

# Duke Energy International, Geração Paranapanema S.A.

Interim Financial Information for the  
Three-Month Period Ended  
March 31, 2014 and  
Report on Review of Interim Financial  
Information

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(Convenience Translation into English from the Original Previously Issued in Portuguese)

## **REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION**

To the Shareholders, Directors and Management of

Duke Energy International, Geração Paranapanema S.A.

São Paulo, SP

### Introduction

We have reviewed the accompanying interim financial information of Duke Energy International, Geração Paranapanema S.A. (the “Company”), included in the Interim Financial Information Form - ITR, for the quarter ended March 31, 2014, which comprises the balance sheet as at March 31, 2014, and the related income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the three-month period then ended, including the explanatory notes.

Management is responsible for the preparation of the interim financial information in accordance with CPC 21(R1) and IAS 34 - Interim Financial Reporting, issued by the International Accounting Standards Board - IASB, as well as for the presentation of such information in accordance with the standards issued by the Brazilian Securities Commission - CVM, applicable to the preparation of Interim Financial Information - ITR. Our responsibility is to express a conclusion on this interim financial information based on our review.

### Scope of Review

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

### Conclusion on the Interim Financial Information

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information included in the ITR referred to above is not prepared, in all material respects, in accordance with CPC 21(R1) and IAS 34 applicable to the preparation of Interim Financial Information – ITR, and presented in accordance with the standards issued by the Brazilian Securities Commission - CVM.

### Emphasis of matter

Depreciation of assets intended for generation of electric power under an independent production regime

As described in Note 2.10 and 3.1.2 in the 2013 annual financial statements and valid for this quarterly information, those assets intended for generation of electric power

under an independent production regime are depreciated over their estimated useful lives, considering the facts and circumstances mentioned in that Note. As the regulatory agency or the concession grantor issue new information or decisions, the current depreciation term for such assets may be changed. Our opinion regarding this matter is unqualified.

Other Matters

Statements of Value Added

We have also reviewed the interim statements of value added - DVA, for the three-month period ended March 31, 2014, prepared under the responsibility of the Company's management, the presentation of which is required by the standards issued by the Brazilian Securities Commission - CVM applicable to the preparation of Interim Financial Information - ITR, and is considered as supplemental information for IFRS that does not require the presentation of a DVA. This statement was subject to the same review procedures described above and, based on our review, we are not aware of any fact that causes us to believe that this information was not prepared, in all material respects, consistently with the interim financial statements taken as a whole.

The accompanying interim financial information has been translated into English for the convenience of readers outside Brazil.

May 06, 2014

DELOITTE TOUCHE TOHMATSU

Auditores Independentes

Iara Pasian

Engagement Partner

**COMMENTS ON ECONOMIC AND FINANCIAL PERFORMANCE  
PERIODS FROM JANUARY 1<sup>st</sup> TO MARCH 31, 2014 AND 2013**  
(Amounts in thousands of Brazilian reais - R\$, unless otherwise stated)

	1Q2013	1Q2014	% Change
<b>Economic indicators</b>			
Gross operating revenue	308,521	393,394	27.5
(-) Deductions from operating revenue	(33,168)	(39,149)	18.0
Net operating revenue	275,353	354,245	28.7
(-) Operating expenses	(139,410)	(144,413)	3.6
Operating profit	135,943	209,832	54.4
EBITDA	190,350	264,129	38.8
<i>EBITDA margin - %</i>	69.1%	74.6%	
Finance income	(27,663)	(25,746)	-6.9
Profit	108,280	184,086	70.0
Net income for the period	71,519	121,516	69.9
Net margin - %	26.0%	34.3%	
<b>Financial indicators</b>			
Total assets	4,202,420	4,494,283	6.9
Debts in local currency	970,933	1,129,308	16.3
Equity	2,539,455	2,544,886	0.2
<b>Shares</b>			
Shares in circulation (in thousands of shares)	94,433	94,433	
Net income per shares lot (in R\$)	757.35	1,286.78	69.9

### Gross Operating Revenue

The gross operating revenue increased R\$84,873 or 27.5 percent in the quarter as compared to the same period of last year. This performance reflects volumes traded in the spot market that was not sold in the same period of last year and better prices in bilateral contracts, as compared to the same period.

### Deductions from Operating Revenue

Deductions from operating revenue increased R\$5,981 or 18.0 percent as compared to the same period of last year due to the increase in PIS and Cofins and Development and Research, result of the increase in gross operating revenue.

### Net Operating Revenue

Due to the factors described above, the net operating revenue of the Company totaled R\$354,245 for the quarter, 28.7 percent higher than in the same period of last year.

## Operating Expenses

	1Q2013	1Q2014	% Change
Depreciation and amortization	(54,407)	(54,297)	-0.2
Power purchased for resale	(24,409)	(20,276)	-16.9
Power grid charges	(18,512)	(20,255)	9.4
Personnel	(15,636)	(18,463)	18.1
Compensation for the use water resources	(13,026)	(17,030)	30.7
Outside services	(8,333)	(8,947)	7.4
Other	(1,447)	(1,526)	5.5
Insurance	(1,082)	(1,186)	9.6
ANEEL inspection fee	(1,048)	(1,018)	-2.9
Rents	(865)	(992)	14.7
Materials	(815)	(742)	-9.0
Provision for tax, labor and environmental risks	(2,574)	(101)	-96.1
Write off (allowance) for doubtful accounts	2,744	420	-84.7
	<b>(139,410)</b>	<b>(144,413)</b>	<b>3,6</b>

Operating expenses totaled R\$144,413 for the quarter, 3.6 percent higher than the R\$139,410 recorded for the same period of last year.

We list below the main factors that impacted the operating expenses:

- Compensation for the use of water resources - increase of R\$4,004, or 30.7 percent as compared the same period of last year, due to the higher volume generated in the quarter, which totaled 3,161,596.75 MWh, or 23.6 percent higher than the 2,557,771.93 MWh generated in the same period of last year and by the Updated Benchmark Tariff (TAR) increased by 5.9 percent, from of R\$75.45/MWh to R\$79,87/MWh, starting on January 1, 2014;
- Personnel – Increase of R\$2,827 due to the salary rise result on the union agreement set in 2013 and also the merit cycle and promotions of 2014;
- Power grid charges – Increase of R\$1,743 or 9.4 percent in the period due to inflation adjustments on these charges;
- Power purchased for resale - Decrease of R\$4,133 or 16.9 percent in the period corresponding to the purchase of electric power due to a lower market exposure in 2014, compared to the same period of 2013;
- Provisions for tax, labor, and environmental risks – Decrease of R\$2,473 or 96.1 percent, primarily due to the revaluation of environmental contingencies related to the lawsuit filed by fishermen amounting to R\$1,550, and a tax contingency amounting to R\$902, recorded in the first quarter of 2013;
- Write off allowance for doubtful accounts: in 2013, there was a reversal of R \$ 2,744 due to the payment of the 1st installment of 60, set in the judicial recovery plan submitted by a defaulting customer. In 2014, there was a reversal of values due to the decrease of the Company's participation on the debt of the Chamber of Commercialization of Electric Energy (CCEE).

## EBITDA and EBITDA margin

	1Q2013	1Q2014	% Change
Net income for the period	71,519	121,516	69.9
Income tax and social contribution	36,761	62,570	70.2
Finance income	27,663	25,746	-6.9
Depreciation and amortization	54,407	54,297	-0.2
<b>EBITDA</b>	<b>190,350</b>	<b>264,129</b>	<b>38.8</b>
<i>Net margin</i>	<i>69.1%</i>	<i>74.6%</i>	

EBITDA (earnings before interest, taxes on income, including social contribution on net income, depreciation and amortization) is calculated as net income plus finance income, income tax and social contribution, depreciation and amortization. EBITDA is not an accounting measure and calculated based on Brazilian Securities and Exchange Commission (CVM) Instruction 527/2012. EBITDA should not be considered as an alternative to cash flows as a liquidity indicator.

Our management believes that EBITDA provides a useful measurement of our performance, widely used by investors and analysts to evaluate performance and compare companies. By making these comparisons, however, you should bear in mind that EBITDA is not a measurement recognized by the accounting practices adopted in Brazil and it may be calculated differently by different companies.

Our EBITDA increased 38.8 percent as compared to the same period of last year, mainly, due to the increase in net operating revenues.

## Finance Income

	1Q2013	1Q2014	% Change
Finance income	4,158	16,547	298.0
Finance costs	(31,821)	(42,293)	32.9
<b>Finance costs net</b>	<b>(27,663)</b>	<b>(25,746)</b>	<b>-6.9</b>

Net finance costs decreased R\$1,917, or 6.9 percent as compared to the same quarter last year. There was a 298.0 percent increase in finance income primarily due to the higher volume invested in the period and finance costs increased 32.9 percent, mainly due 4<sup>th</sup> issue of debentures in the second quarter of 2013.

## Debentures

Issue	Serie	Yield:	Maturity	1Q2013	1Q2014
1 <sup>st</sup>	1	CDI fluctuation + 2.15% p.y.	09/15/2013	62,352	-
1 <sup>st</sup>	2	IPCA fluctuation + 11.6% p.y.	09/15/2015	123,535	-
2 <sup>nd</sup>	Single	IGP-M fluctuation + 8.59% p.y.	07/16/2015	633,233	450,524
3 <sup>nd</sup>	Single	CDI fluctuation + 1.15% p.y.	01/10/2017	151,813	153,041
4 <sup>th</sup>	1	CDI fluctuation + 0.65% p.y.	07/16/2018	-	254,622
4 <sup>th</sup>	2	IPCA fluctuation + 6.07% p.y.	07/16/2023	-	271,121
				<b>970,933</b>	<b>1,129,308</b>

Our debentures for the quarter is R\$1,129,308, or 16.3 percent higher as compared to R\$970,933 for the same period of last year. This variation is the result of the 4<sup>th</sup> issue of debentures in the amount of R\$500,000, offset by the settlement of the 1<sup>st</sup> series of the 1<sup>st</sup> issue and advance payment of the 2<sup>nd</sup> series of the 1<sup>st</sup> issue.

**Net financial debt**

Net financial debt, consisting of debentures less cash and cash equivalents, totaled R\$457,041, a 36.6 percent decrease as compared to the R\$720,635 for the same period of last year, mainly due to the 4<sup>th</sup> issuance of debentures and higher volume of cash generated in the period.

	1Q2013	1Q2014	% Change
Debentures	970,933	1,129,308	16.3
Cash	(250,298)	(672,267)	168.6
<b>Net debt</b>	<b>720,635</b>	<b>457,041</b>	<b>-36.6</b>

**Net income for the Period**

Due to the effects referred to above, our profit for the first quarter of 2014 was R\$121,516, a 69.9 percent increased as compared to the R\$71,519, recorded for the same period of last year.



**BALANCE SHEETS AS AT MARCH 31, 2014 AND DECEMBER 31, 2013**  
(Amounts in thousands of Brazilian reais - R\$)

<b>ASSETS</b>	<b>Note</b>	<b>03/31/2014</b>	<b>12/31/2013</b>
<b>Current assets</b>			
Cash and cash equivalents	6	672,267	611,670
Trade receivables	7	130,789	168,728
Recoverable taxes	8	5,166	5,059
Services in progress		13,547	12,661
Prepaid expenses		4,227	321
Sundry debtors		1,268	1,014
Due from related parties	13.1	344	-
Other assets		496	990
<b>Total current assets</b>		<b>828,104</b>	<b>800,443</b>
<b>Noncurrent assets</b>			
Long-term receivables			
Trade receivables	7	1,406	1,555
Recoverable taxes	8	1,137	318
Escrow deposits	9	36,580	35,544
Restricted funds		530	525
Prepaid expenses		3,795	3,861
		<b>43,448</b>	<b>41,803</b>
Investments		26	26
Property, plant and equipment	10	3,589,012	3,633,639
Intangible assets	11	33,693	34,400
<b>Total noncurrent assets</b>		<b>3,666,179</b>	<b>3,709,868</b>
<b>Total assets</b>		<b>4,494,283</b>	<b>4,510,311</b>

The accompanying notes are an integral part of these financial statements.

**BALANCE SHEETS AS AT MARCH 31, 2014 AND DECEMBER 31, 2013**

(Amounts in thousands of Brazilian reais - R\$)

<b>LIABILITIES AND EQUITY</b>	<b>Note</b>	<b>03/31/2014</b>	<b>12/31/2013</b>
<b>Current liabilities</b>			
Trade payables	12	34,745	15,079
Payroll and related taxes		13,047	14,094
Debentures	14	257,203	249,245
Taxes, fees and contributions	8	68,980	182,240
Dividends and interest on capital	20.4	212,064	269,055
Accrued liabilities		7,051	6,558
Cibacap	15	989	344
Regulatory charges	19	26,711	26,268
Other liabilities		704	344
<b>Total current liabilities</b>		<b>621,494</b>	<b>763,227</b>
<b>Noncurrent liabilities</b>			
Debentures	14	872,105	861,888
Deferred revenues		10,498	9,269
Special obligations	18	8,520	8,650
Provision for tax, labor and environmental risks	17	19,912	19,828
Cibacap	15	8,176	8,697
Deferred income tax and social contribution	8	393,240	399,903
Distribution system tariff (Tusd-g)	12	5,344	5,098
Regulatory charges	19	9,783	10,156
Other liabilities		325	325
<b>Total noncurrent liabilities</b>		<b>1,327,903</b>	<b>1,323,814</b>
<b>Equity</b>			
Share capital	20.1	1,339,138	1,339,138
Capital reserves	20.2	99,512	99,512
Earnings reserve	20.3	112,686	112,586
Retained earnings	20.4	138,406	-
Valuation adjustments to equity	20.5	855,144	872,034
<b>Total equity</b>		<b>2,544,886</b>	<b>2,423,270</b>
<b>Total liabilities and equity</b>		<b>4,494,283</b>	<b>4,510,311</b>

The accompanying notes are an integral part of these financial statements.

**INCOME STATEMENTS**  
**FOR THE PERIODS ENDED MARCH 31, 2014 AND 2013**  
 (In thousands of Brazilian reais - R\$, unless otherwise stated)

	Note	03/31/2014	03/31/2013
<b>Net sales revenue</b>	21	<b>354,245</b>	<b>275,353</b>
<b>Operating income (expenses)</b>	22		
Personnel		(18,463)	(15,636)
Materials		(742)	(815)
Outside services		(8,947)	(8,333)
Aneel inspection fee - TFSEE		(1,018)	(1,048)
Power purchased for resale	23.2	(20,276)	(24,409)
Power grid charges	23.3	(20,255)	(18,512)
Financial compensation due to the use of water resources		(17,030)	(13,026)
Depreciation and amortization	10.b and 11.b	(54,297)	(54,407)
Provision for tax, labor and environmental risks		(101)	(2,574)
Write off (allowance) for doubtful accounts		420	2,744
Rents		(992)	(865)
Insurance		(1,186)	(1,082)
Other		(1,526)	(1,447)
		<b>(144,413)</b>	<b>(139,410)</b>
<b>Operating profit</b>		<b>209,832</b>	<b>135,943</b>
<b>Finance income</b>	24		
Income		16,547	4,158
Costs		(42,293)	(31,821)
		<b>(25,746)</b>	<b>(27,663)</b>
<b>Profit before income tax and social contribution</b>		<b>184,086</b>	<b>108,280</b>
Income tax and social contribution	8.2		
Current		(69,285)	(42,963)
Deferred		6,715	6,202
		<b>(62,570)</b>	<b>(36,761)</b>
<b>Net income for the period</b>		<b>121,516</b>	<b>71,519</b>
<b>Earnings per share from continuing operations (R\$ per share)</b>			
Basic/diluted earnings per share (PN)	25	1.28679	0.75735
Basic/diluted earnings per share (ON)	25	1.28679	0.75735

The accompanying notes are an integral part of these financial statements.

**STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE PERIODS ENDED MARCH 31, 2014 AND 2013**  
 (In thousands of Brazilian reais - R\$, unless otherwise stated)

	<u>03/31/2014</u>	<u>03/31/2013</u>
<b>Net income for the period</b>	<b>121,516</b>	<b>71,519</b>
Actuarial gains on defined-benefit pension plan	151	578
Deferred income tax and social contribution on actuarial gains	(51)	(196)
	<u>100</u>	<u>382</u>
<b>Comprehensive income for the period</b>	<b><u>121,616</u></b>	<b><u>71,901</u></b>

The accompanying notes are an integral part of these financial statements.

**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE PERIODS ENDED MARCH 31, 2014 AND 2013**  
 (Amounts in thousands of Brazilian reais - R\$)

	Reserves			Retained earnings	Valuation adjustments to equity (see Note 20.5)	Total
	Share capital	Capital	Earnings			
<b>Balances as at December 31, 2013</b>	<b>1,339,138</b>	<b>99,512</b>	<b>112,586</b>	-	<b>872,034</b>	<b>2,423,270</b>
Comprehensive income for the period						
Net income for the period	-	-	-	121,516	-	121,516
Actuarial gains on defined-benefit pension plan	-	-	-	-	151	151
Deferred income tax and social contribution on actuarial gains	-	-	-	-	(51)	(51)
Reclassification of net actuarial gains - CPC 33 (R1)	-	-	100	-	(100)	-
	-	-	<b>100</b>	<b>121,516</b>	-	<b>121,616</b>
Contributions and distributions to shareholders						
Valuation adjustments to equity (see Note 20.5)	-	-	-	25,591	(25,591)	-
Deferred tax on valuation adjustments to equity	-	-	-	(8,701)	8,701	-
	-	-	-	<b>16,890</b>	<b>(16,890)</b>	-
<b>Balances as at March 31, 2014</b>	<b>1,339,138</b>	<b>99,512</b>	<b>112,686</b>	<b>138,406</b>	<b>855,144</b>	<b>2,544,886</b>

	Reserves			Retained earnings	Valuation adjustments to equity	Total
	Share capital	Capital	Earnings			
<b>Balances as at December 31, 2012</b>	<b>1,339,138</b>	<b>99,432</b>	<b>90,211</b>	-	<b>938,773</b>	<b>2,467,554</b>
Comprehensive income for the period						
Net income for the period	-	-	-	71,519	-	71,519
Actuarial gains on defined-benefit pension plan	-	-	-	-	578	578
Deferred income tax and social contribution on actuarial gains	-	-	-	-	(196)	(196)
Reclassification of net actuarial gains - CPC 33 (R1)	-	-	382	-	(382)	-
	-	-	<b>382</b>	<b>71,519</b>	-	<b>71,901</b>
Contributions and distributions to shareholders						
Valuation adjustments to equity	-	-	-	25,116	(25,116)	-
Deferred tax on valuation adjustments to equity	-	-	-	(8,539)	8,539	-
	-	-	-	<b>16,577</b>	<b>(16,577)</b>	-
<b>Balances as at March 31, 2013</b>	<b>1,339,138</b>	<b>99,432</b>	<b>90,593</b>	<b>88,096</b>	<b>922,196</b>	<b>2,539,455</b>

The accompanying notes are an integral part of these financial statements.

**STATEMENTS OF CASH FLOWS**  
**FOR THE PERIODS ENDED MARCH 31, 2014 AND 2013**  
(Amounts in thousands of Brazilian reais - R\$)

	<u>03/31/2014</u>	<u>03/31/2013</u>
<b>Cash flows from operating activities</b>		
Net income for the period	121,516	71,519
<b>Adjustments:</b>		
Depreciation and amortization	54,297	54,407
Write-offs of property, plant and equipment/intangible	255	151
Deferred income tax and social contribution	(6,715)	(6,202)
Write off (allowance) for doubtful accounts	(420)	(2,744)
Accrued interest on debentures	24,173	20,764
Inflation adjustment on debentures	13,835	9,066
Provision/(reversal) for tax, labor and environmental risks	(238)	2,574
Inflation adjustment on provisions for tax, labor and environmental risks	86	119
Inflation for escrow deposits	(1,028)	(225)
<b>Changes in assets and liabilities</b>		
Trade receivables	38,508	(4,946)
Sundry debtors	(254)	(802)
Related parties	(344)	6
Escrow deposits	(8)	(371)
Services in progress	(886)	(2,546)
Restricted funds	(5)	(15)
Prepaid expenses	(3,840)	(3,358)
Trade payables	19,912	(10,568)
Payroll and related taxes	(1,047)	(2,842)
Taxes, fees and contributions	56,493	60,656
Estimated payables	493	465
Deferred revenues	1,229	979
Cibacap	124	(300)
Provision for tax, labor and environmental risks	236	(76)
Other gains and losses	1,023	(491)
<b>Cash provided by operations</b>	<b>317,395</b>	<b>185,220</b>
Interest and inflation adjustments on debentures paid	(19,833)	(9,060)
Income tax and social contribution paid	(170,627)	(3,376)
<b>Net cash provided by operating activities</b>	<b>126,935</b>	<b>172,784</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(9,274)	(5,090)
Purchase of intangible	(74)	(306)
<b>Net cash used in investing activities</b>	<b>9,348</b>	<b>(5,396)</b>
<b>Cash flows from financing activities</b>		
Dividends and interest on capital	(56,990)	(86,642)
<b>Net cash used in financing activities</b>	<b>(56,990)</b>	<b>(86,642)</b>
<b>Net increase in cash and cash equivalents</b>	<b>60,597</b>	<b>80,746</b>
<b>Cash and cash equivalents at the beginning of period</b>	<b>611,670</b>	<b>169,552</b>
<b>Cash and cash equivalents at the end of period</b>	<b>672,267</b>	<b>250,298</b>

The accompanying notes are an integral part of these financial statements.

**STATEMENTS OF VALUE ADDED**  
**FOR THE PERIODS ENDED MARCH 31, 2014 AND 2013**  
 (Amounts in thousands of Brazilian reais - R\$)

	<u>03/31/2014</u>	<u>03/31/2013</u>
<b>Revenue</b>		
Sales revenue	391,822	303,059
Revenue obtained through property construction	9,274	5,090
Write off (allowance) for doubtful accounts	420	2,744
	<b>401,516</b>	<b>310,893</b>
<b>Inputs acquired from third parties</b>		
Energy purchased and power grid charges	(40,531)	(42,921)
Materials and outside services	(9,689)	(9,148)
Property construction	(9,274)	(5,090)
Other operating costs	(2,347)	(4,572)
	<b>(61,841)</b>	<b>(61,731)</b>
<b>Gross value added</b>	<b>339,675</b>	<b>249,162</b>
Depreciation and amortization	(54,297)	(54,407)
<b>Net value added</b>	<b>285,378</b>	<b>194,755</b>
Rental	10	16
Finance income	16,547	4,158
Other	1,562	5,446
<b>Total value added received</b>	<b>18,119</b>	<b>9,620</b>
<b>Total value added for distribution</b>	<b>303,497</b>	<b>204,375</b>
<b>Distribution of value added</b>		
<b>Personnel</b>		
Salaries and wages	9,605	7,345
Benefits	2,016	1,798
FGTS	915	831
Accrued bonuses	1,990	2,040
Profit sharing	1,192	954
Payroll taxes (except INSS)	706	775
	<b>16,424</b>	<b>13,743</b>
<b>Taxes, fees and contributions</b>		
Federal	117,287	82,039
State	4,948	4,353
Municipal	37	35
	<b>122,272</b>	<b>86,427</b>
<b>Lenders and lessors</b>		
Rents	992	865
Interest on debentures	24,173	20,774
Inflation adjustment on debentures	13,835	9,066
Other finance costs	4,285	1,981
	<b>43,285</b>	<b>32,686</b>
<b>Other</b>		
Retained earnings	121,516	71,519
	<b>121,516</b>	<b>71,519</b>
<b>Total value added distributed</b>	<b>303,497</b>	<b>204,375</b>

The accompanying notes are an integral part of these financial statements.

**NOTES TO THE INTERIM FINANCIAL INFORMATION (ITR)  
FOR THE QUARTER ENDED MARCH 31, 2014**

(Amounts in thousands of Brazilian reais - R\$, unless otherwise stated)

**1. GENERAL INFORMATION**

Duke Energy International, Geração Paranapanema S.A. ("Company") is a share-based corporation and a public utility concessionaire, operating as independent generator, with registered headquarters in the City and State of Sao Paulo, and is mainly engaged in the generation and sale of electric power, operations that are regulated and supervised by the National Electric Energy Agency (ANEEL), which reports to the Ministry of Mines and Energy (MME).

The Company's installed capacity is 2,241 MW, comprising of the following generation plants in operation in the State of São Paulo: Capivara Hydroelectric power plant, Chavantes Hydroelectric power plant, Jurumirim Hydroelectric power plant, Salto Grande Hydroelectric power plant, Taquaruçu Hydroelectric Power Plant, Rosana Hydroelectric power plant, and 49.7 percent of the Canoas Complex consisting of the Canoas I and II Hydroelectric power plants.

These financial statements were approved by the board of directors and authorized for issue on May 06, 2014.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRESENTATION OF INTERIM FINANCIAL INFORMATION (ITR)**

The interim financial statements contained in this quarterly information have been prepared in accordance with the Brazilian accounting pronouncement CPC 21(R1) Interim Financial Reporting and International Accounting Standard IAS 34 – Interim Financial Reporting, Issued by the International Accounting Standards Board – IASB, and are presented in accordance with the standards issued by the Brazilian Securities and Exchange Commission applicable to the preparation of the Interim Financial information (ITR).

As described in the Circular Letter CVM/SNC/SEP 03/2011, therefore, the Company elected to present the notes to this interim financial information in a summarized manner in those cases of replication of the information presented in the annual financial statements. In these cases, we have included a reference to the complete note to the annual financial statements to avoid any misunderstanding of the Company's financial position and performance for the interim period.

The Company states that the basis of preparation and the accounting policies used are the same as those applied in the 2013 annual financial statements. Consequently, the related information is disclosed in notes 2.1 to 2.18 to those financial statements.

The Company evaluated the new pronouncements and interpretation of CPC/IFRS with effect from January 1<sup>st</sup>, 2014 and concluded that they do not have significant impact in these financial statements.

**3. KEY ESTIMATES AND CRITICAL ACCOUNTING JUDGMENTS**

The Company hereby declares that the key estimates and critical accounting judgments disclosed in the 2013 annual financial statements are applicable to this interim financial information, as presented in note 3 of those financial statements.



## 4. BUSINESS RISK MANAGEMENT

### 4.1. Financial risk factors

The Company hereby declares that the information on the financial risk factors described in the 2013 annual financial statements is applicable to this interim financial information, as presented in notes 4.1 to 4.4 thereto, except for the sensitivity analysis and capital management described below:

#### 4.1.1. Sensitivity analysis

In accordance to item 40 of CPC 40 (R1) - Financial Instruments the Company discloses the sensitivity analysis for each type of market risk considered as relevant by management, arising from financial instruments comprised of debentures, cash and cash equivalents, to which the Company is exposed at the end of the period.

The sensitivity for the probable scenario was calculated taking into consideration the variations between the rates and indexes on March 31, 2014 and the estimates available in the market for the next 12 months (Source: Focus of Brazilian Central Bank), and also considered another four favorable and unfavorable scenarios, with 25% and 50% variations on the interest rates and floating indexes in relation to the probable scenario.

We show below the impacts on the Company's financial results for the five scenarios estimated for the next 12 months:

Debt		03/31/2014	Scenario -Δ 50%	Scenario -Δ 25%	Scenario Probable	Scenario +Δ 25%	Scenario +Δ 50%
<b>Debentures</b>	<b>Issue</b>						
	2 <sup>nd</sup>	IGP-M (450,524)	(55,144)	(63,366)	(71,588)	(79,810)	(88,032)
	3 <sup>rd</sup>	CDI (153,041)	(8,570)	(11,975)	(15,381)	(18,786)	(22,191)
	4 <sup>th</sup> S1	CDI (254,622)	(12,986)	(18,651)	(24,316)	(29,982)	(36,647)
	4 <sup>th</sup> S2	IPCA (271,121)	(24,794)	(28,963)	(33,131)	(37,299)	(41,468)
		<b>(1,129,308)</b>	<b>(101,494)</b>	<b>(122,955)</b>	<b>(144,416)</b>	<b>(165,877)</b>	<b>(187,338)</b>
<b>Cash and cash equivalents</b>	CDI	672,267	29,916	44,874	59,832	74,790	89,748
<b>Total Net Exposure</b>		<b>(457,041)</b>	<b>(71,578)</b>	<b>(78,081)</b>	<b>(84,584)</b>	<b>(91,087)</b>	<b>(97,590)</b>
	<b>Change in index</b>		<b>Scenario -Δ 50%</b>	<b>Scenario -Δ 25%</b>	<b>Scenario Probable</b>	<b>Scenario +Δ 25%</b>	<b>Scenario +Δ 50%</b>
			IGP-M 3.65%	5.48%	7.30%	9.13%	10.95%
			IPCA 3.08%	4.61%	6.15%	7.69%	9.23%
			CDI 4.45%	6.68%	8.90%	11.13%	13.35%

### 4.2. Capital management

	03/31/2014	12/31/2013
Debentures	1,129,308	1,111,133
Cash and cash equivalents	(672,267)	(611,670)
<b>Net debt</b>	<b>457,041</b>	<b>499,463</b>
Total equity	2,544,886	2,423,270
<b>Total capital</b>	<b>3,001,927</b>	<b>2,922,733</b>
<b>Financial leverage ratio (%)*</b>	<b>15.2</b>	<b>17.1</b>

\*Net debt/total capital

The changes in the Capital Management balance arise from the normal changes in the current quarter.

#### 4.3. Fair value estimate

The Company hereby declares that the fair value estimates disclosed in the 2013 annual financial statements are applicable to this interim financial information, as presented in note 4.3 thereto.

#### 5. CREDIT QUALITY OF FINANCIAL ASSETS

The credit quality of financial assets that are not past due or impaired may be evaluated by reference to external credit ratings (if any) or historical information on default rates for counterparties (see notes 6 and 7):

<b>Cash and Cash Equivalents</b>					
<b>Standard &amp; Poor's</b>	<b>Moody's</b>	<b>03/31/2014</b>	<b>Standard &amp; Poor's</b>	<b>Moody's</b>	<b>12/31/2013</b>
A-3	BR-1	662.557	A-3	BR-1	274.075
A-2	BR-1	3	A-2	BR-1	328.030
A-3	-	9.704	A-2	-	9.559
-	-	-	-	BR-1	3
*	*	3	*	*	3
		<b>672.267</b>			<b>611.670</b>

\* The R\$3 balance as at March 31, 2014 (R\$3 at December 31, 2013) refers to the imprest fund and, therefore, it does not have a risk classification.

#### 6. CASH AND CASH EQUIVALENTS

	<b>03/31/2014</b>	<b>12/31/2013</b>
Cash and banks	690	659
Short-term investments		
Bank certificates of deposit (CDB)	671,577	611,011
	<b>672,267</b>	<b>611,670</b>

The changes in the cash and cash equivalents balance arise from the normal changes in the current quarter and the complete information thereon is disclosed in note 6 to the 2013 annual financial statements.

## 7. TRADE RECEIVABLES

	03/31/2014			12/31/2013		
	Current	Noncurrent	Total	Current	Noncurrent	Total
Receivables under bilateral contracts	99.486	-	99.486	88.642	-	88.642
Receivables under auction contracts	25.005	1.598	26.603	31.313	1.747	33.060
Spot-market energy (MRE/PLD)	8.251	-	8.251	51.146	-	51.146
	<b>132.742</b>	<b>1.598</b>	<b>134.340</b>	<b>171.101</b>	<b>1.747</b>	<b>172.848</b>
Allowance for doubtful accounts	(1.953)	(192)	(2.145)	(2.373)	(192)	(2.565)
	<b>130.789</b>	<b>1.406</b>	<b>132.195</b>	<b>168.728</b>	<b>1.555</b>	<b>170.283</b>

### Changes in the allowance for doubtful debts

Balance at December 31, 2013	(2,565)
Reversals in the period	420
Balance at March 31, 2014	<u>(2,145)</u>

### Aging list of trade receivables:

	03/31/2014	12/31/2013
Current	132,742	171,101
Past due less than 90 days	(1,598)	(2,018)
Past due between 91 and 365 days	(355)	(355)
<b>Total Current</b>	<b>130,789</b>	<b>168,728</b>
Long Term	1,598	1,747
Past due over 365 days	(192)	(192)
<b>Total Long Term</b>	<b>1,406</b>	<b>1,555</b>
<b>Total Receivables</b>	<b>132,195</b>	<b>170,283</b>

The changes in the Trade receivables balance arise from the normal changes in the current quarter, and the complete information thereon is disclosed in note 7 to the 2013 annual financial statements.

## 8. TAXES, FEES AND CONTRIBUTION

	03/31/2014		12/31/2013	
	Current	Noncurrent	Current	Noncurrent
<b>Assets</b>				
Recoverable income tax and social contribution	4,916	819	4,772	-
Recoverable taxes on revenue (PIS and COFINS)	190	-	227	-
Recoverable State VAT (ICMS)	-	318	-	318
Service tax (ISS)	21	-	39	-
Social security tax (INSS)	39	-	21	-
	<b>5,166</b>	<b>1,137</b>	<b>5,059</b>	<b>318</b>
<b>Liabilities</b>				
Income tax and social contribution	57,155	-	160,538	-
PIS and COFINS	9,947	-	10,018	-
ICMS	1,673	-	1,442	-
Withholding income tax (IRRF) on interest on capital	-	-	9,934	-
Other	205	-	308	-
	<b>68,980</b>	<b>-</b>	<b>182,240</b>	<b>-</b>
<b>Deferred tax assets</b>				
Temporary differences	-	(10,174)	-	(11,495)
Tax benefit	-	(35,435)	-	(36,518)
<b>Deferred tax liabilities</b>				
Equity valuation adjustments	-	438,849	-	447,916
<b>Deferred tax liabilities (net)</b>	<b>-</b>	<b>393,240</b>	<b>-</b>	<b>399,903</b>

The changes in the Recoverable taxes/Taxes payable balance arise from the normal changes in the current quarter, and the complete information thereon is disclosed in notes 8 and 8.1 to the 2013 annual financial statements.

### 8.1. Tax benefits - merged goodwill

The Company constituted a provision to maintain the integrity of net equity, the reversal of which will neutralize the effect of goodwill amortization. The composition of the balances is as follows:

	03/31/2014		12/31/2013	
	Goodwill	Allowance	Net	Net
Balance arising on merger	305,406	(201,568)	103,838	103,838
Realization	(201,173)	132,770	(68,403)	(67,320)
<b>Closing balance</b>	<b>104,233</b>	<b>(68,798)</b>	<b>35,435</b>	<b>36,518</b>

Net amount corresponding to the tax benefit – income tax and social contribution:

	03/31/2014	03/31/2013
Goodwill amortization	(3,186)	(3,438)
Reversal of allowance	2,103	2,269
Tax benefit	1,083	1,169
<b>Net effect for the period</b>	<b>-</b>	<b>-</b>

The following is the realization of the tax related to the Duke Sudeste merged goodwill.

	2014	2015	2016	2017	2018	2019-2020	2021-2024	2024 Therefore	Total
Estimated realization	3,250	4,002	3,695	3,299	2,946	4,978	7,132	6,133	35,435

The changes in the Tax benefits balance arise from the normal changes in the current quarter, and the complete information thereon is disclosed in notes 8.2 to the 2013 annual financial statements.

## 8.2. Statements of income tax and social contribution

The reconciliation between income tax and social contribution expenses at their statutory rates and at their actual tax rates is as follows:

	03/31/2014			03/31/2013		
	Income tax	Social contribution	Total	Income tax	Social contribution	Total
<b>Income before income tax and social contribution</b>	<b>184,086</b>	<b>184,086</b>	<b>184,086</b>	<b>108,280</b>	<b>108,280</b>	<b>108,280</b>
Income tax and social contribution statutory rate	25%	9%	34%	25%	9%	34%
<b>Income tax and social contribution statutory rates</b>	<b>46,022</b>	<b>16,568</b>	<b>62,590</b>	<b>27,070</b>	<b>9,745</b>	<b>36,815</b>
<b>Adjustments to effective rate</b>						
Amortization Inflationary credit charge	(553)	19	(534)	(553)	19	(534)
(Write off) of allowance for doubts accounts	(105)	(38)	(143)	(686)	(247)	(933)
Tax benefits - merged goodwill (Aneel Res. 02/2002)	(797)	(286)	(1,083)	(860)	(309)	(1,169)
Nondeductible expenses	473	54	527	455	38	493
Adjustments under the RTT	6,705	2,414	9,119	6,525	2,349	8,874
Temporary differences in profit or loss	(4,938)	(1,777)	(6,715)	(4,560)	(1,642)	(6,202)
Others	(878)	(313)	(1,191)	(432)	(150)	(582)
<b>Income tax and social contribution affecting profit or loss</b>	<b>45,929</b>	<b>16,641</b>	<b>62,570</b>	<b>26,959</b>	<b>9,802</b>	<b>36,761</b>
Income tax and social contribution	50,867	18,418	69,285	31,519	11,444	42,963
Deferred income tax and social contribution	(4,938)	(1,777)	(6,715)	(4,560)	(1,642)	(6,202)
<b>Total Income tax and social contribution affecting profit or loss</b>	<b>45,929</b>	<b>16,641</b>	<b>62,570</b>	<b>26,959</b>	<b>9,802</b>	<b>36,761</b>
<b>Applicable tax rate</b>	<b>24.95%</b>	<b>9.04%</b>	<b>33.99%</b>	<b>24.90%</b>	<b>9.05%</b>	<b>33.95%</b>

The changes in the Current and deferred income tax and social contribution balances arise from the normal changes in the current quarter, and the complete information thereon is disclosed in note 8.3 to the 2013 annual financial statements.

## 9. ESCROW DEPOSITS

	03/31/2014	12/31/2013
Environmental	4,713	4,612
Tax:		
Real Estate Tax (IPTU) - City of Primeiro de Maio Municipality	1,171	1,152
Late payment fine on IRRF, IRPJ and CSLL	105	103
Late payment fine on PIS, COFINS, IRPJ, CSLL and Tax on Financial Transactions (IOF)	6,645	6,513
<b>Total Tax</b>	<b>7,921</b>	<b>7,768</b>
Tusd-g	23,946	23,164
<b>Total escrow deposits</b>	<b>36,580</b>	<b>35,544</b>

This line item includes the escrow deposits made for appeals, or not, not related to provision for the probable risks and are adjusted for inflation (see Note 17).

The Company hereby declares that the information on the escrow deposits disclosed in the 2013 annual financial statements is applicable to this interim financial information, as presented in note 9 thereto.

## 10. PROPERTY, PLANT AND EQUIPMENT

### a) Breakdown

	03/31/2014		12/31/2013	Annual depreciation/ amortization rate
	Cost	Accumulated depreciation	Net	
<b>In service</b>			<b>Net</b>	
Land	210,997	-	210,997	-
Reservoirs, dams and water mains	3,449,614	(810,372)	2,639,242	4.5%
Buildings, constructions and improvements	468,063	(145,165)	322,898	3.2%
Machinery and equipment	781,355	(229,362)	551,993	5.6%
Vehicles	5,599	(2,812)	2,787	14.6%
Furniture and fixtures	1,767	(1,388)	379	6.6%
(-) Canoas I and II plant reserves	(200,675)	-	(200,675)	
	<b>4,716,720</b>	<b>(1,189,099)</b>	<b>3,527,621</b>	<b>3,573,990</b>
<b>In progress</b>				
Reservoirs, dams and water mains	694	-	694	1,609
Buildings, constructions and improvements	1,233	-	1,233	2,199
Machinery and equipment	53,876	-	53,876	50,352
Furniture and fixtures	1,058	-	1,058	960
	<b>56,861</b>	<b>-</b>	<b>56,861</b>	<b>55,120</b>
Land	4,249	-	4,249	4,249
Vehicles	281	-	281	280
	<b>4,778,111</b>	<b>(1,189,099)</b>	<b>3,589,012</b>	<b>3,633,639</b>
(-) Special obligations* (see note 18)	(6,964)	360	(6,604)	(6,624)
	<b>4,771,147</b>	<b>(1,188,739)</b>	<b>3,582,408</b>	<b>3,627,015</b>

\* Obligations related to the concession

### b) Changes in property, plant and equipment

	12/31/2013		Write-offs	Reclassifications and transfers	03/31/2014
	Net	Additions			Depreciation
Land	215,246	-	-	-	215,246
Reservoirs, dams and water mains	2,676,073	397	(38,745)	(8)	2,639,936
Buildings, constructions and improvements	327,241	428	(3,740)	-	324,131
Machinery and equipment	611,119	8,310	(10,928)	(247)	605,869
Vehicles	3,271	1	(204)	-	3,068
Furniture and fixtures	1,364	138	(29)	-	1,437
(-) Canoas I and II plant reserves	(200,675)	-	-	-	(200,675)
	<b>3,633,639</b>	<b>9,274</b>	<b>(53,646)</b>	<b>(255)</b>	<b>3,589,012</b>
(-) Special obligations*	(6,624)	-	20	-	(6,604)
	<b>3,627,015</b>	<b>9,274</b>	<b>(53,626)</b>	<b>(255)</b>	<b>3,582,408</b>

\* Obligations related to the concession

### 10.1 Deemed cost of property, plant and equipment

The Company applied the deemed cost at first-time adoption of IFRS in accordance with CPC 27 ("Property, Plant and Equipment") and engaged advisors from an external consultant to prepare the appraisal of its property, plant and equipment. The appraisal was carried out in accordance with the standards and procedures of the Brazilian Association of Technical Standards (ABNT) and the Ross-Heidecke depreciation method which considers the state of conservation and elapsed life of the asset to obtain its deemed cost, in addition to other requirements of the applicable legislation.

At January 1, 2009, date of the first-time adoption of IFRS, property, plant and equipment were increased by R\$ 2,083,565 through the application of the deemed cost with a corresponding entry to "Carrying value adjustments" in equity. In the fair value calculation, the

Company considered as reimbursable the residual values related to concessions and the increase in fair value was limited to the indemnity amount, Accordingly, the Company established a provision of R\$ 200,675, relating to the residual value at the end of the concession period of the Canoas I and II plants.

The additional depreciation expense calculated on the adjustments to deemed cost in the quarters ended March 31, 2014 and 2013 was R\$ 25,463 and R\$ 25,038 respectively.

Land was maintained at historical cost.

## **10.2 Depreciation rates**

The Company records its depreciation in accordance with the estimated useful life determined by the appraisers, which takes into consideration the useful lives estimated by the regulatory agencies that have been accepted by the market as appropriate, unless there is strong evidence that another useful life is more adequate. Land is not depreciated.

## **10.3 Assets linked to the concession**

In accordance concession contracts, the Company 76/1999 and 183/1998 is not allowed to sell or assign for any purpose the assets and installations considered usable by the concession, without the previous and express authorization of ANEEL. ANEEL Resolution 20/1999 regulates the release of assets from the concessions of the Public Electric Energy Service, granting prior authorization to release the assets not usable by the concession when they are destined for sale. The definition on the public hearing 39/2010 is under discussion by Aneel, which deals with the review of this resolution.

## **10.4. Concession Agreement**

On December 27, 2012 MME Ordinance 184/2012 was published, and provides for the reduction of 1.4 (average MW) in the Company's total physical guarantee, changing the amount relating to UHE – Taquaruçu from 201 average MW to 200.6 average MW and relating to UHE - Rosana from 177 average MW to 176 average MW. These reductions were caused by a physical guarantee extraordinary review process, set forth in MME Ordinance 861/2010, and are being discussed at administrative level for purposes of reversal.

## **10.5. 15% expansion**

The Company reports that the Performance Commitment Action filed by the State of São Paulo related to the 15% expansion of its installed capacity is in secrecy.

## 11. INTANGIBLE ASSETS

Intangible assets as at March 31, 2014 consist of software licenses and rights of way and to the Use of Public Assets (UBP).

### a) Breakdown

	03/31/2014		12/31/2013		Annual amortization rates
	Cost	Accumulated amortization	Net	Net	
<b>In service</b>					
UBP	53,494	(24,347)	29,147	29,609	3%
Software	23,725	(20,713)	3,012	3,331	5%
Rights of way	75	-	75	75	
	<b>77,294</b>	<b>(45,060)</b>	<b>32,234</b>	<b>33,015</b>	
<b>In progress</b>					
Software	1,459	-	1,459	1,385	
	<b>78,753</b>	<b>(45,060)</b>	<b>33,693</b>	<b>34,400</b>	
(-) Special obligations* (see note 18)	(2,207)	291	(1,916)	(2,026)	
	<b>76,546</b>	<b>(44,769)</b>	<b>31,777</b>	<b>32,374</b>	

\* Obligations related to the concession

### b) Changes in intangible assets

	12/31/2013			03/31/2014		
	Net	Additions	Amortization	Net		
UBP	29,609	-	(462)	29,147		
Software	4,716	74	(319)	4,471		
Rights of way	75	-	-	75		
	<b>34,400</b>	<b>74</b>	<b>(781)</b>	<b>33,693</b>		
(-) Special obligations*	(2,026)	-	110	(1,916)		
	<b>32,374</b>	<b>74</b>	<b>(671)</b>	<b>31,777</b>		

\* Obligations related to the concession

## 12. TRADE PAYABLES

	03/31/2014			12/31/2013		
	Current	Noncurrent	Total	Current	Noncurrent	Total
Electricity supply	20,281	-	20,281	7	-	7
Materials and services	5,713	-	5,713	6,367	-	6,367
Power grid charges						
TUST	7,959	-	7,959	7,871	-	7,871
Tusd-g	770	5,344	6,114	813	5,098	5,911
Connection charges	22	-	22	21	-	21
	<b>8,751</b>	<b>5,344</b>	<b>14,095</b>	<b>8,705</b>	<b>5,098</b>	<b>13,803</b>
	<b>34,745</b>	<b>5,344</b>	<b>40,089</b>	<b>15,079</b>	<b>5,098</b>	<b>20,177</b>

The electricity supply line item refers to the power purchased in the spot market (PLD), at the CCEE.

There were no new events as regards the legal lawsuit claiming the revision of the amounts payable as Distribution Grid Use Charge (Tusd-g), and is presented net of the related escrow deposits in noncurrent liabilities.

The changes in the Trade payables balance arise from the normal changes in the current quarter, and the complete information thereon is disclosed in note 12 to the 2013 annual financial statements.



### 13. RELATED PARTIES

#### 13.1. Balances and transactions

The Company has expense sharing agreements with the associates DEB – Pequenas Centrais Hidrelétricas Ltda. (“DEB”) and Duke Energy International, Brasil Ltda. (“Duke Brasil”). The amount receivable from those agreements at March 31, 2014 is R\$344 (R\$0 at December 31, 2013).

In those cases where the Company's customers require guarantees in business transactions, Duke Brasil provides such guarantees on behalf of the Company. As at March 31, 2014 these guarantees amount to R\$187,047 (R\$164,209 at December 31, 2013). The other material transactions with related parties refer to the distribution of dividends.

#### 13.2. Project development agreement

On December 21, 2012, the Extraordinary General Meeting (AGE) approved the execution of the Project Development Agreement (“Agreement”), whose counterparty is a company of the Company's economic group, called Duke Brasil, the Company's controlling shareholder, whose purpose is the participation in bids and/or auctions conducted in the scope of the power, by obtaining the related concessions, permits or authorizations. The purpose of the Agreement is to set: (a) the overall guidelines and method of implementation of cooperation between Duke Brasil and the Company for development of the projects, as supported by the Company.

The instrument described in 13.1 above and in this item signed by the Company and other companies of the same economic group is in accordance with the dispositions of ANEEL's Normative Resolution 334/2008 and the Company's Internal Policies.

Moreover, at the AGE held on December 16, 2013 was approved the establishment of the Independent Committee before the project from the same group of the Company, DEB (Project) achieves the Commercial Operation Stage to initiate studies of potential acquisition of the Project by the Company pursuant to the Agreement and applicable law.

The complete information on the Project Development Agreement is described in note 13.3 to the 2013 annual financial statements.

#### 13.3. Compensation of key management personnel

The table below is a breakdown of compensation of key management personnel:

	<u>03/31/2014</u>	<u>03/31/2013</u>
Employee and management short-term benefits	1,493	1,327
Post-employment benefits	48	39
	<u>1,541</u>	<u>1,366</u>

The changes in the Compensation of key management personnel balance arise from the normal changes in the current quarter, and the complete information thereon is disclosed in note 13.3 to the 2013 annual financial statements.

#### 13.4. Transfer of rights and obligations

On September 25, 2013 the Board of Directors of the Company approved the transfer of rights and obligations of credits held by Duke Trading Ltda. (“Duke Trading”), a company of the same economic group to the Company in compliance with best corporate governance practices and the terms of the Company's Domestic Policy, entitled “Policy Related Party Transactions”. Such transfer was due to the shutdown of Duke Trading operations at CCEE which will be completed in 2014, according to the Minutes of the 139th Meeting of the Board of Directors (“RCA”)

## 14. DEBENTURES

### 14.1. Breakdown and maturity of debentures

#### a) Breakdown

Issue	Serie	Yield	Maturity	Principal + charges in					
				03/31/2014			12/31/2013		
				Current	Noncurrent	Total	Current	Noncurrent	Total
2 <sup>nd</sup>	Single	IGP-M fluctuation + 8.59% p.y.	07/16/2015	237,627	212,897	450,524	224,301	208,479	432,780
3 <sup>rd</sup>	Single	CDI fluctuation + 1.15% p.y.	01/10/2017	3,382	149,659	153,041	7,011	149,610	156,621
4 <sup>th</sup>	1	CDI fluctuation + 0.65% p.y.	07/16/2018	5,128	249,494	254,622	10,876	249,455	260,331
4 <sup>th</sup>	2	IPCA fluctuation + 6.07% p.y.	07/16/2023	11,066	260,055	271,121	7,057	254,344	261,401
				<b>257,203</b>	<b>872,105</b>	<b>1,129,308</b>	<b>249,245</b>	<b>861,888</b>	<b>1,111,133</b>

#### b) Long term maturity

Noncurrent	
03/31/2014	
2015	212,576
2016	157,897
2017	158,091
2018	83,194
2021	86,621
2022	86,777
2023	86,949
<b>872,105</b>	

### 14.2. Changes in Debentures

	2 <sup>nd</sup> Issue	3 <sup>rd</sup> Issue	4 <sup>th</sup> Issue		Total
	Single	Single	Serie 1	Serie 2	
Balance as at December 31, 2013	<b>432,780</b>	<b>156,621</b>	<b>260,331</b>	<b>261,401</b>	<b>1,111,133</b>
<b>Changes in Debentures</b>					
Transaction costs	346	49	39	19	453
Interest accrual	9,255	4,034	6,422	4,009	23,720
Inflation adjustment accrual	8,143	-	-	5,692	13,835
Interest payments	-	(7,663)	(12,170)	-	(19,833)
	<b>17,744</b>	<b>(3,580)</b>	<b>(5,709)</b>	<b>9,720</b>	<b>18,175</b>
Balance as at March 31, 2014	<b>450,524</b>	<b>153,041</b>	<b>254,622</b>	<b>271,121</b>	<b>1,129,308</b>

The changes in the Debentures balance arise from the normal changes in the current quarter, and the complete information there on is disclosed in note 14 to the 2013 annual financial statements.

The Company is in compliance with all the covenants determined in the Debentures. Those covenants are disclosed in note 14 annual financial statements of the year of 2013.

## 15. CIBACAP – CAPIVARA BASIN INTERCITY CONSORTIUM

	03/31/2014	12/31/2013
Current	989	344
Noncurrent	8,176	8,697
	<b>9,165</b>	<b>9,041</b>

The changes in the Cibacap balance arise from the normal changes in the current quarter, and the complete information there on is disclosed in note 15 to the 2013 annual financial statements.

## 16. PENSION PLAN

In the quarter ended March 31, 2014 there were no changes in the assumptions used for the actuarial valuations.

The table below shows the determined and recognized expenses for the period (see note 24):

### Quarter expenses/(income) recognized in profit for the period

	<u>03/31/2014</u>	<u>03/31/2013</u>
Cost of current service	340	675
Interest on actuarial obligation	5,204	4,397
Expected return on plan assets	(6,771)	(4,745)
Interest on the asset limit	1,544	404
	<u>317</u>	<u>731</u>

The changes in the Pension Plan balance arise from the normal changes in the current quarter, see note 16 to the 2013 annual financial statements that describes the plans' positions and the assumptions used for the actuarial calculation.

## 17. PROVISION FOR TAX, LABOR AND ENVIRONMENTAL RISKS

The Company hereby declares that the information on estimates involving the risks of an unfavorable outcome classified by our legal counsel as probable and possible disclosed in the 2013 annual financial statements are applicable to this interim financial information, as presented in note 17 thereto.

### 17.1. Provision for tax, labor and environmental risks

#### a) Breakdown

			<u>03/31/2014</u>	<u>12/31/2013</u>
Proceedings	Provision	Escrow deposit	Provision net	Provision net
Labor	6,213	(3030)	3,183	3,228
Tax	12,660	(642)	12,018	11,975
Environmental	4,711	-	4,711	4,625
	<u>23,584</u>	<u>(3,672)</u>	<u>19,912</u>	<u>19,828</u>

#### b) Changes in the provision for tax, labor and environmental risks

	<u>Labor</u>	<u>Tax</u>	<u>Environmental</u>	<u>Total</u>
<b>Balance as at December 31, 2013</b>	<b>3,228</b>	<b>11,975</b>	<b>4,625</b>	<b>19,828</b>
<b>Contingencies</b>				
Provisions in the period	139	-	-	139
Reversals in the period	(377)	-	-	(377)
Adjustments in the period	-	51	86	137
	<u>(238)</u>	<u>51</u>	<u>86</u>	<u>(101)</u>
<b>Escrow deposits</b>				
Adjustments in the period	(43)	(8)	-	(51)
Addition	(49)	-	-	(49)
Disbursements / agreements in the period	285	-	-	285
	<u>193</u>	<u>(8)</u>	<u>-</u>	<u>185</u>
<b>Total changes in the period</b>	<b>(45)</b>	<b>43</b>	<b>86</b>	<b>84</b>
<b>Balance as at March 31, 2014</b>	<b>3,183</b>	<b>12,018</b>	<b>4,711</b>	<b>19,912</b>

The changes in the Provision for tax, labor and environmental contingencies balance arise from the normal changes in the current quarter.

## 17.2. Possible contingencies

	<u>03/31/2014</u>	<u>12/31/2013</u>
Labor	8,821	8,207
Tax	72,928	72,155
Environmental	32,626	31,976
Regulatory	67,131	65,872
	<u><b>181,506</b></u>	<u><b>178,210</b></u>

The changes in the Possible contingencies balance arise from the normal changes in the current quarter, and the complete information there on is disclosed in note 17.2 to the 2013 annual financial statements.

## 18. SPECIAL OBLIGATIONS

	<u>03/31/2014</u>	<u>12/31/2013</u>
Arising from PP&E - (see note 10)		
General reversion reserve - (RGR)	4,947	4,947
Equipment donations - (ONS)	1,501	1,516
Research and development - (R&D)	156	161
	<u><b>6,604</b></u>	<u><b>6,624</b></u>
Arising from intangibles (see note 11)		
Research and development – (R&D) - software	1,916	2,026
	<u><b>8,520</b></u>	<u><b>8,650</b></u>

See additional comments in note 18 to the 2013 annual financial statements.

## 19. REGULATORY CHARGES

The payables arising from charges set out by electricity industry legislation are as follows:

	<u>03/31/2014</u>			<u>12/31/2013</u>		
	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
Compensation for the use water resources (CFURH)	11,065	-	11,065	12,390	-	12,390
ANEEL inspection fee - TFSEE	339	-	339	349	-	349
Research and development (R&D)	15,307	9,783	25,090	13,529	10,156	23,685
	<u><b>26,711</b></u>	<u><b>9,783</b></u>	<u><b>36,494</b></u>	<u><b>26,268</b></u>	<u><b>10,156</b></u>	<u><b>36,424</b></u>

See additional comments in note 19 to the 2013 annual financial statements.

## 20. EQUITY

### 20.1. Share capital

The Company's authorized capital on March 31, 2014 is R\$2,355,580, of which R\$785,193 in common shares and R\$1,570,387 in preferred shares, all registered and without par value.

The subscribed and paid capital is R\$1,339,138 (R\$1,339,138 at December 31, 2013) divided into 94,433,283 (ninety four million, four hundred thirty-three thousand, two hundred eighty-three) shares, of which 31,477,761 (thirty one million, four hundred and seventy-seven thousand, seven hundred and sixty-one) common shares and 62,955,522 (sixty-two million, nine hundred and fifty-five thousand, five hundred twenty-two) preferred shares, all without par value.

Shareholders	Share position at 03/31/2014 in thousands of shares					
	Common	%	Preferred	%	Total	%
Duke Energy Internat. Brasil Ltda.	31,181	99.06	57,850	91.89	89,031	94.28
Duke Energy Internat. Brazil Holdings Ltd.	-	-	735	1.17	735	0.78
Cia Metropolitano de São Paulo	-	-	1,324	2.10	1,324	1.40
Other individuals and legal entities	297	0.94	3,046	4.84	3,343	3.54
	<b>31,478</b>	<b>100.00</b>	<b>62,955</b>	<b>100.00</b>	<b>94,433</b>	<b>100.00</b>

See additional comments in note 20.1 to the 2013 annual financial statements.

## 20.2. Capital reserves

	03/31/2014	12/31/2013
Share subscription premium	468	468
Spin-off account	(6,418)	(6,418)
Goodwill on downstream merger	103,838	103,838
Share-based payments	1,624	1,624
	<b>99,512</b>	<b>99,512</b>

See additional comments in note 20.2 to the 2013 annual financial statements.

## 20.3. Earnings reserves

	03/31/2014	12/31/2013
Legal Reserve	109,008	109,008
Pension Plan	3,678	3,578
	<b>112,686</b>	<b>112,586</b>

## 20.4. Retained earnings

### a) Retained earnings breakdown

	03/31/2014	03/31/2013
Net income for the period	121,516	71,519
Depreciation (deemed cost)	25,463	25,038
Write-offs (deemed cost)	128	78
IRPJ/CSLL	(8,701)	(8,539)
	<b>138,406</b>	<b>88,096</b>

### b) Dividends and interest on capital breakdown

	03/31/2014	12/31/2013
Dividends proposed	210,810	210,810
Interest on capital to pay	146	57,137
Dividends, interest on capital and capital reduction in custody	1,108	1,108
	<b>212,064</b>	<b>269,055</b>

## 20.5. Equity valuation adjustments

	Deemed cost	Pension plan	Total
<b>Balance at 12/31/2013</b>	<b>872,034</b>	-	<b>872,034</b>
<b>Valuation adjustments to equity</b>			
Depreciation	(25,463)	-	(25,463)
Write-offs	(128)	-	(128)
Deferred income tax and social contribution	8,701	-	8,701
	<b>(16,890)</b>	-	<b>(16,890)</b>
<b>Comprehensive income</b>			
Actuarial gains on defined-benefit pension plan	-	(151)	(151)
Deferred income tax and social contribution on actuarial gains	-	51	51
	-	<b>(100)</b>	<b>(100)</b>
Reclassification of net actuarial gains – CPC 33 (R1)	-	100	100
<b>Balance at 03/31/2014</b>	<b>855,144</b>	-	<b>855,144</b>

See additional comments in note 20.6 to the 2013 annual financial statements.

## 21. NET REVENUE

	03/31/2014	03/31/2013
<b>Electric power supply</b>		
Bilateral contracts	271,712	235,280
Auction contracts	55,594	63,066
Spot market	55,832	152
MRE	8,684	4,561
	<b>391,822</b>	<b>303,059</b>
Other income	1,572	5,462
	<b>393,394</b>	<b>308,521</b>
<b>Deductions from operating revenue</b>		
PIS and COFINS	(30,792)	(26,255)
ICMS	(4,802)	(4,204)
R&D	(3,555)	(2,709)
	<b>(39,149)</b>	<b>(33,168)</b>
<b>Net operating revenue</b>	<b>354,245</b>	<b>275,353</b>

## 22. OPERATING COSTS AND EXPENSES

Breakdown of operating costs and expenses by nature:

	03/31/2014			03/31/2013
	Cost of power sold	General and administrative expenses	Total	Total
<b>Operating expenses/(income)</b>				
Personnel	10,029	8,434	18,463	15,636
Materials	711	31	742	815
Outside services	4,744	4,203	8,947	8,333
ANEEL inspection fee - TFSEE	1,018	-	1,018	1,048
Power purchased for resale	20,276	-	20,276	24,409
Grid usage charges	20,255	-	20,255	18,512
Compensation for the use water resources	17,030	-	17,030	13,026
Depreciation and amortization	53,862	435	54,297	54,407
Provision for tax, labor and environmental risks	67	34	101	2,574
Write off (allowance) for doubtful accounts	-	(420)	(420)	(2,744)
Rents	-	992	992	865
Insurance	1,186	-	1,186	1,082
Other	324	1,202	1,526	1,447
	<b>129,502</b>	<b>14,911</b>	<b>144,413</b>	<b>139,410</b>

## 23. ELECTRIC POWER SOLD, PURCHASED AND POWER GRID CHARGES

### 23.1. Electric power sold

Supply	03/31/2014		03/31/2013	
	MWh (*)	R\$	MWh (*)	R\$
Bilateral contracts	1,661,425	271,712	1,573,437	235,280
Auction contracts	472,825	55,594	579,441	63,066
Spot market	146,058	55,832	-	152
MRE	834,230	8,684	460,635	4,561
	<b>3,114,538</b>	<b>391,822</b>	<b>2,613,513</b>	<b>303,059</b>

(\*) Not reviewed by independent auditors.

The table below summarizes the volumes in MW of Guaranteed Energy contracted/expected completion of contracts by the Company in the Deregulated Contracting Framework (ACL) and the Regulated Contracting Framework (ACR) at March 31, 2014:

	MW (*)		
	2014	2015	2016
Power available for sale	1,006	1,005	1,004
<b>ACR</b>	<b>211</b>	-	-
2007 (8 years)	211	-	-
<b>ACL</b>	<b>722</b>	<b>917</b>	<b>875</b>
Bilateral Contracts with free consumers	722	917	875
<b>Subtotal</b>	<b>933</b>	<b>917</b>	<b>875</b>
Deregulated Power Supply	73	88	129
Percentage power contracted	92.7%	91.2%	87.2%

(\*) Not reviewed by independent auditors.

### 23.2. Power purchased for resale

	03/31/2014		03/31/2013	
	MWh (*)	R\$	MWh (*)	R\$
Purchased power – Spot market	24,638	20,276	105,829	22,704
System Services Charge (ESS)	-	-	-	1,705
	<b>24,638</b>	<b>20,276</b>	<b>105,829</b>	<b>24,409</b>

(\*) Not reviewed by independent auditors.

In 2013 the company recognized R\$1,705 (without an equivalent amount for the prior period) related to the collection of the system services charge (ESS), under a supplementary ruling applicable to thermal power plants for power supply reasons. These amounts do not present a corresponding power volume and are used exclusively to reimburse the thermal power companies for the costs incurred on maintaining the reliability and stability of the national interconnected system.

The changes in the Power purchased for resale balance arise from the normal changes in the current quarter except for the ESS aforementioned, and the complete information thereon is disclosed in note 23.2 to the 2013 annual financial statements.

### 23.3. Power grid charges

	<u>03/31/2014</u>	<u>03/31/2013</u>
TUST	18,122	16,043
TUSD-G	2,086	2,429
Connection charges	47	40
	<u><b>20,255</b></u>	<u><b>18,512</b></u>

See additional comments in note 23.3 to the 2013 annual financial statements.

### 24. FINANCE INCOME

	<u>03/31/2014</u>	<u>03/31/2013</u>
<b>Income</b>		
Short-term investments	14,049	2,949
Inflation adjustments		
Escrow deposits	2,165	781
Others	1	-
Interest and discounts obtained	332	428
	<u><b>16,547</b></u>	<u><b>4,158</b></u>
<b>Costs</b>		
Interest on debentures	(24,173)	(20,774)
Inflation adjustments		
Debentures	(13,835)	(9,066)
TUSD-G	(1,333)	(655)
Provisions for tax, labor and environmental risks	(117)	(101)
Other	(428)	(239)
Pension plan expense (see note 16)	(317)	(731)
Other finance costs	(2,090)	(255)
	<u><b>(42,293)</b></u>	<u><b>(31,821)</b></u>
	<u><b>(25,746)</b></u>	<u><b>(27,663)</b></u>

### 25. EARNING PER SHARE

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

The table below shows the profit and share data used to calculate basic and diluted earnings per share:

	<u>03/31/2014</u>	<u>03/31/2013</u>
<b>Numerator</b>		
<b>Net income for the period attributable to the Company shareholders</b>		
Profit attributable to preferred shareholders	81,011	47,679
Profit attributable to common shareholders	40,505	23,840
	<u><b>121,516</b></u>	<u><b>71,519</b></u>
<b>Denominator</b>		
Weighted average number of preferred shares	62,955	62,955
Weighted average number of common shares	31,478	31,478
	<u><b>94,433</b></u>	<u><b>94,433</b></u>
<b>Basic and diluted earnings per share</b>		
Per preferred share	<b>1.28679</b>	<b>0.75735</b>
Per common share	<b>1.28679</b>	<b>0.75735</b>



## 26. FINANCIAL INSTRUMENTS

The Company hereby declares that the information on financial instruments disclosed in the 2013 annual financial statements are applicable to this interim financial information, as presented in note 26 thereto.

### Financial instruments in the balance sheet:

#### a) Cash and cash equivalents (see note 6)

Financial investments in fixed-income instruments, plus income earned through the end of the reporting period, realizable in less than 90 days and recognized in accounting at market yield amounts.

#### b) Debentures (see note 14).

	03/31/2014		12/31/2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Debentures	1,129,308	1,351,482	1,111,133	1,279,202

The Company did not carry out derivative transactions during 2013 and during the three month period ended on March 31, 2014. Also, there is no foreign exchange exposure either since the Company does not any material amounts denominated in foreign currencies.

## 27. INSURANCE

The Company has insurance contracts that take into consideration the nature and the level of risk to which it is exposed. The main coverage, according to insurance policies, is as follows:

Line	Coverage in thousand reais	
	03/31/2014	12/31/2013
Operational risks	1,009,476	983,062
Civil liability (concessionaire)	11,400	10,168

## 28. SUBSEQUENT EVENTS

### 28.1. Dividends distribution

Resulted approved at the AGO on April 28, 2014, unanimously, the proposal of the Board of Directors regarding the distribution of dividends amounting to R\$210,810. Dividends approved herein shall be fully allocated at the retained earnings, pursuant the Article 32 of the Bylaws of the Company, the preferred and common shares are R\$ 2.232369704 per share. Such amounts shall be credited to the Shareholders until June 30, 2014, without inflation effects on the amount to be credited to shareholders from the date of declaration at the AGO and the effective credit to shareholders.

### 28.2. Global remuneration of the Directors for the year of 2014

Resulted approved at the AGO held on April 28, 2014, the amount of the annual remuneration of the Directors of the Company amounting to R\$ 10,590 for 2014, being distributed as follows: (a) R\$1,600 for the Board of Directors; (b) R\$8,000 for the Management and (c) R\$990 for the Supervisory Board.

### **28.3. Fifth Issue of Debentures**

As disclosed in the material fact notice published on March 28, 2014, the Company will issue R\$479,000 in the market as debt, through the fifth public issue in the local market of unsecured, nonconvertible, registered, book-entry debentures, which have been distributed with limited placement efforts, pursuant to CVM Instruction 476/2009, intended exclusively for qualified investors.

This offering will be made based on the decisions described below, all favorable to funding through the fifth issue of debentures: (i) Supervisory Board's decision approved at the meeting held on April 3, 2014; (ii) the Company's Board of Directors' decision approved at the meeting held on April 3, 2014, and (iii) decision made at the Extraordinary Shareholders' Meeting held on April 28, 2014.

The restrictive covenants contained in the fifth issue debentures indenture are similar to the covenants set out in the second, third, and fourth issue indentures.

The net proceeds from this issue obtained by the Company will be fully allocated to the (i) the payment on the outstanding principal, interest and inflation adjustment related to the Company's second issue debentures; (ii) the surplus balance, if any, will be used to refinance outstanding interest on the Company's third issue debentures.

The Company will raise, through its fifth issue, funds at lower costs and with better maturities than those currently used in the second issue, to extend its debt profile and seize current market conditions.

The maturity of the First Series Debentures will be five (5) years from the Issue Date, thus maturing on May 20, 2019, and the maturity of the Second Series Debentures will be seven (7) years from the Issue Date, thus maturing on May 20, 2021, except in case of accelerated maturity, special repayment, and/or early redemption of the debentures of both series, as provided for by the Indenture

## MANAGEMENT MEMBERS

### Board of Directors

Armando de Azevedo Henriques  
Chairman

Andréa Elizabeth Bertone  
Member

Elizabeth Christina DeLaRosa  
Member

Oswaldo Steban Clari Redes  
Member

Gláucio João Agostinho  
Member

Paulo Nicácio Júnior  
Alternate Member

### Supervisory Board

Jarbas Tadeu Barsanti Ribeiro  
Chairman of the Supervisory Board

Marcelo Curti  
Advisor

François Moreau  
Advisor

Ary Waddington  
Alternate Advisor

Edmundo Falcão Koblitz  
Alternate Advisor

Bernardo Almeida Britto Garcia  
Alternate Advisor

### Executive Board

Armando de Azevedo Henriques  
Chief Executive Officer

Angela Aparecida Seixas  
Chief Financial and  
Internal Control Officer and  
Investor Relations Officer

Carlos Alberto Dias Costa  
Chief Operating Officer

César Teodoro  
Environmental, Health and  
Safety Officer

Jairo de Campos  
Human Resources, Administration,  
Procurement and IT Officer

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Antonio Patricio Franco Martins  
Corporate Controller

Renata Mingorance Prando  
Accountant - SP-256166/O-2