	1,378,898	787,505	591,393	19,520	9,746	**99.99**
ECV	5,000	5,306	4	5,302	-	299	**99.99**
ENGIE Solar	39	25,920	11,608	14,312	26,912	(3,766)	**50.00**

Non-controlling shareholder

The non-controlling interest of Ibitiúva in the shareholders' equity and the net income of ECP presented above is R$ 4,131 and R$ 1,147, respectively.

Capitalized interests

ENGIE Brasil Energia took out loans and debentures to finance the construction of the Campo Largo and Santa Mônica Wind Power Complexes and the Assú V Photovoltaic Power Plant, investments that are part of ECP, and of the Pampa Sul Thermal Power Plant, a project of Pampa Sul. The interest on these debts 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 2017, R$ 33,714 was capitalized in ECP and R$ 74,753 in Pampa Sul (R$ 35,000 and R$ 28,782 in 2016, respectively). In the year ended 12.31.2017, the amounts capitalized in the same subsidiaries were R$ 83,763 and R$ 110,098, respectively. In the table above, "Adjusted shareholders' equity" and "Adjusted net income (loss)" include the items described above.

c) Goodwill from investment acquisition – Parent company

This items substantially records "goodwill" (concession rights and acquired rights) paid in the acquisition of the direct 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 this period. In 2017 and 2016, the amortized amount was R$ 3,341.

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 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	12.31.2017	12.31.2016
ASSETS		
Current assets	36,070	33,763
Non-current assets		
Long-term assets	27,460	29,219
Property, plant and equipment	484,396	516,179
Intangible assets	10	8
TOTAL	**547,936**	**579,169**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities	37,036	53,781
Non-current liabilities	3,472	3,019
Shareholders' equity	507,428	522,369
TOTAL	**547,936**	**579,169**

STATEMENT OF INCOME FOR THE YEAR	12.31.2017	12.31.2016
NET OPERATING REVENUE	**168,195**	**172,263**
COSTS OF ENERGY SOLD	**(131,399)**	**(142,062)**
GROSS PROFIT	**36,796**	**30,201**
OPERATING EXPENSES		
Administrative and general expenses	(3,899)	(4,136)
INCOME BEFORE FINANCIAL INCOME (LOSS) AND TAXES	**32,897**	**26,065**
Financial result	**338**	**412**
INCOME BEFORE INCOME TAXES	**33,235**	**26,477**
Income tax and social contribution	(11,106)	(8,854)
NET INCOME FOR THE YEAR	**22,129**	**17,623**

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 Hydroelectric 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 S.A. (Alcoa Group) and Intercement Brasil S.A. (Camargo Corrêa Group), with respective shares of 30.00%, 25.49% and 4.44%. The consortium is led by CEE.

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

Lages is a thermal power plant located in the municipality of Lages, state of Santa Catarina, which makes use of a 28.0 MW steam turbogenerator powered by wood residue. The plant has the registration at the Executive Committee of the Clean Development Mechanism (MDL) of the United Nations Organization (ONU), 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 electricity in the ACR and ACL 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 in the ACL market are normally made through EBC.

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

Pampa Sul holds the Pampa Sul Thermal Plant, which is being installed in the municipality of Candiota, state of Rio Grande do Sul and will have installed capacity of 345.0 MW. In November 2014, Pampa Sul sold, in an auction held by Aneel, 294.5 average MW for a period of 25 years, to be delivered as from 1.1.2019. Construction of the Plant started in 2015 and commercial operation is scheduled to start in the first quarter of 2019. The Company is in an advanced stage of negotiations with BNDES to release a substantial portion of financing to finance the portion of the investment eligible for financing.

d.6) Companhia Energética Jaguara ("Jaguara")

Jaguara is the owner of the Jaguara Hydroelectric Power Plant, located in the city of Rifaina, São Paulo, with installed capacity of 424.0 MW. The Plant's concession for power generation under the regime of quotas was acquired by ENGIE Brasil Energia at the Auction of non-Extended Concessions held by Aneel on 9.27.2017. Further information is available in Note 10 – Concession financial asset.

d.7) Companhia Energética Miranda ("Miranda")

Miranda is the owner of the Miranda Hydroelectric Plant, located in the city of Indianópolis, Minas Gerais, with installed capacity of 408.0 MW. The Plant's concession for power generation under the regime of quotas was acquired by ENGIE Brasil Energia at the Auction of non-Extended Concessions held by Aneel on 9.27.2017. Further information is available in Note 10 – Concession financial asset.

d.8) ENGIE Comercializadora Varejista de Energia Ltda. ("ENGIE Varejista")

ENGIE Varejista's corporate purpose is the retail sale of electricity, including the purchase, wholesale or retail, and the retail sale and import of electricity. In December 2017, CCEE authorized the commercial operation of Engie Varejista.

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

d.9) 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 5.0 MW.

The acquisition was consummated through capital injections and was concluded in January 2018 for R$ 24,276.

d.10) 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 12.31.2017.

	Capital	Assets	Liabilities	Net Assets	Net Revenue	Net Income (loss)	Equity interest in the capital (%)
Tupan	80,379	89,849	1,801	88,048	21,169	17,724	99.99
Hidropower	33,393	55,960	8,310	47,650	19,677	15,258	99.99
Ibitiúva	38,501	132,629	48,510	84,119	32,540	22,941	95.00
Ferrari	87,640	212,534	72,530	140,004	95,660	60,997	99.99
EEN	186,483	604,066	313,950	290,116	116,217	41,961	99.99
EEC	249,485	566,399	303,942	262,457	93,951	14,832	99.99
CECL[12]	693,392	701,861	12,614	689,247	-	(2,302)	99.99
CESA[13]	1,355	534	47	487	-	(489)	99.99
Assú Project	201,869	211,013	9,111	201,902	603	251	99.99
Umburanas Project	177,800	176,818	15	176,803	-	(618)	99.99
Other	10	10	-	10	-	-	99.99

Further details on installed capacity and physical guarantee are included in Note 14 – Property, plant and equipment.

At 12.31.2017, 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$ 243,039 (R$ 366,075 at 12.31.2016), of which R$ 99,081 are related to the negative goodwill in the acquisition of the Umburanas Project.

- 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 Trairí 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 12.31.2017:

	Capital	Assets	Liabilities	Net Assets	Net Revenue	Net Income	Equity interest (%)
Trairí	36,554	110,356	62,653	47,703	26,170	8,713	99.99
Guajiru	40,068	129,197	73,620	55,577	32,275	12,593	99.99
Fleixeiras I	43,391	131,286	77,025	54,261	30,185	9,705	99.99
Mundaú	52,128	129,769	68,589	61,180	27,587	8,210	99.99

Further details on installed capacity and physical guarantee are included in Note 14 – Property, plant and equipment.

At 12.31.2017, 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$ 10,354 (R$ 10,939 at 12.31.2016).

- 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 12.31.2017 of the subsidiaries of EEC.

[12] Campo Largo Wind Power Complex.
[13] Santo Agostinho Wind Power Complex.

	Capital	Assets	Liabilities	Net Assets	Net Revenue	Net Income (Loss)	Equity interest (%)
Estrela	78,281	184,926	98,898	86,028	27,044	6,586	99.99
Cacimbas	38,316	99,639	57,505	42,134	21,192	1,945	99.99
Santa Mônica	38,490	100,499	54,991	45,508	22,102	6,040	99.99
Ouro Verde	79,447	173,850	91,258	82,592	23,613	470	99.99

Further details on installed capacity and physical guarantee are included in Note 14 – Property, plant and equipment.

At 12.31.2017, 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$ 6,348 on 12.31.2017 (R$ 6,551 on 12.31.2016).

All the farms in the Santa Mônica Wind Power Complex are operating commercially since the following dates: (i) Santa Mônica: October 2016; (ii) Cacimbas: three turbines in December 2016 and the other four turbines in January 2017; (iii) Estrela: March 2017; and (iv) Ouro Verde: April 2017.

- Campo Largo Wind Power Complex ("CECL")

CECL is formed by a set of wind power projects totaling an approximate development potential of 630.0 MW, all of which located in the cities of Umburanas and Sento Sé, Bahia, which will be developed in stages.

The Complex is composed of 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 and its subsidiaries for the period of 20 years starting 1.1.2019, to be generated by six wind farms, with total installed capacity of 178.2 MW. Another five wind farms of CECL, with total installed capacity of 148.5 MW and commercial capacity of approximately 70.0 average MW will be developed in this stage of the project.

- Santo Agostinho Wind Power Complex ("CESA")

In August 2014, the direct subsidiary ECP acquired the rights to develop CESA, located in the cities of Lajes and Pedro Avelino, Rio Grande do Norte, which is composed of 24 SPEs, each responsible for developing one wind power project, totaling 600.0 MW of potential installed capacity.

The process for acquisition of CESA was concluded in 2016. 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. So far, R$ 51,840 (corresponding to R$ 42,375 of the price upon the execution of the contract) was disbursed for the acquisition of the project.

- Assú Project

In November 2015, direct subsidiary 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, Rio Grande do Norte. Also in November 2015, ECP, through its direct 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 11.1.2018. On 12.26.2017, Aneel authorized the commercial operation of the Assú V Photovoltaic Plant.

- Umburanas Project

In August 2017, the Company acquired, through its direct subsidiary ECP, the entire capital of the companies comprising the Umburanas Project, in the state of Bahia. The Project is composed of the right to build and operate wind power potential with installed capacity of 605.0 MW, of which 360.0 MW should be implemented by mid-2019. The total installed capacity of 257.5 MW will be allocated to the ACL and the other 102.5 MW were sold in the ACR – Auction A-5/2014 conducted by Aneel. The remaining 245.0 MW will remain in the Company's portfolio for future development.

The operation was concluded on 11.24.2017, at the adjusted acquisition price of R$ 16,938, of which R$ 16,904 corresponds to the right to implement wind power potential, fully allocated to intangible assets.

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT

a) Breakdown

		Parent Company			
		12.31.2017			12.31.2016
	Average rate of depreciation	Adjusted cost	Accumulated depreciation	Net amount	Net amount
In service					
Reservoirs, dams and ducts	3.0%	5,086,548	(3,021,797)	2,064,751	2,203,596
Buildings and improvements	2.9%	1,523,726	(995,050)	528,676	564,765
Machinery and equipment	4.7%	7,059,454	(4,788,170)	2,271,284	2,204,840
Furniture and fixtures	6.3%	9,768	(5,882)	3,886	4,351
Vehicles	14.3%	3,146	(2,373)	773	993
Special obligations		(47,837)	-	(47,837)	(12,238)
		13,634,805	**(8,813,272)**	**4,821,533**	**4,966,307**
In progress					
Reservoirs, dams and ducts		4,151	-	4,151	1,380
Buildings and improvements		10,099	-	10,099	7,991
Machinery and equipment		188,972	-	188,972	248,420
Advances to suppliers		13,129	-	13,129	24,192
Acquisitions to be apportioned		5,919	-	5,919	28,282
		222,270	**-**	**222,270**	**310,265**
		13,857,075	**(8,813,272)**	**5,043,803**	**5,276,572**

	Average rate of depreciation	Consolidated 12.31.2017 Adjusted cost	Accumulated depreciation	Net amount	12.31.2016 Net amount
In service					
Reservoirs, dams and ducts	3.3%	7,070,044	(3,539,470)	3,530,574	3,741,964
Buildings and improvements	3.1%	1,837,298	(1,105,844)	731,454	768,052
Machinery and equipment	4.7%	9,824,789	(5,444,387)	4,380,402	4,044,356
Furniture and fixtures	6.3%	10,564	(6,220)	4,344	4,786
Vehicles	14.3%	4,636	(3,465)	1,171	1,517
Special obligations		(47,962)	-	(47,962)	(12,362)
		18,699,369	**(10,099,386)**	**8,599,983**	**8,548,313**
In progress					
Reservoirs, dams and ducts		113,713	-	113,713	74,415
Buildings and improvements		314,503	-	314,503	90,673
Machinery and equipment		1,291,572	-	1,291,572	469,269
Advances to suppliers		826,630	-	826,630	743,344
Acquisitions to be apportioned		531,707	-	531,707	268,884
		3,078,125	**-**	**3,078,125**	**1,646,585**
		21,777,494	**(10,099,386)**	**11,678,108**	**10,194,898**

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 1.1.2016	**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**
Additions	-	-	-	-	224,471	(37,374)	187,097
Capitalized interest and monetary variation	-	-	-	-	2,189	-	2,189
Impairment	-	-	(12,472)	-	-	-	(12,472)
Reversal of impairment	-	-	20,047	-	-	-	20,047
Transfers	(1,968)	5,420	309,392	36	(314,655)	1,775	-
Write-offs	-	-	(18,902)	(46)	-	-	(18,948)
Depreciation	(136,877)	(41,509)	(231,621)	(675)	-	-	(410,682)
Balance at 12.31.2017	**2,064,751**	**528,676**	**2,271,284**	**4,659**	**222,270**	**(47,837)**	**5,043,803**

	Consolidated						
	Reservoirs, dams and ducts	Buildings and improvements	Machinery and equipment	Other	Construction in progress	Special obligations	Total
Balance at 1.1.2016	**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)
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**
Additions	-	-	-	-	1,990,794	(37,375)	1,953,419
Capitalized interest and monetary variation	-	-	-	-	169,184	-	169,184
Impairment	-	(622)	(15,363)	(43)	-	-	(16,028)
Reversal of impairment	-	-	20,047	-	-	-	20,047
Held-for-sale asset	2,532	730	13,366	10	175	-	16,813
Transfers	1,481	17,428	707,744	185	(728,613)	1,775	-
Write-offs	-	-	(29,928)	(47)	-	-	(29,975)
Depreciation	(215,403)	(54,134)	(359,820)	(893)	-	-	(630,250)
Balance at 12.31.2017	**3,530,574**	**731,454**	**4,380,402**	**5,515**	**3,078,125**	**(47,962)**	**11,678,108**

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

	Parent Company				
	12.31.2017				12.31.2016
	Average rate of depreciation	Adjusted cost	Accumulated depreciation	Net amount	Net amount
Hydroelectric power plants	3.1%	10,363,869	(6,070,121)	4,293,748	4,416,110
Thermal power plants	6.8%	3,270,936	(2,743,151)	527,785	550,197
		13,634,805	**(8,813,272)**	**4,821,533**	**4,966,307**

	Consolidated				
	12.31.2017				12.31.2016
	Average rate of depreciation	Adjusted cost	Accumulated depreciation	Net amount	Net amount
Hydroelectric power plants	3.5%	13,602,123	(6,929,860)	6,672,263	6,863,498
Thermal power plants	6.8%	3,270,936	(2,743,151)	527,785	550,197
SHPP	4.3%	343,219	(133,362)	209,857	223,741
Biomass power plants	2.6%	489,441	(176,883)	312,558	348,408
Wind power plants	4.7%	993,650	(116,130)	877,520	562,469
		18,699,369	**(10,099,386)**	**8,599,983**	**8,548,313**

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 amounts of fully depreciated items, which make up the value of the cost and depreciation, at 12.31.2017 and 12.31.2016, were as follows:

	Parent Company		Consolidated	
	12.31.2017	12.31.2016	12.31.2017	12.31.2016
Reservoirs, dams and pipelines	488,655	408,240	488,655	408,240
Buildings and improvements	106,883	106,741	107,160	106,882
Machinery and equipment	2,174,865	1,954,584	2,199,647	1,966,303
Furniture and fixtures	1,473	1,224	2,229	1,970
Vehicles	1,367	1,212	1,912	1,755
	2,773,243	**2,472,001**	**2,799,603**	**2,485,150**

- Depreciation of assets comprising the Power Plants' Original Project

The Management of the Company, solely based on the interpretation of Law 8,987/95 and Decree 2,003/96, considers that there is no guarantee 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, these assets are depreciated 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 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 12.31.2017 and 12.31.2016 include the fair value adjustment, net of depreciation and write-offs, in the amounts of R$ 575,170 and R$ 627,253, respectively. The depreciation and write-offs over the amounts of fair value adjustment in the fiscal year ended at 12.31.2017 was R$ 52,083 (R$ 52,120 at 12.31.2016).

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 12.31.2017 was R$ 625,248 (R$ 659,596 at 12.31.2016) at the parent company, and R$ 984,227 (R$ 1,051,064 at 12.31.2016) in the consolidated.

g) Appropriation of financial charges

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

h) Impairment of assets

In 2017, the Company recognized impairment in the amounts of R$ 12,472, in the parent company and R$ 16,028 in the consolidated results, in addition to provisions for thermal power assets recognized in previous years.

Additionally, in 2017, there was a reversal of impairment and the recognition of the loss, in the amount of R$ 20,047, due to the sale of assets that were provisioned for.

i) Regulatory agency concessions and authorizations

i.1) Concessions of hydroelectric power plants

Concessions	Concession holder	Installed capacity (MW) [14]	Physical guarantee (avg. MW) [15]	Date of minutes	Expiration
Salto Santiago HPP	ENGIE Brasil Energia	1,420	733	9.28.1998	9.27.2028
Salto Osório HPP	ENGIE Brasil Energia	1,078	503	9.28.1998	9.27.2028
Passo Fundo HPP	ENGIE Brasil Energia	226	113	9.28.1998	9.27.2028
Itá HPP	ENGIE Brasil Energia /Itasa	1,450	741	12.28.1995	10.16.2030
Machadinho HPP	ENGIE Brasil Energia	1,140	547	7.15.1997	7.14.2032
Cana Brava HPP	ENGIE Brasil Energia	450	261	8.27.1998	8.26.2033
Ponte de Pedra HPP	ENGIE Brasil Energia	176	134	10.1.1999	9.30.2034
São Salvador HPP	ENGIE Brasil Energia	243	148	4.23.2002	4.22.2037
Estreito HPP	CEE	1,087	641	11.26.2002	11.26.2037
Jaguara HPP	Jaguara	424	341	11.10.2017	12.29.2047
Miranda HPP	Miranda	408	198	11.10.2017	12.29.2047

Itá HPP has physical guarantee of 740.5 average MW (720.0 average MW through 12.31.2017), of which, under the terms of the Consortium Contract, Itasa is entitled to 404.1 average MW and ENGIE Brasil Energia to 336.4 average MW. The Company, directly and indirectly, through Itasa, is entitled to 564.7 average MW (544.2 average MW through 12.31.2017) of the physical guarantee by the project.

The Company has, directly and indirectly, in the Machadinho and Estreito HPPs, the equivalent to 403.9 average MW and 165.3 average MW, and 435.6 average MW and 256.9 average MW of the Plants' installed capacity and physical guarantees, respectively, which correspond to their interest as shareholders or consortium members.

[14] As of 1.1.2018.

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

Authorizations	Authorization holder	Installed capacity (MW)[15]	Physical guarantee (avg. MW)[16]	Date of minutes	Expiration
Thermal power plants (TPP)					
Jorge Lacerda Thermal Complex	ENGIE Brasil Energia	857	650	9.25.1998	9.27.2028
Ibitiúva Bioenergética TPP	Consórcio Andrade[16]	33	20	4.5.2000	4.5.2030
Unidade de Cogeração Lages	Lages	28	11	10.29.2002	10.28.2032
Ferrari TPP	Ferrari Termoelétrica	80	36	7.27.2007	7.26.2042
TPP under construction					
Pampa Sul TPP	Pampa Sul	345	324	3.31.2015	3.30.2050
Small Hydro Power Plants (SHPP)					
Rondonópolis SHPP	Tupan	27	10	12.18.2002	12.18.2032
Engenheiro José Gelazio da Rocha	Hidropower	24	9	12.18.2002	12.18.2032
Wind Power Plants (WPP)					
Trairí WPP	Trairí	25	14	9.20.2011	9.28.2041
Guajiru WPP	Guajiru	30	18	9.20.2011	9.28.2041
Fleixeiras I WPP	Fleixeiras I	30	17	9.20.2011	9.26.2041
Mundaú WPP	Mundaú	30	15	9.20.2011	9.26.2041
Santa Mônica WPP	Santa Mônica SPE	19	10	1.20.2015	1.25.2045
Cacimbas I WPP	Cacimbas	19	10	1.27.2015	2.4.2045
Ouro Verde WPP	Santa Mônica SPE II	30	13	1.20.2015	1.22.2045
Estrela WPP	Trairí II	30	14	1.27.2015	2.4.2045
Tubarão P&D WPP	ENGIE Brasil Energia	2	N.A.	5.21.2015	N.A. [17]
WPP under construction					
Campo Largo III, IV, VI & VII	CLWP Eólicas	116	55	7.2.2015	7.2.2050
Campo Largo V & XXI	CLWP Eólicas	59	27	8.3.2015	8.3.2050
Campo Largo I, II, XV, XVI & XVIII	CLWP Eólicas	148	64	5.2.2017	5.2.2052
Umburanas WPP 1 & 5	Umburanas Eólicas	43	27	8.1.2014	8.1.2049
Umburanas WPP 2, 3, 9 & 10	Umburanas Eólicas	83	50	8.4.2014	8.4.2049
Umburanas WPP 6	Umburanas Eólicas	20	13	8.12.2014	8.12.2049
Umburanas WPP 8	Umburanas Eólicas	25	15	10.10.2014	10.10.2049
Umburanas WPP 11	Umburanas Eólicas	15	8	8.8.2014	8.8.2049
Umburanas WPP 13, 15, 16 &18	Umburanas Eólicas	73	44	8.21.2014	8.21.2049
Umburanas WPP 17	Umburanas Eólicas	22	13	7.2.2015	7.2.2050
Umburanas WPP 19, 21, 23 & 25	Umburanas Eólicas	80	44	8.3.2015	8.3.2050
Photovoltaic solar power plants					
Central Fotovoltaica Assú V	ENGIE Brasil Energia	30	9	6.7.2016	6.7.2051
Cidade Azul	ENGIE Brasil Energia	3	N.A.	4.10.2014	N.A.[18]

[15] As of 1.1.2018.

[16] Consortium members are: Ibitiúva Bioenergética S.A. (72.9%) and Andrade Açúcar e Álcool S.A. (27.1%).

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

The Company has 22.9 average MW and 13.9 average MW of the installed capacity and physical guarantee of Ibitiúva Bioenergética Power Plant, respectively, which corresponds to its interest as shareholders or consortium member.

Alegrete TPP, with installed capacity of 66.0 MW, had its authorization revoked in February 2014, and there is an ongoing process to return the Plant to the Federal Government. Additionally, the Company is in the process of demobilizing Charqueadas TPP, which has installed capacity of 72.0 MW, and is assessing the destination of the assets of William Arjona TPP, with installed capacity of 190.0 MW, which has been idle since the beginning of 2017.

Due to the expected divestment of the abovementioned assets, the Company recorded impairment in the amount of R$ 62,044 at 12.31.2017 to reflect probable losses on the sale of the assets of these plants.

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			
		12.31.2017			12.31.2016
	Amortization period	Adjusted cost	Accumulated amortization	Total	Total
Right to use	Until 2034	74,150	(43,327)	**30,823**	**20,838**

		Consolidated			
		12.31.2017			12.31.2016
	Amortization period	Adjusted cost	Accumulated amortization	Total	Total
Grant bonus - Jaguara	Until 2047	620,327	(3,535)	616,792	-
Grant bonus - Miranda	Until 2047	411,223	(2,327)	408,896	-
Right to use assets	Until 2037	98,189	(45,279)	52,910	39,054
Energy purchase right	Until 2023	64,561	(30,106)	34,455	40,471
Rights over Trairí Project	Until 2041	12,668	(2,314)	10,354	10,939
Rights over Santa Mônica Project	Until 2045	6,565	(158)	6,407	6,565
Rights over Campo Largo Project	-	87,606	-	87,606	81,392
Rights over Santo Agostinho Project	-	59,399	-	59,399	58,899
Rights over Umburanas Project	-	16,938	-	16,938	-
Rights over Assú Project	-	15,194	-	15,194	15,194
		1,392,670	**(83,719)**	**1,308,951**	**252,514**

a.1) Grant bonus

The difference between the amount paid as bonus for the grant and the amount recorded as concession financial asset, as mentioned in Note 10 – Concession financial asset, represents the right to use the infrastructure of the Jaguara and Miranda Hydroelectric Power Plants to generate and sell energy. This amount was recognized under intangible assets and is being amortized using the straight-line method over the term of the concession of the Plants.

a.2) Right over projects

Rights over the projects in the table above 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 1.1.2016	**17,262**	**243,323**
Addition	8,266	9,000
Fair value of acquired project rights	-	11,698
Non-current assets held for sale	-	(77)
Amortization	(4,690)	(11,430)
Balance at 12.31.2016	**20,838**	**252,514**
Addition	15,890	19,932
Grant bonus for Jaguara and Miranda	-	1,031,550
Fair value of acquired project rights	-	23,652
Amortization	(5,905)	(18,697)
Balance at 12.31.2017	**30,823**	**1,308,951**

c) Asset impairment

The Company evaluates, at least on an annual basis, the existence of events that may lead to intangible assets impairment losses. In 2017, were were no indications leading to the impairment of the intangible assets of the Company and its subsidiaries.

NOTE 16 – SUPPLIERS

	Parent Company		Consolidated	
	12.31.2017	12.31.2016	12.31.2017	12.31.2016
Electrical energy purchased	101,237	47,514	224,593	146,998
Transactions in the short-term market	-	11,071	272	17,586
Fossil fuels and biomass	207,315	48,371	208,220	49,545
Charges for the use of the power grid	34,632	34,624	42,228	41,966
Suppliers of materials and services	51,985	46,837	64,838	61,107
Suppliers of property, plant and equipment	13,603	23,360	77,245	53,947
	408,772	**211,777**	**617,396**	**371,149**

The balance of suppliers of fossil fuels and biomass in 2017 is primarily related to amounts payable for the purchase of fuel for thermal generation and to the final installment of the court agreement with the natural gas supplier to generate electricity, in the amount of R$ 109,437, which will be settled upon receipt of the amounts re-accounted by CCEE. Further details on the agreement are provided in Note 24 – Provisions.

NOTE 17 – LOANS AND FINANCING

a) Breakdown

	Parent Company					
	12.31.2017			12.31.2016		
	Current	Non-current	Total	Current	Non-current	Total
Measured at the amortized cost						
Local currency						
BNDES	82,329	183,875	266,204	73,033	240,842	313,875
Banks (BNDES onlending)	1,535	6,355	7,890	35,655	207,585	243,240
Nordic Investment Bank (NIB)	26,715	106,879	133,594	25,958	129,807	155,765
Financial charges	1,846	-	1,846	3,113	-	3,113
	112,425	**297,109**	**409,534**	**137,759**	**578,234**	**715,993**
Measured at fair value						
Foreign currency with hedge						
HSBC USA	-	328,916	328,916	-	-	-
Scotiabank	-	665,785	665,785	-	-	-
Bank of Tokyo	665,260	-	665,260	-	-	-
Financial charges	10,171	-	10,171	-	-	-
	675,431	**994,701**	**1,670,132**	**-**	**-**	**-**
Loans and financing	**787,856**	**1,291,810**	**2,079,666**	**137,759**	**578,234**	**715,993**

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

	Parent Company					
	12.31.2017			12.31.2016		
	Current	Non-current	Total	Current	Non-current	Total
Loans and financing	**787,856**	**1,291,810**	**2,079,666**	**137,759**	**578,234**	**715,993**
Effects of hedge (swap) in the balance sheet						
Long position [18]	(3,933)	(14,274)	(18,207)	-	-	-
Loans and financing, including hedge effects	**783,923**	**1,277,536**	**2,061,459**	**137,759**	**578,234**	**715,993**

	Consolidated					
	12.31.2017			12.31.2016		
	Current	Non-current	Total	Current	Non-current	Total
Measured at the amortized cost						
Local currency						
BNDES	197,456	1,356,046	1,553,502	168,221	1,184,886	1,353,107
Banks (BNDES onlending)	40,548	410,156	450,704	77,045	686,388	763,433
Nordic Investment Bank (NIB)	26,715	106,880	133,595	25,958	129,807	155,765
Banco do Brasil	-	-	-	3,305	-	3,305
Financial charges	8,008	-	8,008	8,667	-	8,667
	272,727	**1,873,082**	**2,145,809**	**283,196**	**2,001,081**	**2,284,277**
Measured at fair value						
Foreign currency with hedge						
HSBC USA	-	328,916	328,916	-	-	-
Scotiabank	-	665,785	665,785	-	-	-
Bank of Tokyo	665,260	-	665,260	-	-	-
Financial charges	10,171	-	10,171	-	-	-
	675,431	**994,701**	**1,670,132**	**-**	**-**	**-**
Loans and financing	**948,158**	**2,867,783**	**3,815,941**	**283,196**	**2,001,081**	**2,284,277**

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

	Consolidated					
	12.31.2017			12.31.2016		
	Current	Non-current	Total	Current	Non-current	Total
Loans and financing	**948,158**	**2,867,783**	**3,815,941**	**283,196**	**2,001,081**	**2,284,277**
Effects of hedge (swap) in the balance sheet						
Long position[19]	(3,933)	(14,274)	(18,207)	-	-	-
Loans and financing, including hedge effects	**944,225**	**2,853,509**	**3,797,734**	**283,196**	**2,001,081**	**2,284,277**

[18] The long position of the hedge is presented as part of the item "Unrealized gain from hedge operations"
[19] The long position of the hedge is presented as part of the item "Other current assets" and "Other non-current assets"

b) Changes in loans and financings

	Parent Company			Consolidated		
	Current	Non-current	Total	Current	Non-current	Total
Balance at 1.1.2016	**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	65,411	-	65,411	135,536	-	135,536
Monetary variation	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	(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)	-
Loans from held-for-sale subsidiaries	-	-	-	(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**
Additions	664,034	992,263	1,656,297	679,693	1,271,789	1,951,482
Interest	57,944	-	57,944	98,245	-	98,245
Monetary variation	2,063	7,398	9,461	3,857	25,195	29,052
Capitalized interest and monetary variation	871	-	871	110,323	-	110,323
Exchange variation	5,627	11,420	17,047	5,627	11,420	17,047
Adjustment to fair value	3,820	8,161	11,981	3,820	8,161	11,981
Transfers	305,666	(305,666)	-	463,939	(463,939)	-
Loans from held-for-sale subsidiaries	-	-	-	(1,044)	14,076	13,032
Principal amortization	(340,525)	-	(340,525)	(505,399)	-	(505,399)
Interest payment	(49,403)	-	(49,403)	(194,099)	-	(194,099)
Balance at 12.31.2017	**787,856**	**1,291,810**	**2,079,666**	**948,158**	**2,867,783**	**3,815,941**

c) Main transactions in 2017

c.1) Financing operations in domestic currency

The Company signed a contract with BNDES for R$353,515 to finance the construction of the Santa Mônica Wind Power Complex. Over the course of 2017, BNDES released a part of the funds amounting to R$295,319, net of funding costs.

On 8.11.2017, BNDES released R$ 25,346, net of funding costs, related to the portion of financing contracted in 2014, allocated to the modernization of the Salto Santiago and Passo Fundo Hydroelectric Power Plants.

c.2) Loans in foreign currency with hedge

In 2017, the Company contracted U.S. dollar-denominated loans totaling US$ 500,000, equivalent to R$ 1,631,280 (R$ 1,630,817, net of funding costs and adjustment related to the initial recognition at fair value). The proceeds were used mainly to refinance maturing debt and to implement the Company's business plan – substantially, capital injection at the subsidiaries Jaguara and Miranda for the payment of the bonus for concession grant.

In order to hedge all its future payment flows against fluctuation in the U.S. dollar, the Company contracted swap operations with Brazilian subsidiaries of the same lending financial institutions extending the loans, for the same amounts and maturities of interests and principal.

c.3) Early debt settlement

In December 2017, the Company settled in advance the financing operations related to the São Salvador Hydroelectric Power Plant and CTJL obtained from BNDES Transfer Banks, in the amounts of R$ 246,679 and R$ 9,404, respectively.

d) Breakdown of debt by index and currency

	Parent Company				Consolidated			
	12.31.2017	%	12.31.2016	%	12.31.2017	%	12.31.2016	%
Local currency								
TJLP	267,167	12.8	540,711	75.5	1,994,636	52.3	2,092,637	91.6
IPCA	134,470	6.5	156,829	21.9	134,470	3.5	156,829	6.9
Not indexed	7,897	0.4	18,453	2.6	16,703	0.4	34,811	1.5
	409,534	**19.7**	**715,993**	**100.0**	**2,145,809**	**56.2**	**2,284,277**	**100.0**
Foreign currency								
U.S. dollar – with hedge for CDI	1,001,126	48.1	-	-	1,001,126	26.3	-	-
U.S. dollar – with hedge for IPCA	669,006	32.2	-	-	669,006	17.5	-	-
	1,670,132	**80.3**	**-**	**-**	**1,670,132**	**43.8**	**-**	**-**
Loans and financing	**2,079,666**	**100.0**	**715,993**	**100.0**	**3,815,941**	**100.0**	**2,284,277**	**100.0**

e) Interest rates and foreign currency variation

	2017	2016
TJLP	7.1%	7.5%
CDI	9.9%	14.1%
IPCA	3.0%	6.2%
U.S. dollar	1.5%	-16.8%

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

	Parent Company	Consolidated
2019	113,741	265,045
2020	408,740	556,196
2021	44,658	185,267
2022	710,726	847,912
2023	13,937	151,123
2024 to 2028	8	685,936
2029 to 2033	-	176,304
Loans and financing	**1,291,810**	**2,867,783**

g) Main contracted loan conditions

Company/Bank	Interest	Payment Conditions		Balance at 12.31.2017
		Maturity	Principal and interest	
Parent Company:				
Local currency				
BNDES – Modernization	TJLP + 2.26% p.a. [a]	7.2020	Monthly	170,749
BNDES –São Salvador Power Plant	TJLP + 2.7% p.a. [a]	10.2023	Monthly	96,418
Nordic Investment Bank	IPCA + 3.55% p.a.	10.2022	Principal: Monthly Interest: Quarterly	134,470
Finame Onlending (Banks)	3.68% p.a.	11.2024	Monthly	7,897
Foreign currency (USD)				
HSBC USA VI	8.459% p.a. with swap to 103% of CDI	10.2020	Principal: 10.2020 Interest: Semiannually	333,652
Scotiabank	3.3710% p.a. with swap to IPCA + 5.2% p.a.	11.2022	Principal: 11.2022 Interest: Semiannually	669,006
Bank of Tokyo II	1.9429% p.a. with swap to 101.4% of CDI (from 10.30.2017 to 4.18.2018) 2.0571% p.a. with swap to 101.4% of CDI (from 4.18.2018 to 10.18.2018)	10.2018	Principal: 10.2018 Interest: Semiannually	667,474
Subsidiaries:				
Companhia Energética Estreito				
BNDES – Social Credit	TJLP	6.2018	Monthly	2,829
BNDES	TJLP + 1.89% p.a. [a]	9.2029	Monthly	644,480
BNDES Onlending (Banks) [b]	TJLP + 2.95% p.a. [a]	9.2029	Monthly	437,600
Ibitiúva				
BNDES (Subcredit B)	4.5% p.a.	1.2020	Monthly	8,806
BNDES (Subcredit A and C)	TJLP + 2.05% p.a. [a]	1.2021	Monthly	11,371
Ferrari				
BNDES	TJLP + 1.91% p.a. [a]	6.2021	Monthly	15,239
BNDES Expansion	TJLP + 1.76% p.a. [a]	7.2032	Monthly	40,806
Banks (BNDES Onlending) [b]	TJLP + 3.40% p.a. [a]	6.2021	Monthly	6,650
Trairí Project [c]				
BNDES – Social Credit	TJLP	7.2029	Monthly	1,421
BNDES	TJLP + 2.51% [a]	7.2029	Monthly	273,902
Santa Mônica Project[d]				
BNDES	TJLP + 2.18% [a]	5.2033	Monthly	293,171

[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.
[d] Financing of the Santa Mônica Project, composed of the following companies: Santa Mônica, Cacimbas, Estrela and Ouro Verde.

h) 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 3 months of debt service; (d) reserve account at amount equivalent to 3 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 Participações.

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

- **Financing of São Salvador Hydroelectric Plan:** bank guarantee.

- **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.

There are no guarantees for loans in foreign currencies.

i) 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	Parent Company: Net debt/EBITDA ≤ 3.5
BNDES – São Salvador Hydroelectric Plan	Consolidated: Net debt/EBITDA ≤ 4.5
HSBC USA, Scotiabank and Bank of Tokyo	Consolidated: EBITDA/Financial expenses ≥ 2.0 Consolidated: Gross debt/EBITDA ≤ 4.5
Subsidiaries	
BNDES and Banks (BNDES onlending)	Debt service coverage ratio[20] ≥ 1.2 or ≥ 1.3, depending on the subsidiary Net Debt/EBITDA ≤ 3.5
BNDES Expansion	Total debt ratio ≤ 0.80
BNDES - Ibitiúva	Debt service coverage ratio ≥ 1.3

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

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

NOTE 18 – DEBENTURES AND PROMISSORY NOTES

a) Breakdown

	Parent Company		Consolidated	
	12.31.2017	12.31.2016	12.31.2017	12.31.2016
Debentures	830,564	804,455	830,564	804,455
Promissory notes	-	-	2,109,911	-
	830,564	**804,455**	**2,940,475**	**804,455**
Classification in the balance sheet				
Current liabilities	17,849	16,547	2,127,760	16,547
Non-current liabilities	812,715	787,908	812,715	787,908
	830,564	**804,455**	**2,940,475**	**804,455**

b) Changes in debentures and promissory notes

	Parent Company			Consolidated		
	Current	Non-current	Total	Current	Non-current	Total
Balance at 1.1.2016	**489**	**180,947**	**181,436**	**489**	**180,947**	**181,436**
Issue of debentures	-	585,784	585,784	-	585,784	585,784
Interest	23,795	-	23,795	9,240	-	9,240
Monetary variation	359	14,516	14,875	359	7,695	8,054
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 12.31.2016	**16,547**	**787,908**	**804,455**	**16,547**	**787,908**	**804,455**
Issue of promissory notes	-	-	-	2,096,112	-	2,096,112
Interest	51,617	-	51,617	25,627	-	25,627
Monetary variation	595	22,324	22,919	595	4,570	5,165
Capitalized interest and monetary variation	763	555	1,318	40,552	18,309	58,861
Transfers	(1,928)	1,928	-	(1,928)	1,928	-
Payment of interests	(49,745)	-	(49,745)	(49,745)	-	(49,745)
Balance at 12.31.2017	**17,849**	**812,715**	**830,564**	**2,127,760**	**812,715**	**2,940,475**

On 11.27.2017, the direct subsidiaries Jaguara and Miranda issued promissory notes, in a single series, for public distribution with restricted placement efforts, at the par value of R$ 5,000, totaling R$ 1,320,000 and R$ 780,000, respectively. The proceeds from the issues, in the amount of R$ 2,096,112, net of funding costs, were allocated to the payment of the grant bonus, in accordance with Auction 001/2017 held by Aneel.

The promissory notes are guaranteed by surety tendered by the parent company ENGIE Brasil Energia, covering all the principal and ancillary obligations.

The Company is assessing the issue of long-term debt in the capital markets and financial institutions in order to refinance these promissory notes.

c) Main conditions contracted

	Quantity	Remuneration	Payment Conditions		Guarantee
			Charges	Principal	
Debentures					
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 – first series	246,600	IPCA + 6.2621% p.a.	Annually in July	3 annual installments as of 7.2021	Without guarantee
6th Issuance – second series	353,400	IPCA + 6.2515% p.a.	Annually in July	3 annual installments as of 7.2024	Without guarantee
Promissory notes					
1st Issuance - single series	421	104.9% p.a. over Δ DI Rate	11.2018	11.2018	Guarantee – EBE

d) Maturities of debentures recorded under non current liabilities

	Parent Company and Consolidated
2021	77,996
2022	150,698
2023	151,045
2024 to 2028	432,976
Debentures	**812,715**

e) Contractual covenants

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

The covenants of the debentures are being fully met by the Company and the promissory notes do not contain financial covenants.

NOTE 19 – CONCESSIONS PAYABLE

a) Breakdown

	Parent Company		Consolidated	
	12.31.2017	12.31.2016	12.31.2017	12.31.2016
Cana Brava Hydroelectric Power Plant	1,035,551	950,283	1,035,551	950,283
Ponte de Pedra Hydroelectric Power Plant	875,569	814,472	875,569	814,472
São Salvador Hydroelectric Power Plant	535,274	530,211	535,274	530,211
Estreito Hydroelectric Power Plant	-	-	53,005	52,410
	2,446,394	**2,294,966**	**2,499,399**	**2,347,376**
Classification in the balance sheet				
Current liabilities	61,367	59,907	67,051	65,408
Non-current liabilities	2,385,027	2,235,059	2,432,348	2,281,968
	2,446,394	**2,294,966**	**2,499,399**	**2,347,376**

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 General Market Price Index - 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	3,797	3,466	17,255
From 8.1.2023 to 7.31.2033	61,280	612,800	271,127	2,711,274
		616,597		**2,728,529**
Ponte de Pedra Hydroelectric Plant				
Until 9.30.2019	200	350	782	1,358
From 10.1.2019 to 9.30.2020	16,200	16,200	63,288	63,288
From 10.1.2020 to 9.30.2034	31,109	435,531	121,534	1,701,483
		452,081		**1,766,129**
São Salvador Hydroelectric Plant				
Until 4.30.2037	20,000	**388,333**	60,308	1,180,819
Estreito Hydroelectric Plant				
Until 12.31.2037	1,960	**39,368**	5,962	119,106

c) Changes

	Parent Company			Consolidated		
	Current	Non-current	Total	Current	Non-current	Total
Balance at 1.1.2016	**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**
Interest	-	212,093	212,093	-	217,146	217,146
Monetary variations	-	2,095	2,095	-	3,596	3,596
Transfers	64,220	(64,220)	-	70,362	(70,362)	-
Amortizations	(62,760)	-	(62,760)	(68,719)	-	(68,719)
Balance at 12.31.2017	**61,367**	**2,385,027**	**2,446,394**	**67,051**	**2,432,348**	**2,499,399**

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

	Parent Company	Consolidated
2019	69,266	74,403
2020	113,390	118,059
2021	137,287	141,531
2022	126,131	129,990
2023	437,378	440,886
2024 to 2028	967,508	980,803
2029 to 2033	495,645	503,897
2034 to 2038	38,422	42,779
	2,385,027	**2,432,348**

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 following risk factors:

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 2017, 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, 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, part 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, for agreements entered into by 12.31.2017, 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 12.31.2017, 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	
	12.31.2017	12.31.2016	12.31.2017	12.31.2016
Long (short) position				
Fair value hedge on loans	18,207	-	18,207	-
Cash flow hedge on obligations	-	-	(1,944)	(18,931)
Net position	**18,207**	**-**	**16,263**	**(18,391)**
Classification in the balance sheet				
Current assets[21]	3,933	-	3,933	1,490
Non-current assets[22]	14,274	-	14,274	1,965
Current liabilities[23]	-	-	(1,944)	(21,846)
	18,207	**-**	**16,263**	**(18,391)**

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 U.S. dollars, 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.

At 12.31.2017, the amounts of loans and swaps valued at cost amortzed and at fair value are:

Financial instrument	Notional value	Principal maturity	Interest payments	Interest rates[24]	Amortized cost	Fair value adjustment	Book balance
HSBC USA	US$ 100,000	10.2020	Semiannual	8.459% p.a.	329,776	3,876	333,652
Swap	R$ 325,0800	10.2020	Semiannual	103.0% of CDI	(328,853)	(169)	(329,022)
Bank of Tokyo	US$ 200,000	10.2018	Quarterly	1.9429% p.a. (through 4.18.2018) 2.0571% p.a. (4.18 to 10.18.2018)	663,654	3,820	667,474
Swap	R$ 656,020	10.2018	Quarterly	101.4% of CDI	(663,435)	235	(663,200)
Scotiabank	US$ 200,000	11.2022	Semiannual	3.3710% p.a.	664,720	4,286	669,006
Swap	R$ 650,180	11.2022	Semiannual	105.75% of CDI	(656,535)	(7,248)	(663,783)
Itaú Unibanco	R$ 650,180			105.75% of CDI	656,635	-	656,635
Swap	R$ 650,180	11.2022	Semiannual	IPCA + 5.2% p.a.	(658,001)	5,446	(652,555)
Swap result					**7,961**	**10,246**	**18,207**

[21] Presented under "Other current assets".
[22] Presented under "Other non-current assets".
[23] Presented under "Other current liabilities"
[24] Interest rates include the income tax rate of 15% on remittances abroad

Changes in fair value hedge operations on loans

	Parent Company and Consolidated		
	Current	Non-Current	Total
Assets at 1.1.2016	**488,802**	**-**	**488,802**
Interest	(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	**-**	**-**	**-**
Interest	(5,749)	(3,337)	(9,086)
Exchange variation	5,627	11,420	17,047
Fair value adjustment	4,055	6,191	10,246
Assets at 12.31.2017	**3,933**	**14,274**	**18,207**

a.2.2) Cash flow hedge operations

As at 12.31.2017, 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 Pampa Sul TPP.

The notional value of said NDF operations on the date hereof is US$ 57,091, which are contracted with Bradesco, Citibank and Itaú, and mature up to December 2018.

At 12.31.2017, unrealized losses with NDF operations totaled a liability of R$ 1,944 (long position of R$ 3,455 and short position of R$ 21,846 at 12.31.2016). The corresponding entry for this unrealized loss is recognized directly to shareholders' equity under "Other comprehensive income (loss)", net of deferred income tax and social contribution, in the amount of R$ 1,283. In addition, an amount of R$ 1,191 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 gains, net of impacts from deferred income tax and social contribution, incurred in 2017, were R$ 10,855 (unrealized losses of R$ 288,746 at 12.31.2016) 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, promissory notes, concessions payable and concession financial asset exposed to interest rate variation risks and floating rate risks.

The probable basic scenario for 2018 was defined using the following assumptions available in the market (Source: Central Bank of Brazil, Focus Market Readout).

Variation of interest rates and indices:	Change 2017	Probable Scenario 2018	Sensitivity		
			Probable	Δ + 25% (*)	Δ + 50% (*)
Risk of increase in interest rates and indices					
TJLP	7.1%	7.0%	-0.1 p.p.	1.8 p.p.	3.5 p.p.
CDI	9.9%	6.8%	-3.1 p.p.	1.7 p.p.	3.4 p.p.
IPCA	3.0%	3.9%	0.9 p.p.	1.0 p.p.	2.0 p.p.
IGP-M	-0.5%	4.5%	5.0 p.p.	1.1 p.p.	2.3 p.p.
Risk of decrease in interest rates and indices					
IPCA	3.0%	3.9%	0.9 p.p.	-1.0 p.p.	-2.0 p.p.

(*) Variations on probable scenario for 2018.

The probable sensitivity was calculated based on the variation of indices in 2017 and those expected for 2018, and showed any additional impacts in the Company's profit or loss. The other sensitivities shown were calculated based on the variation of 25% and 50% on the probable scenario for 2018. Variations that could impact the consolidated financial result, and consequently the consolidated shareholders' equity in 2018 compared to 2017 if the scenarios materialize are the following:

	Balance at 12.31.2017	Sensitivity		
		Probable	Δ + 25%	Δ + 50%
Risk of increase (liability)				
Loans and financing				
TJLP	1,994,636	2,358	(33,252)	(67,000)
CDI (Loans with swap to CDI rate)	1,001,126	26,120	(14,392)	(28,867)
IPCA (Loans with swap to IPCA rate)	669,006	(6,447)	(6,616)	(13,232)
IPCA	134,470	(1,151)	(1,181)	(2,361)
		20,880	**(55,441)**	**(111,460)**
Debentures				
IPCA	830,564	**(8,339)**	**(8,557)**	**(17,113)**
Promissory notes				
CDI	2,109,911	**62,055**	**(34,308)**	**(69,138)**
Concessions payable				
IGP-M	1,911,120	(99,971)	(22,405)	(44,811)
IPCA	588,279	(5,421)	(5,536)	(11,072)
		(105,392)	**(27,941)**	**(55,883)**
Risk of decrease (asset)				
Concession financial asset				
IPCA	2,547,367	**24,492**	**(25,705)**	**(51,411)**
Total		**(6,304)**	**(151,952)**	**(305,005)**

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 – net of hedging effects, financing, debentures and promissory notes less cash, cash equivalents and escrow deposits linked to debt) and shareholders' equity, which includes capital reserves and profit reserves. The ratio of net debt to shareholders' equity is presented below:

	Parent Company		Consolidated	
	12.31.2017	12.31.2016	12.31.2017	12.31.2016
Debt[25]	2,892,023	1,520,448	6,738,209	3,088,732
(-) Deposits pegged to debt service	(9,095)	(8,406)	(225,516)	(180,183)
(-) Cash and cash equivalents	(1,305,015)	(1,175,259)	(1,930,070)	(1,815,340)
Net debt	**1,577,913**	**336,783**	**4,582,623**	**1,093,209**
Shareholders' equity	**6,830,594**	**6,611,227**	**6,834,725**	**6,614,394**
Net debt	**0.2**	**0.1**	**0.7**	**0.2**

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.

[25] Composed of loans – net of hedge impacts, financing, debentures and promissory notes.

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 12.31.2017, 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.

As already mentioned previously, the only hedge operations contracted by the Company were the following: (i) swap operations to hedge the payment of principal and interest of U.S. dollar-denominated loans; (ii) 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 12.31.2017. 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	408,772	-	-	-	408,772
Post-fixed interest rates:					
Loans and financing[26]	884,879	649,302	822,880	14,258	2,371,319
Debentures	51,201	103,145	336,269	674,756	1,165,371
Fixed interest rates:					
Loans and financing	1,719	3,318	3,162	225	8,424
Concessions payable	64,546	221,959	370,770	5,018,202	5,675,477
	1,411,117	**977,724**	**1,533,081**	**5,707,441**	**9,629,363**

	Consolidated				
	Up to 1 year	From 2 to 3 years	From 4 to 5 years	Over 5 years	Total
Suppliers	617,396	-	-	-	617,396
Post-fixed interest rates:					
Loans and financing[27]	1,170,912	1,177,827	1,288,440	1,330,155	4,967,334
Debentures and promissory notes	2,300,147	103,145	336,269	674,756	3,414,317
Fixed interest rates:					
Loans and financing	6,246	8,007	3,162	225	17,760
Concessions payable	70,508	233,817	382,627	5,107,630	5,794,583
	4,165,209	**1,522,796**	**2,010,498**	**7,112,766**	**14,811,390**

The concession financial asset of the Jaguara and Miranda Hydroelectric Power Plants is not subject to liquidity risk, since it is related to the portion of energy allocated to the ACR, in the Physical Guarantee Quota System, whose payment is guaranteed by the Concession Authority.

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 physical guarantee, may result in an exposure of the Company to the short-term energy market, which may 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 ACR. For more information, see Note 9 – Renegotiation of hydrological risk to appropriate.

[26] Including hedge effects
[27] Net of hedge effects

At 1.1.2018, the physical guarantee of the Company's hydroelectric plants totaled 3,417.7 average MW. The aforementioned agreement renegotiated 1,344.5 average MW, of which 1,243.7 average MW, approximately 92.5%, are hedged against hydrological risk. The portion of the Jaguara and Miranda Hydroelectric Plants allocated to the ACR - 377.4 average MW – is guaranteed by the Concession Authority and is also hedged against this risk. See Note 10 - Concession financial asset.

To reduce the exposure to short-term market fluctuations, ENGIE Brasil Energia maintains a large part of its energy portfolio contracted in the long term. In the free market, the Company gradually sells the available energy at attractive prices and also to minimize the risk of exposure to spot prices (PLD). Therefore, the sale is concluded as the market appears to be more inclined to purchases. Additionally, due to the constant deficit of hydroelectric generation in recent years, the Company chose to leave most of its commercial capacity not contracted in the spot market and, when necessary or attractive, to acquire energy from third parties to replenish its own resources.

f) Category and fair value of financial instruments

	Parent Company		Consolidated	
	12.31.2017	12.31.2016	12.31.2017	12.31.2016
Financial assets				
Measured at fair value through profit or loss				
Marketable securities	1,302,684	1,173,841	1,908,261	1,803,333
Receivables and loans				
Cash and bank deposits	2,331	1,418	21,809	12,007
Trade accounts receivable	689,885	505,348	1,058,469	824,079
Dividends receivable from subsidiaries	30,550	167,202	-	-
Fuel reimbursable[28]	44,089	49,472	44,089	49,472
Restricted deposits	20,297	10,985	246,912	194,528
Concession financial asset	-	-	2,547,367	-
Hedge operations				
Fair value hedge on loans	18,207	-	18,207	-
Cash flow hedge on obligations	-	-	-	3,455
	2,108,043	**1,908,266**	**5,845,114**	**2,886,874**
Financial liabilities				
Financial liabilities assessed at amortized cost:				
Suppliers	408,772	211,777	617,396	371,149
Dividends and interest on equity	1,300,237	371,478	1,300,516	372,040
Loans and financing	409,534	715,993	2,145,809	2,284,277
Debentures and promissory notes	830,564	804,455	2,940,475	804,455
Concessions payable	2,446,394	2,294,966	2,499,399	2,347,376
Liabilities linked to investment acquisition [29]		-	21,146	43,068
Measured at fair value through profit or loss				
Loans and financing	1,670,132	-	1,670,132	-
Hedge operations				
Cash flow hedge on obligations	-	-	1,944	21,846
	7,065,633	**4,398,669**	**11,196,817**	**6,244,211**

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).

[28] Presented under "Other current assets"

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

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 promissory notes, 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			
	12.31.2017		12.31.2016	
	Book	Market	Book	Market
Loans and financing in local currency	409,534	411,432	715,993	728,513
Debentures	830,564	844,201	804,455	841,565
Concessions payable	2,446,394	3,036,163	2,294,966	2,901,915
	3,686,492	**4,291,796**	**3,815,414**	**4,471,993**

	Consolidated			
	12.31.2017		12.31.2016	
	Book	Market	Book	Market
Loans and financing in local currency	2,145,809	2,156,600	2,284,277	2,450,271
Debentures and promissory notes	2,940,475	2,957,676	804,455	841,565
Concessions payable	2,499,399	3,102,350	2,347,376	2,967,320
	7,585,683	**8,216,626**	**5,436,108**	**6,259,156**

NOTE 21 – INCOME TAX AND SOCIAL CONTRIBUTION PAYABLE

	Parent Company		Consolidated	
	12.31.2017	12.31.2016	12.31.2017	12.31.2016
Income tax	146,410	82,763	155,502	101,779
Social Contribution	26,707	17,893	33,148	26,279
	173,117	**100,656**	**188,650**	**128,058**
(-) Taxes recoverable	(6,771)	(46,446)	(7,299)	(47,035)
	166,346	**54,210**	**181,351**	**81,023**

NOTE 22 – OTHER TAX AND REGULATORY OBLIGATIONS

	Parent Company		Consolidated	
	12.31.2017	12.31.2016	12.31.2017	12.31.2016
PIS and Cofins	29,032	25,599	38,822	29,220
INSS	5,347	5,321	7,831	6,206
ICMS	1,426	2,662	22,502	21,021
ISSQN[30]	889	805	1,936	1,256
Royalties [31]	18,532	27,177	21,038	30,942
Inspection fee	1,161	1,187	1,415	1,438
Other	2,099	2,003	2,236	2,166
	58,486	**64,754**	**95,780**	**92,249**
(-) Federal and state taxes recoverable	(1,847)	(3,384)	(2,112)	(3,617)
	56,639	**61,370**	**93,668**	**88,632**

NOTE 23 – LABOR LIABILITIES

	Parent Company		Consolidated	
	12.31.2017	12.31.2016	12.31.2017	12.31.2016
Provision for profit sharing and bonuses	59,964	56,302	59,963	59,065
Provision for vacation	22,734	19,895	24,003	20,812
Payroll and social charges	4,377	8,462	4,873	8,878
Provision for voluntary termination expenses	4,337	4,505	4,337	4,505
Other	1,703	1,491	1,703	1,493
	93,115	**90,655**	**94,879**	**94,753**

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) in 2016.

[30] Taxes on services of any nature.

[31] 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	
	12.31.2017	12.31.2016	12.31.2017	12.31.2016
Civil				
Fuel purchase	-	209,960	-	209,960
Expropriations and administrative servitude	35,019	31,817	35,019	31,817
Retirement benefits	2,603	17,425	2,603	17,425
Environmental	10,797	10,170	10,797	10,170
Sundry lawsuits	14,905	14,916	21,696	20,138
	63,324	**284,288**	**70,115**	**289,510**
Tax	**6,812**	**6,929**	**7,137**	**7,270**
Labor	**10,860**	**10,806**	**11,122**	**10,948**
Divestment of generation assets	**1,000**	**19,379**	**1,000**	**19,379**
	81,996	**321,402**	**89,374**	**327,107**
Classification in the balance sheet				
Current liabilities	10,647	34,020	11,651	35,001
Non-current liabilities	71,349	287,382	77,723	292,106
	81,996	**321,402**	**89,374**	**327,107**

a.1) Fuel purchase

In 2017, due to a consent order, the Company reversed the provision related to the fuel purchase suit to discuss the difference in the natural gas price during the period from September 2014 to June 2017. Concurrently with the reversal of the provision, the cost of fuel provided in the agreement was recognized, in the amount of R$ 355,536, eliminating most of the effects of this additional cost on the company's operating results.

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.

In the third quarter of 2017, the Company, alongside ELOS, signed an agreement with 10 plaintiffs. As a result, the Company reversed R$ 15,613, of which R$ 4,353 was related to the agreement and R$ 11,260 was due to a provision above the agreed amount. The lawsuit is in court, with 3 participants still remaining.

a.4) Divestment of generation assets

In December 2017, the Company signed an agreement to sell the assets of the Charqueadas Thermal Power Plant, whereby the contracted company would be responsible for disassembling, removing and transporting the Plant's assets and, on consideration, be entitled to any financial benefits from the sale of the assets. Due to this beneficial agreement to the Company, a substantial portion of the future costs initially estimated from the sale of the assets was reversed in 2017.

b) Change in provisions

	Parent Company				
	Civil	Tax	Labor	Divestment	Total
Balance at 1.1.2016	**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)
Reversals from revision	(1,948)	(1,056)	-	-	(3,004)
Balance at 12.31.2016	**284,288**	**6,929**	**10,806**	**19,379**	**321,402**
Additions	52	-	-	-	52
Restatements	14,443	458	900	-	15,801
Payments	(224,192)	-	(345)	(3,863)	(228,400)
Reversal from revision	(11,267)	(575)	(501)	(14,516)	(26,859)
Balance at 12.31.2017	**63,324**	**6,812**	**10,860**	**1,000**	**81,996**

	Consolidated				
	Civil	Tax	Labor	Divestment	Total
Balance at 1.1.2016	**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)
Reversals from revision	(2,054)	(1,058)	(753)	-	(3,865)
Other	(181)	-	-	-	(181)
Balance at 12.31.2016	**289,510**	**7,270**	**10,948**	**19,379**	**327,107**
Additions	1,226	6	120	-	1,352
Restatements	14,846	553	900	-	16,299
Payments	(224,308)	-	(345)	(3,863)	(228,516)
Reversal from revision	(11,267)	(692)	(501)	(14,516)	(26,976)
Other	108	-	-	-	108
Balance at 12.31.2017	**70,115**	**7,137**	**11,122**	**1,000**	**89,374**

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.

	12.31.2017			12.31.2016		
	Possible risk	Remote risk	Total	Possible risk	Remote risk	Total
Parent Company						
Tax and social security	272,636	228,166	500,802	258,990	210,611	469,601
Civil	105,589	136,579	242,168	98,694	128,071	226,765
Labor	6,442	132,025	138,467	6,736	109,830	116,566
	384,667	**496,770**	**881,437**	**364,420**	**448,512**	**812,932**
Consolidated						
Tax and social security	348,509	249,898	598,407	331,483	230,981	562,464
Civil	122,334	136,673	259,007	121,855	128,153	250,008
Labor	10,077	143,737	153,814	9,989	112,396	122,385
	480,920	**530,308**	**1,011,228**	**463,327**	**471,530**	**934,857**

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 no 9,718 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 submitted to the Administrative Council of Tax Appeals (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. As a result, the risk of the claims were classified as possible.

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$ 131,767 on 12.31.2017 (R$ 125,818 on 12.31.2016) 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 direct subsidiary EBC were notified by the São Paulo State Revenue Office (FESP), 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. 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 12.31.2017 is R$ 16,160 (R$ 15,572 at 12.31.2016), in the parent company, and R$ 75,038 (R$ 95,459 at 12.31.2016) in the consolidated.

Even if the tax deficiency notices are partially upheld, the Company's management and legal advisors 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 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 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 administrative proceedings and lawsuits whose risk of loss is deemed as possible at 12.31.2017 is R$ 58,259, and whose risk of loss is deemed remote is R$ 5,589 (R$ 61,910 at 12.31.2016), 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 CSLL 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 12.31.2017 is R$ 27,746 (R$ 26,959 at 12.31.2016) 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).

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 12.31.2017 was R$ 53,000 (R$ 46,548 at 12.31.2016), 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), whose decision did not cause significant changes. New Motions for Clarification were filed by the plaintiff, and were not accepted by TJSC. The amount related to this action on 12.31.2017 was R$ 34,542 (R$ 32,909 on 12.31.2016), 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. The Plan's costs are covered by contributions made by members and sponsor, and the Company's contribution is twice the contribution of its participants. 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 11 active members at 12.31.2017 (16 at 12.31.2016). At ELOS, the Plan had three members at 12.31.2017 (three at 12.31.2016). On the same date, PREVIG had 423 (430 at 12.31.2016) retired employees and pension holders enjoying benefits, while ELOS had 2,077 (2,099 at 12.31.2016).

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 12.31.2017, this Plan had 20 active participants (37 on 12.31.2016) and 70 retired employees and pension holders enjoying benefits (54 on 12.31.2016).

c) Breakdown of obligations with retirement benefits

	Parent Company and Consolidated					
	12.31.2017			12.31.2016		
	Current	Non-current	Total	Current	Non-current	Total
Contracted obligations	15,666	181,924	197,590	13,843	178,797	192,640
Current contributions and service costs	159	-	159	211	89	300
Uncontracted deficit	14,858	99,047	113,905	13,165	93,362	106,527
Recorded actuarial liability	**30,683**	**280,971**	**311,654**	**27,219**	**272,248**	**299,467**

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.

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

	ELOS	PREVIG	Total
2019	12,949	3,119	16,068
2020	13,709	3,306	17,015
2021	14,513	3,505	18,018
2022	15,364	2,144	17,508
2023	16,266	1,463	17,729
2024 to 2028	74,145	227	74,372
2029 to 2032	21,214	-	21,214
	168,160	**13,764**	**181,924**

d) Statement of retirement benefit obligations, net

	Plans				
	ELOS BD	PREVIG BD	PREVIG BSPS	GC*	Total
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**
Surplus of contracted obligations	-	7,580	9,252	-	16,832
Liabilities recorded at 12.31.2016	**276,944**	**17,856**	**1,438**	**3,229**	**299,467**
12.31.2017					
Present value of obligations	1,307,730	347,174	64,533	3,265	1,722,702
Fair value of assets	(1,016,086)	(331,842)	(75,296)	-	(1,423,224)
Actuarial Evaluation	**291,644**	**15,332**	**(10,763)**	**3,265**	**299,478**
Surplus of contracted obligations	-	215	11,961	-	12,176
Liabilities recorded at 12.31.2017	**291,644**	**15,547**	**1,198**	**3,265**	**311,654**

(*) Confidentiality bonus

e) Breakdown of plan assets per investment nature, as of 12.31.2017

	Plans		
	ELOS BD	PREVIG BD	PREVIG BSPS
Fixed income	93.3%	98.4%	100.0%
Loans	3.0%	1.6%	-
Real estate	3.2%	-	-
Other	0.5%	-	-
	100.0%	**100.0%**	**100.0%**
Change in assets' market value	8.5%	7.0%	6.1%

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 1.1.2016	**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	55,952	19,417	6,782	922	83,073
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 higher 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)
Balancing of deficit assumed by participants	(51,687)	-	-	-	(51,687)
	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**
Current contribution and cost of service	982	(1,002)	(8)	(484)	(512)
Payment of contracted obligations	(21,899)	(3,502)	(316)	-	(25,717)
Interest on actuarial liabilities/assets, net	29,314	1,718	140	274	31,446
Losses (Gains) from remeasuring liabilities, net					
Adjustment by demographic experience	61,645	(217)	3,306	177	64,911
Changes in financial assumptions	2,221	16,387	(1,241)	(2)	17,365
Changes in demographic assumptions	(16,152)	(5,654)	(2,654)	71	(24,389)
Return on asset lower than the rate of discount	(33,919)	(1,840)	(1,154)	-	(36,913)
Changes to the limits of surplus and deficit	-	(8,199)	1,687	-	(6,512)
Balancing of deficit assumed by participants	(7,492)	-	-	-	(7,492)
	6,303	**477**	**(56)**	**246**	**6,970**
Liabilities recorded at 12.31.2017	**291,644**	**15,547**	**1,198**	**3,265**	**311,654**

g) Net expenses to be recognized as profit or loss over the course of 2018

	Plans				
	ELOS BD	PREVIG BD	PREVIG BSPS	GC	Total
Interest on liabilities, net of assets	26,258	1,288	98	224	27,868
Current cost of service	-	63	-	131	194
Net expenses	**26,258**	**1,351**	**98**	**355**	**28,062**

h) Actuarial assumptions adopted

Assumptions	12.31.2017	12.31.2016
Rate of discount and of implicit return (p.a.)		
Plan ELOS BD	9.4%	11.0%
Plan PREVIG BD	9.4%	11.0%
Plan PREVIG BSPS	9.5%	11.0%
GC	8.6%	12.3%
Inflation	4.0%	5.0%
Future salary growth (p.a.)		
Plans ELOS BD, PREVIG BD e GC	4.0%	5.0%
Plan PREVIG BSPS	4.6%	5.0%
Benefit growth (p.a.)	4.0%	5.0%
Capacity factor (Wages and Benefits)	100.0%	100.0%

Hypothesis	12.31.2017	12.31.2016
Mortality Table (assets)		
BD ELOS Plan	AT 2000 Basic (unisex, 33.53% for women and 66.47% for men)	AT 2000 Basic (unisex, composed 31.38% by women and 68.62% by men)
BD and BSPS PREVIG Plan and GC	AT-2000 (men, at 10%)	AT-2000 (by gender, at 10%)
Mortality Table of Disabled	AT-1983 (IAM) Men	AT-1983 (IAM) Men
Table of Start of Disability	Light Average	Light Average
Turnover Table	Null	Null
% of active employees married at the time of retirement		
BD and BSPS PREVIG Plan	85	85
Age of Retirement	First date to comply with all requirements	First date to comply with all requirements
Age difference between participant and spouse		
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 5 years younger than husbands

The assumption of household composition ("Average Household") is adopted specifically for projections related to active participants, whereas projects related to participants assisted by the plan (retirees and pension holders) consider information in the record base ("Actual Household").

The assumption of household composition was not adopted for the ELOS BD Plan, since all commitments with participants were considered the information in the record base ("Actual Household"), including for the three active participants, who are members of the Deferred Proportional Benefit (BPD) plan and may already choose to receive the benefit.

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	(11,592)	(3,390)	(672)	(12,382)
Reduction of 0.1 p.p. in the discount rate	11,771	3,449	685	12,537

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 BD and BSPS Plan, PREVIG manages the CD 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, limited to a limit, in accordance with the plan's regulations. Assets of the CD Plan amounted to R$ 920,273 at 12.31.2017 (R$ 820,619 at 12.31.2016).

NOTE 26 – DEFERRED INCOME TAX AND SOCIAL CONTRIBUTION

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

a) Breakdown

Description of credits	Parent Company				
	12.31.2017				12.31.2016
	Calculation basis	IR	CS	Total	Total
Liabilities:					
Accelerated depreciation	794,763	198,691	71,529	270,220	223,602
Property, plant and equipment deemed cost (fair value)	609,259	152,315	54,833	207,148	226,058
Unrealized sale at MAE (currently CCEE)	107,456	26,864	9,671	36,535	36,535
Capitalized financial charges	66,487	16,622	5,984	22,606	22,562
Adjustment to fair value in business combination	36,920	9,230	3,323	12,553	13,303
Unrealized hedge gains	12,282	3,071	1,105	4,176	-
Other	4,221	1,055	380	1,435	1,143
		407,848	**146,825**	**554,673**	**523,203**
Assets:					
Estimated losses with doubtful accounts	129,166	32,292	11,625	43,917	43,917
Provision for asset impairment	122,797	30,699	11,052	41,751	53,417
Retirement benefits obligations	114,021	28,505	10,262	38,767	36,306
Fair value adjustment in business combinations	103,763	25,941	9,339	35,280	36,603
Civil, tax and labor provisions	73,096	18,274	6,579	24,853	99,523
Interest on property, plant and equipment in progress (RIC)	62,435	15,609	-	15,609	19,247
Other	42,036	10,509	3,783	14,292	20,078
		161,829	**52,640**	**214,469**	**309,091**
Net total		**246,019**	**94,185**	**340,204**	**214,112**

Description of credits	Consolidated				
	12.31.2017				12.31.2016
	Calculation basis	IR	CS	Total	Total
Liabilities:					
Accelerated depreciation	987,631	246,908	88,887	335,795	277,274
Property, plant and equipment deemed cost (fair value)	609,259	152,315	54,833	207,148	226,058
Capitalized financial charges	360,217	90,054	32,420	122,474	66,553
Unrealized sale at MAE (currently CCEE)	107,456	26,864	9,671	36,535	36,535
Adjustment to fair value in business combination	36,920	9,230	3,323	12,553	13,303
Interest on property, plant and equipment in progress (RIC)	34,935	8,734	3,144	11,878	-
Amortization of portion allocated to concession financial asset	26,691	6,673	2,402	9,075	-
Unrealized hedge gains	12,282	3,071	1,105	4,176	1,175
Other	4,221	1,055	380	1,435	1,143
		544,904	**196,165**	**741,069**	**622,041**
Assets:					
Estimated losses with doubtful accounts	131,305	32,826	11,817	44,643	44,643
Provision for asset impairment	121,837	30,459	10,965	41,424	52,816
Retirement benefits obligations	114,021	28,505	10,262	38,767	36,306
Fair value adjustment in business combinations	103,763	25,941	9,339	35,280	36,603
Civil, tax and labor provisions	78,388	19,597	7,055	26,652	100,794
Interest on property, plant and equipment in progress (RIC)	62,435	15,609	-	15,609	19,247
Revenue from Return of Grant Bonus (RBO)	52,332	13,083	4,710	17,793	-
Fair value adjustment of property, plant and equipment	34,091	8,523	3,068	11,591	12,791
Tax losses and social contribution tax loss carryforwards	40,358	10,090	3,632	13,722	-
Gains in capitalized hedge operations	-	-	-	-	15,677
Other	54,305	13,558	4,907	18,465	28,524
		198,191	**65,755**	**263,946**	**347,401**
Net amount		**346,713**	**130,410**	**477,123**	**274,640**
Classification in the balance sheet					
Liabilities		369,329	138,576	507,905	311,331
Assets [32]		(22,616)	(8,166)	(30,782)	(36,691)
Total		**346,713**	**130,410**	**477,123**	**274,640**

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

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

	Parent Company	Consolidated
Balance at 1.1.2016	**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**
Taxes deferred in profit or loss	128,462	199,261
Taxes deferred in other comprehensive income	(2,370)	3,222
Balance at 12.31.2017	**340,204**	**477,123**

c) Expected realization and required payments

	Parent Company		Consolidated	
	Assets	Liabilities	Assets	Liabilities
2018	50,739	65,022	55,322	67,788
2019	56,018	43,492	69,364	46,407
2020	12,058	19,066	19,737	25,639
2021	10,166	36,251	12,738	42,827
2022	11,730	39,336	14,152	45,764
2023	10,880	28,529	13,173	34,823
2024 to 2028	33,060	133,470	42,119	186,759
2029 to 2033	28,905	121,091	36,428	175,727
After 2034	913	68,416	913	115,335
	214,469	**554,673**	**263,946**	**741,069**

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 B3's Novo Mercado 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 2017 and 2016.

b) Subscribed and paid-in capital

At 12.31.2017 and 12.31.2016, the Company's fully subscribed and paid-in capital is R$ 2,829,056, represented by 652,742,192 registered common shares without par value.

The book value of the share in Reais, at 12.31.2017, is R$ 10.47 (R$ 10.13 for each share at 12.31.2016).

The Company's ownership structure at 12.31.2017 and 12.31.2016 was as follows:

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

As of 12.31.2017 and 12.31.2016, the number of Company shares held by its managers was 374,628 and 374,328 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 Superintendence for the Development of the Amazon (Sudam) and by the Superintendence for the Development of the Northeast (Sudene). 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 tax and social contribution: (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.

f) Basic and diluted earnings per share

	Parent Company		Consolidated	
	12.31.2017	12.31.2016	12.31.2017	12.31.2016
Net income in the period	2,003,412	1,547,303	2,004,559	1,548,301
Weighted average number of common shares	652,742,192	652,742,192	652,742,192	652,742,192
Basic and diluted earnings per share – in R$	3.0692	2.3705	3.0710	2.3720

The Company does not have shares with dilution effects in the current fiscal year, for which reason there is no difference between the basic and diluted earnings per share.

NOTE 28 – DIVIDENDS AND INTEREST ON EQUITY

a) Calculation

	12.31.2017	12.31.2016
Adjusted dividend calculation basis		
Net income for the year attributable to controlling shareholders	2,003,412	1,547,303
Legal reserve	-	(76,658)
Tax incentive reserve	(37,614)	(17,703)
Realization of deemed cost of property, plant and equipment in retained earnings	34,375	34,399
Net income for the year adjusted for dividends purposes	**2,000,173**	**1,487,341**
Proposed dividends / interest on equity		
Interim dividends for the first half of the year	938,918	645,197
Interest on equity, net of withholding income tax	361,319	368,160
Additional dividends proposed	636,755	409,644
Subtotal	**1,936,992**	**1,423,001**
Withholding income tax on interest on equity	63,181	64,340
Total annual dividends and interest on equity	**2,000,173**	**1,487,341**
Percentage of adjusted net income	**100%**	**100%**
Dividends and interest on equity per common share (in Brazilian reais):	**3.0642635985**	**2.2786046398**

b) Changes in dividends and interest on equity payable[33]

	Parent Company	Consolidated
Balance at 1.1.2016	**315,594**	**317,145**
Dividends and interest on equity approved	1,287,196	1,287,291
Dividends and interest on equity paid	(1,162,928)	(1,164,012)
Transfer – Unclaimed dividends	(4,044)	(4,044)
Balance at 12.31.2016	**435,818**	**436,380**
Dividends and interest on equity approved	1,773,062	1,773,245
Dividends and interest on equity paid	(838,155)	(838,621)
Transfer – Unclaimed dividends	(7,307)	(7,307)
Balance at 12.31.2017	**1,363,418**	**1,363,697**

c) Dividend policy

The dividends policy established in the Company'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.

d) Distribution and proposed distributions of net income for fiscal year 2017

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

The Board of Directors, in a meeting held on 7.27.2017, approved the distribution on interim dividends, based on the financial statements drafted on 6.30.2017, in the amount of R$ 938,918 corresponding to R$ 1.4384206188 per share. Said dividends started to be paid on 1.10.2018.

d.2) Interest on equity

In a meeting held on 10.26.2017, the Company's Board of Directors approved interest on equity from 1.1.2017 to 12.31.2017 in the gross amount of R$ 424,500, corresponding to R$ 0.6503333249 per share.

Credits of the Company's interest on equity were recognized from 1.1.2017 to 12.31.2017 based on shareholding position on 11.9.2017. The Company's shares were negotiated ex-Interest on equity beginning as of 11.10.2017.

Interest net of withheld income tax was charged to mandatory dividends and will be paid on a date to be defined by the Company's Board of Executive Officers.

d.3) Proposed additional dividends

The Company submitted to the Board of Directors, for approval in the meeting held on 2.22.2018, the proposal for payment of additional dividends on net income for fiscal year 2017, in the amount of R$ 636,755 (R$ 0.9755096548 per share).

[33] The amounts include income withholding income tax on interest on equity.

The amount of dividends that is higher than minimum mandatory value established by the law or other legal instrument, and that is not yet approved by shareholders' meeting, 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 OPERATING REVENUE

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

	Parent Company		Consolidated	
	2017	2016	2017	2016
GROSS OPERATING INCOME				
Electrical energy distributors	2,269,042	2,493,558	2,965,171	3,434,891
Electrical energy traders	1,950,123	1,800,412	670,578	362,043
Free consumers	268,437	272,675	3,496,497	3,133,989
Transactions in the short-term market	313,674	70,549	499,867	128,912
Remuneration of the concession financial asset	-	-	47,917	-
Other revenues	73,793	90,735	54,880	67,631
	4,875,069	**4,727,929**	**7,734,910**	**7,127,466**
DEDUCTIONS FROM OPERATING INCOME				
PIS and Cofins	(423,153)	(423,715)	(674,760)	(638,153)
ICMS	(11,980)	(10,248)	(11,980)	(10,248)
ISSQN	(1,807)	(1,705)	(1,807)	(1,705)
Research and development	(32,355)	(31,276)	(36,406)	(34,989)
	(469,295)	**(466,944)**	**(724,953)**	**(685,095)**
NET OPERATING REVENUE	**4,405,774**	**4,260,985**	**7,009,957**	**6,442,371**

As of 12.31.2017, the Company did not have any client individually accounting for more than 5% of its consolidated net operating revenue.

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	
	2017	2016	2017	2016	2017	2016	2017	2016
Fuel	442,809	131,005	-	-	454,600	141,000	-	-
Depreciation and amortization	407,570	412,054	-	-	639,899	622,060	-	-
Personnel	187,480	214,127	24,601	24,245	193,188	218,553	24,637	24,280
Third party materials and services	137,496	119,328	4,744	4,790	201,532	178,662	4,744	4,790
Royalties	101,375	166,037	-	-	117,298	190,898	-	-
Accrual (reversal) of provisions, net	(241,097)	23,757	-	-	(239,950)	24,400	-	-
Other	60,428	58,846	1,489	1,269	76,802	72,400	1,489	1,269
	1,096,061	**1,125,154**	**30,834**	**30,304**	**1,443,369**	**1,447,973**	**30,870**	**30,339**

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	
	2017	2016	2017	2016	2017	2016	2017	2016
Personnel	7,082	5,930	73,827	76,785	7,082	5,930	74,574	77,444
Management	-	-	24,832	22,030	-	-	26,331	22,143
Third party materials and services	278	325	45,564	39,818	3,944	4,588	46,261	40,639
Depreciation and amortization	-	-	9,017	8,155	-	-	9,048	8,186
Rentals	92	85	6,116	5,966	92	85	7,605	8,009
Pension funds	-	-	7,777	6,473	-	-	7,777	6,473
Contributions and donations	3,048	3,135	6,335	6,639	5,305	5,427	7,345	7,334
(Reversal) accrual of provisions, net	-	-	(17,606)	1,117	-	-	(17,686)	1,074
Other	11	249	17,389	13,187	924	1,216	17,362	13,946
	10,511	**9,724**	**173,251**	**180,170**	**17,347**	**17,246**	**178,617**	**185,248**

NOTE 31 – FINANCIAL RESULT

	Parent Company		Consolidated	
	2017	2016	2017	2016
Financial income				
Income from marketable securities	87,948	209,722	171,966	297,191
Interest on receivables	16,449	24,026	20,919	26,018
Monetary variation on judicial deposits	5,890	9,345	6,112	9,675
Income from restricted deposits	1,066	1,231	19,324	21,866
Interest and monetary variation on court decision	-	38,590	-	38,590
Other financial income	3,400	4,338	5,162	4,581
	114,753	**287,252**	**223,483**	**397,921**
Financial expenses				
Interest and monetary variation on				
Concessions payable	214,188	333,194	220,742	341,315
Debentures and promissory notes	74,536	38,670	30,792	17,294
Loans and financing	67,405	83,174	127,297	178,500
Retirement benefit obligations	31,446	36,431	31,446	36,431
Provisions	15,802	33,912	16,299	34,421
Fair value hedge on loans	9,086	74,714	9,086	74,714
Transactions in the CCEE	1,290	54,078	1,315	57,553
Other	1,219	551	2,377	2,786
Exchange variation on				
Loans	17,047	(181,654)	17,047	(181,654)
Fair value hedge on loans	(17,047)	181,654	(17,047)	181,654
Fair value adjustment	1,735	1,986	1,735	1,986
Other financial expenses	4,985	3,370	9,224	7,765
	421,692	**660,080**	**450,313**	**752,765**
Financial expenses, net	**306,939**	**372,828**	**226,830**	**354,844**

NOTE 32 – INCOME TAXES RECONCILIATION, IN THE INCOME STATEMENT

	Parent Company			
	2017		2016	
	Income Tax	Social Contribution	Income Tax	Social Contribution
Income before taxes	**2,408,587**	**2,408,587**	**1,893,431**	**1,893,431**
Standard rates	25%	9%	25%	9%
Tax expense at standard rates	**(602,147)**	**(216,773)**	**(473,358)**	**(170,409)**
Permanent differences:				
Equity in net income of subsidiaries	171,256	61,652	99,406	35,786
Interest on equity	106,125	38,205	108,125	38,925
Tax incentives	40,695	-	20,119	-
Other	(3,634)	(554)	(3,993)	(729)
	(287,705)	**(117,470)**	**(249,701)**	**(96,427)**
Breakdown of taxes in the income statement				
Current	(192,285)	(84,428)	(360,966)	(137,793)
Deferred	(95,420)	(33,042)	111,265	41,366
	(287,705)	**(117,470)**	**(249,701)**	**(96,427)**

	Consolidated			
	2017		2016	
	Income Tax	Social Contribution	Income Tax	Social Contribution
Income before taxes	**2,623,380**	**2,623,380**	**2,066,773**	**2,066,773**
Standard rates	25%	9%	25%	9%
Tax expense at standard rates	**(655,845)**	**(236,104)**	**(516,693)**	**(186,010)**
Permanent differences:				
Interest on equity	106,125	38,205	108,125	38,925
Tax incentives	68,275	-	20,119	-
Variation between the calculation base of taxable and presumptive profit tax regimes	33,701	10,760	11,332	2,976
Other	11,516	4,546	1,523	1,231
	(436,228)	**(182,593)**	**(375,594)**	**(142,878)**
Breakdown of taxes in the income statement				
Current	(288,743)	(130,817)	(461,356)	(175,029)
Deferred	(147,485)	(51,776)	85,762	32,151
	(436,228)	**(182,593)**	**(375,594)**	**(142,878)**

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
12.31.2017						
EBC	182,214	207	-	3,995	-	-
CEE	-	-	25,204	-	-	-
Itasa	-	1,438	2,562	9,539	-	-
Jaguara	-	-	1,548	-	-	-
Miranda	-	-	926	-	-	-
Ceste	-	1,640	-	-	-	-
ECP and subsidiaries	-	6,068	-	-	-	-
ENGIE Participações	-	471	-	-	-	893,081
Geramamoré[35]	-	-	-	9,421	-	-
ESBR[36]	-	-	-	1,349	-	-
Other	-	203	310	-	393	-
	182,214	**10,027**	**30,550**	**24,304**	**393**	**893,081**
12.31.2016	**155,125**	**4,039**	**167,202**	**13,382**	**965**	**297,180**

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
12.31.2017						
EBC	1,950,123	-	387	35,429	-	-
CEE	1,253	-	387	-	-	-
Itasa	-	19,240	-	102,002	-	-
Ceste	-	21,832	-	-	-	-
Lages	4,293	2,671	226	-	-	-
ECP subsidiaries	242	-	2,549	-	-	-
Geramamoré	-	-	-	171,382	-	-
ESBR	-	-	-	15,173	-	-
Degremont[37]	-	-	-	-	2,547	-
Other	-	-	387	-	1,492	-
	1,955,911	**43,743**	**3,936**	**323,986**	**4,039**	**-**
12.31.2016	**1,819,369**	**41,266**	**3,710**	**128,492**	**4,286**	**5,315**

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] Geramamoré Participações e Comercializadora de Energia Ltda.

[36] Energia Sustentável do Brasil.

[37] Degremont Tratamento de Águas Ltda.

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 electricity

Seller	Buyer	Maturity	Annual adjustment index	Adjustment base date	Future commitment Base 12.31.2017
Trairí Project	EBC	2032	IPCA	January	1,809,292
Itasa	EBE	2030	IGP-M	January	806,098
Itasa	EBE	2030	Dollar variation + U.S. Inflation	October	631,533
ESBR	EBE	2042	IPCA	January	418,244
EBC	CEE	2041	IPCA	January	413,654
Geramamoré	EBC	2018	IPCA	January	137,322
EBC	EBE	2019	IGP-M	January	905

In accordance with the Company's commercial policy, sales to free consumers are carried out preferably through direct subsidiary EBC, which purchases energy from the Trairí Project and from the related party Geramamoré.

Over the course of 2017, the Company entered into short-term energy purchase agreements with the related party Geramamoré in order to manage its energy portfolio. These agreements were signed under conditions and prices in line with market practices.

c.2) Operation and maintenance

Related party	Maturity	Annual adjustment index	Future commitment Base 12.31.2017
Itasa	10.16.2030	IGP-M	278,434
Ceste	5.1.2025	INPC (80%) and IPCA (20%)	185,523
Lages	3.31.2017	Salary adjustment	684

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 the Company's costs with personnel directly involved in the execution of these activities.

c.3) Administrative and financial services

ENGIE Brasil Energia provides those services necessary to the administrative activities of the direct and indirect subsidiaries. The 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$ 6,404.

d) Guarantees

The Company intermediates financial contracts entered into by its direct and indirect subsidiaries with BNDES, Banks (BNDES onlending). The main guarantees are the following:

Bank	Type of guarantee	Amount of debt at 12.31.2017
BNDES onlending (Banks)	Pledge of all the shares issued by the following companies: CEE, Ibitiúva, Trairí, Guajiru, Fleixeiras I, Mundaú, Ferrari, Cacimbas, Estrela, Ouro Verde e Santa Mônica.	1,745,168

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$ 242,649 at 12.31.2017. The guarantees' maturities are scheduled as follows: R$ 44,712 in 2018, R$ 5,994 in 2019, R$ 77,883 in 2020, R$ 44,167 in 2021, R$ 18,097 in 2022 and R$ 51,796 in 2023.

The Company is also guarantor of the issue of promissory notes by the direct subsidiaries Jaguara and Miranda, with maturity on 11.22.2018, in the amount of R$ 2,113,475.

In addition, the Company is guarantor to the construction of three projects awarded in energy auctions promoted by Aneel in November 2014 and 2015: Pampa Sul Thermal Power Plant (294.5 average MW), Campo Largo Wind Power Complex (82.6 average MW) and Assú V Photovoltaic Power Plant (30.0 average MW) and the Transmission Auction – Auction no. 02/2017, conducted by Aneel in 2017. At 12.31.2017, the amount under these guarantees was R$ 144,434, maturing R$ 20,170 in 2018 and R$ 124,264 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 12.31.2017 is R$ 14,234 (R$ 15,574 at 12.31.2016).

g) Remuneration of key management personnel

The remuneration of key Management personnel was R$ 22,784 at 12.31.2017 (R$ 21,148 at 12.31.2016) in the parent company and R$ 24,283 (R$ 21,161 at 12.31.2016) 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 5.31.2018 and the coverage amount is R$ 14,303,893 in the parent company and R$ 18,289,159 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	9,028,399	1,964,594	13,298,853	2,216,443
Thermal power plants	2,189,807	1,074,887	2,189,807	1,074,888
Complementary plants (wind, biomass and SHPP)	45,671	535	1,288,814	296,135
	11,263,877	**3,040,016**	**16,777,474**	**3,587,466**

The maximum combined limit of indemnification for material damages and loss of profits is R$ 2,184,468 per event.

b) Engineering risks

The projects for construction of Pampa Sul TPP and the Campo Largo Wind Power Complex (Phase 1) have an engineering risk coverage of R$ 1,830,000 and R$ 1,982,000, respectively for the entire duration of construction works. Coverage for civil liability amounts to R$ 190,000 and R$ 60,000, respectively.

c) Other coverages

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

d) Accidents

In April 2017, the Company registered accidents at generation unit no. 2 of the UTLA 1 plant of CTJL. The plant has installed capacity of 100.0 MW, comprising two identical generation units of 50.0 MW each, and commercial capacity of 34.7 Average MW. The Company and the insurer are currently negotiating the coverage for material damages and loss of profits arising from this accident. The Company expects to receive the amount in the first half of 2018.

In December 2015, the Company registered an accident at one of the generation units of the São Salvador Hydroelectric Power Plant (UHSA), which led to long-term loss of profit (2016 to 2020) due to the Reduced Assured Energy Mechanism (MRA). In December 2017, the Company, after advancing in the negotiations with the insurer, recognized the amount of R$ 22,062 related to damages for loss of profit for 2016 and 2017. The damages for loss of profit from 2018 to 2020 will be recognized simultaneously with the exposure due to the MRA. The Company expects to receive the respective damages as from 2018.

NOTE 35 – LONG-TERM COMMITMENTS

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

a) Contract for connection

The Company and its subsidiaries CEE and Trairí have contracts 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"). The contracts are valid up to termination of the concessions and authorization of the Company's power plants linked to these contracts.

At 12.31.2017, value of future commitments deriving from connection contracts is R$ 176,740 (R$ 169,975 at 12.31.2016).

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 Trairí 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 12.31.2017, the value of future commitments deriving from these contracts amounts to R$ 6,052,024 (R$ 6,415,488 at 12.31.2016).

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 12.31.2017, the value of future commitments deriving from these contracts totals R$ 165,340 (R$ 231,413 at 12.31.2016).

d) Bilateral contracts for purchase and sale of electrical energy

According to data on physical guarantee 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					
	2018	2019	2020	2021	2022	2023
Own funds	4,085	4,627	4,716	4,725	4,738	4,736
Purchases	1,081	786	492	367	356	283
Total availability	5,166	5,413	5,208	5,092	5,094	5,019
Contracted availability	4,566	4,700	4,306	3,786	3,276	2,851
Contracted %	88.39%	86.83%	82.68%	74.35%	64.31%	56.80%

e) Operation and maintenance contracts

The Company and its subsidiary Ferrari and the Wind Power Complexes of Trairí and Santa Mônica have contracts for operation and maintenance with third parties. Future commitments at 12.31.2017 amounted to R$ 245,389 (R$ 164,729 at 12.31.2016).

f) Modernization of the Salto Osório Hydroelectric Plant

On 10.26.2017, the Company's Board of Directors approved the modernization of the Salto Osório Hydroelectric Power Plant. The Agreement was signed on 11.20.2017 with supplier GE Energias Renováveis and will result in an increase in the commercial capacity of the Plant by 13.9 average MW. Future commitments are restated at the IPCA rate and amounted to R$ 156,637 at 12.31.2017.

g) Ongoing construction agreements

g.1) Pampa Sul Thermal Power Plant ("Pampa Sul")

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 in the Aneel auction held in November 2014, to be delivered as from 1.1.2019. Future commitments under these contracts amounted to R$ 303,544 at 12.31.2017 (R$ 1,295,299 at 12.31.2016).

g.2) Campo Largo Wind Power Complex ("CECL")

CECL signed contracts for the installation of 11 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 1.1.2019. Future commitments under the construction contracts amounted to R$ 1,339,070 at 12.31.2017 (R$ 1,515,544 at 12.31.2016).

g.3) Umburanas Wind Power Complex

The Umburanas Wind Power Complex signed contracts to implement 18 wind farms in the state of Bahia, with installed capacity of 360.0 MW, of which 257.5 MW will be allocated to the ACL and 102.5 MW were sold in Auction A-5/2014. Supply is expected to start during 2019. Future commitments under the construction contracts amounted to R$ 1,405,637 at 12.31.2017.

h) 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$ 119,092 on 12.31.2017 (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	
	12.31.2017	12.31.2016	12.31.2017	12.31.2016
Dividends from subsidiaries	421,649	287,674	-	-
Interest on equity paid	424,500	432,500	424,500	432,500
Provision for future investments in property, plant and equipment	35,568	-	28,960	(4,967)
Offsetting of income tax and social contribution	33,216	103,475	45,367	133,092
Measuring of obligations with retirement benefits recorded under other comprehensive income	6,970	7,255	6,970	7,255
Capitalized interest and monetary variation	2,189	16,824	169,184	113,557
Suppliers of fixed and intangible assets	(9,757)	(13,035)	23,298	(27,035)
Non-current assets held for sale	-	-	16,035	339,641
Non-current liabilities held for sale	-	-	14,177	159,496
Amounts payable from investment acquisition	-	-	12,152	11,698

- Net cash from operating activities

The amount of R$ 2,499,450, paid as bonus for the grant of the concessions of the Jaguara and Miranda Hydroelectric Power Plans, classified in the consolidated balance sheet of the Company under "Concession financial asset," was presented as cash flow from operations in the consolidated statement of cash flows. The consolidated net cash from operations, excluding such non-recurring payment, was R$ 2,831,252. Note that future cash flows arising from the receipt of this asset will increase the net cash from operating activities.

NOTE 37 – SUBSEQUENT EVENTS

a) Approval of new financing operations

On 1.25.2018, the Company's Board of Directors approved a new financing operation contracted from BNDES for the implementation of the Campo Largo Wind Power Complex – Phase I, in the amount of R$ 1,039,100. The Company is fulfilling all conditions precedent and submitting the necessary documentation before signing the financing agreement.
Additionally, in the meeting held on 2.22.2018, the Board of Directors approved a new financing agreement with BNDES to implement Pampa Sul TPP, in the amount of R$ 728,950.

b) Revoked authorization of the William Arjona Thermal Power Plant

On 2.20.2018, in compliance with the Company's request, the Superintendency of Concessions and Authorizations of Generation (SCG) of Aneel revoked the authorization of the William Arjona Thermal Power Plan, whose operations had been suspended since the beginning of 2017.

c) Additional dividends proposed

The Board of Directors of the Company, at the meeting held on 2.22.2018, approved the proposal for additional dividends on the adjusted net income from the fiscal year ended 12.31.2017, in the amount of R$ 636,755, or R$ 0.9755096548 per share. The proposal shall be ratified by the Annual Shareholders Meeting, which will also set the dividend payment terms.

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, Deloitte Touche Tohmatsu 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 22, 2018.

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

José Carlos Cauduro Minuzzo
Member

Roberto Henrique Tejada Vencato
Member

José Pais Rangel
Member

Antonio Alberto Gouvêa Vieira
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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

To the Shareholders, Directors and Managers of
Engie Brasil Energia S.A.
Florianópolis - SC

Opinion

We have examined the individual and consolidated financial statements of Engie Brasil Energia S.A. ("Company"), identified as parent company and consolidated, respectively, which comprise the balance sheets as of December 31, 2017, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended December 31, 2017, as well as the corresponding notes, including a summary of the main accounting policies.

Opinion on individual financial statements

In our opinion, the individual financial statements referred to above present fairly, in all material respects, the equity and financial position of Engie Brasil Energia S.A. on December 31, 2017, as well as its operating performance and cash flows for the year ended on that date, in accordance with the accounting practices adopted in Brazil.

Opinion on consolidated financial statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated equity and financial position of Engie Brasil Energia S.A. on December 31, 2017, as well as its consolidated operating performance and consolidated cash flows for the year ended on that date, 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

Our audit was conducted 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 financial statements." We are independent in relation to the Company, 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 other ethical responsibilities in accordance with these standards. We believe that the audit evidence we obtained is sufficient and adequate to substantiate our opinion.

Main audit issues

"Main audit issues" are those that, in our professional judgment, were most significant in our audit of the current year. These issues were addressed within the scope of our audit of the 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.

Revenue recognition

As detailed in Note 29 to the financial statements, the Company's revenue originates substantially from the supply of electricity. This issue was considered significant for our audit, due to the volume and specific characteristics of power supply contracts, processes that support their recognition, dependency on systems and respective internal controls.

Our audit procedures on revenue recognition included, among others: (i) appraisal of the design, implementation and effectiveness of the Company's internal control activities related to the Management process to measure the revenue from the supply of electricity to be recognized according to accounting requirements and contractual terms; (ii) involvement of our specialists in Information Technology to evaluate the systems and the computerized environment used to register said amounts; (iii) tests of energy supply contracts, by sampling, considering their specific characteristics and accounting record; (iv) test of subsequent receipt of invoices, by sampling; (v) test on unbilled revenues, evaluating the Management's estimation process; and (vi) evaluating if the disclosures made by the Management are adequate.

Based on the audit procedures described above, we consider that the processing, recording and recognition of revenue made by the Company, as well as their respective disclosures, are adequate, in the context of the financial statements taken as a whole.

Concession financial asset (the subsidiaries Jaguara and Miranda)

As described in Note 10 to the financial statements, the concession financial asset is measured at the start of the concession by the present value of future cash flows arising from installments payable, and subsequently held at the amortized cost based on the interest rate used to calculate the present value. The concession agreement establishes a division for allocating the utilization of the installed capacity of the Jaguara and Miranda plants (Special Purpose Entities controlled by Engie Brasil Energia) of 70% to the Regulated Contracting Environment ("ACR") and 30% to the Free Contracting Environment ("ACL"). The portion allocated to ACR is guaranteed by the Concession Authority and has no demand risk. This issue was considered significant for our audit, given the high degree of judgement and the complexity of determining the factors and premises by the Management, tied to the process of measuring the concession financial asset, as well as the significance of the amounts involved.

Our audit procedures included, among others: (i) appraisal of the design, implementation and effectiveness of the Company's internal control activities related to calculations of the concession financial asset; (ii) discussion of premises, including the discount rate, used in calculating the concession financial asset with the Company's Management; (iii) obtaining the calculation worksheets prepared by the Company to compare with entries in the accounting system, with the adequate classification of the concession financial asset (accounts receivable) and intangible assets, and the segregation between current and non-current assets; (iv) recalculation of the concession financial asset with the involvement of our valuation specialists; and (v) evaluating if the disclosures made by Management are adequate.

Based on the audit procedures described above, we consider that the measurement of the concessional financial asset and the consequent segregation between concession financial asset and intangible assets, and the segregation between current and non-current assets, made by the Company, as well as the respective disclosures, are adequate in the context of the financial statements taken as a whole.

Provisions (for litigation)

As disclosed in Note 24, the Company is the defendant in several lawsuits related to civil, tax and labor issues, which involve large amounts. While determining the amounts to be booked to meet these risks, as well as the amounts of possible and remote risks disclosed in the financial statements, the Management applies a high level of judgement that requires the use of technical knowledge and the Company's history, analysis of case law and individual analysis of the lawsuits.

To answer this main audit issue, our procedures included: (i) appraisal of the design, implementation and effectiveness of relevant internal controls on contingencies, specifically for determining the provisions for said risks; (ii) tests, with help from our specialists in information technology, on the controls and computerized system used by Management and its external legal counsel to control and evaluate the provisions; (iii) executing integrity and precision tests on the database used by Management to prepare estimates on the possibility of loss on lawsuits; (iv) independent confirmation with external legal counsel and attorneys responsible for the lawsuits regarding the classification of loss risk, the phase and the amount involved; and (v) challenging the assumptions and judgements used by Management in preparing these estimates. We also analyzed the adequacy of disclosures related to such lawsuits and provisions included in Note 24.

Based on the audit procedures described above, we consider that the measurement of the provision for litigation made by the Company, as well as the respective disclosures, are adequate in the context of the financial statements taken as a whole.

Other topics

Audit of amounts related to the fiscal year ended December 31, 2016
The amounts related to the financial statements for the fiscal year ended December 31, 2016, were examined by other independent auditors, who issued an audit report on February 23, 2017, with no reservations.

Statements of value added

The individual and consolidated statements of value added ("DVA") for the year ended December 31, 2017, prepared under the responsibility of the Company's management and presented as additional information for IFRS purposes, were audited together with 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 are in accordance with the criteria set forth in Technical Pronouncement CPC 09 – Statement of Value Added. In our opinion, the statements of value added were presented fairly, in all material respects, in accordance with the criteria set forth in this Technical Pronouncement and are consistent with the individual and consolidated financial statements taken as a whole.

Other information that accompanies the individual and consolidated financial statements and the auditor's report

The Company's Management is responsible for such other information that makes up the management report. Our opinion on the financial statements does not cover the Management Report and hence we did not express any audit judgment on this report.

With regard to the audit of financial statements, our responsibility is to read the management report and verify if it is substantially inconsistent with the financial statements or with the knowledge we gained from 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 Management and governance for the financial statements

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

In preparing the financial statements, Management is responsible for evaluating the Company's ability to continue as a going concern, disclosing, as applicable, the issues related to its ability to continue as a going concern and the use of this accounting base to prepare financial statements, unless Management intends to liquidate the Company or close down its operations, or if it does not have any realistic alternative to prevent the closing down of operations.

People in charge of governance at the Company are those responsible for supervising the process of preparing the financial statements.

Responsibilities of the auditor for the audit of financial statements

Our objective is to obtain reasonable assurance that the 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 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 exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- We identified and assessed the risks of material misstatement in the financial statements, whether caused by fraud or error, we planned and carried out audit procedures in response to such risks, and obtained adequate and sufficient audit evidence to support our opinion. The risk of non-detection of material misstatement resulting from fraud is higher than that arising out of error, since fraud may involve the bypassing of internal controls, collusion, forgery, omission or intentional misrepresentations.

- We gained an understanding of internal controls that are significant for the audit so that we can plan appropriate audit procedures for the circumstances, but, not with the aim of expressing an opinion on the effectiveness of the internal controls of the Company.
- We evaluated the adequacy of accounting policies used and the reasonableness of accounting estimates and respective disclosures made by management.
- We issued an opinion on the appropriateness of the use by management of the going concern basis of accounting and, based on the audit evidence obtained, if there is material uncertainty regarding events or conditions that might raise significant doubts about the Company's ability to continue as a going concern. If we come to the conclusion that there is material uncertainty, we must draw attention in our audit report to the respective disclosures in the financial statements or, if the disclosures are inappropriate, include a modification to our opinion. Our conclusions are based on the audit evidences obtained until the date of our report. However, future events or conditions may impair the ability of the Company to continue as a going concern.
- We assessed the general presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the corresponding transactions and the events in a manner compatible with the aim of a fair presentation.

- We obtained 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 directing, supervising and performing the audit of the group and, consequently, for the audit opinion.

We communicated with those in charge of governance regarding, among other aspects, the planned scope, the time of audit and the significant audit findings, including any significant deficiencies in the internal controls identified during our work.

We also provided those in charge of governance with a declaration of our compliance with relevant ethical requirements, including those applicable to independence, and we reported all relationships or issues that could significantly affect our independence, including the respective safeguards, when applicable.

Of the issues that 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, constitute the main audit issues. We described these issues in our audit report, unless any law or regulation prohibits disclosure of the 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 for public interest.

Joinville, February 22, 2018

DELOITTE TOUCHE TOHMATSU
Auditores Independentes
CRC 2SP 011.609/O-8 "F" SC

Fernando de Souza Leite
Accountant
CRC 1PR 050.422/O-3

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, 2017 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 – Deloitte Touche Tohmatsu issued on February 22, 2018 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, 2017, and are appropriate for being submitted to the Company's Annual Shareholders' Meeting.

Rio de Janeiro, February 22, 2018

Paulo Resende Salgado
Chairman

Carlos Guerreiro Pinto
Member

Manoel Eduardo Lima Lopes
Member