Duke Energy International, Geração Paranapanema S.A.

Financial statements as of December 31, 2014 and 2013 and Independent auditor's report

Deloitte Touche Tohmatsu Auditores Independentes

Summary

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders, Directors and Management of
Duke Energy International, Geração Paranapanema S.A.
São Paulo - SP

We have audited the accompanying financial statements of Duke Energy International, Geração Paranapanema S.A. ("Company") which comprise the balance sheet as of December 31, 2014, and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, as well as the summary of significant accounting practices and notes to the financial statements.

Management's Responsibility for the financial statements

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

Independent auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Brazilian and international standards on auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Duke Energy International, Geração Paranapanema S.A. as of December 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with accounting practices adopted in Brazil and IFRSs issued by IASB.

Emphasis of matter

As described in Notes 2.10 and 3.1.2 to the financial statements, assets intended for generation of electric power under the independent production regime are depreciated over their estimated useful lives, considering the facts and circumstances mentioned in those Notes. As the regulatory agency or the Concession Grantor releases new information or issues new decisions, the current depreciation term for such assets may be changed. Our opinion has not been qualified regarding this matter.

Other matters

Statements of value added

We have also audited the statement of value added ("DVA") for the year ended December 31, 2014, prepared under the responsibility of the Company's Management, the presentation of which is required by the Brazilian Corporate Law for publicly-traded companies and as supplemental information for IFRS, which does not require the presentation of a DVA. This statement was subject to the same auditing procedures as those described above and, in our opinion the financial statements' paragraph is fairly presented, in all material respects, in relation to the financial statements taken as a whole.

São Paulo, March 18, 2015

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU
Auditores Independentes
CRC nº 2 SP 011609/O-8

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Engagement Partner
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2014-2985

MANAGEMENT ANNUAL REPORT 2014

Dear shareholders and debenture holders,

Management of Duke Energy International, Geração Paranapanema S.A. is pleased to present this Annual Report and the Financial Statements for the year ended December 31, 2014, which are accompanied by the independent auditors' report and report of the Supervisory Board.

MESSAGE FROM MANAGEMENT

The year of 2014 will be remembered as one of the most difficult years for the Brazilian Power Industry and as an example of how Duke has prepared to face challenging scenarios. Such period was marked by one of the worst droughts in history of Brazil, which caused restrictions in hydroelectric generation, Brazil's main electric power source. This scenario was aggravated by the consequences of regulatory changes initiated at the end of 2012, triggering a financial crisis that almost put at risk the survival of some companies in the industry.

Even though our river basis has been less affected because it receives water inflows from hydrological regimes of South and Southeast regions, the characteristic of the Brazilian power generating system to operate on an integrated basis has made all generators were equally impacted. Throughout 2014, the generation of the National Interconnected System (SIN) was below the physical guarantee of the hydroelectric plants, with GSF (*Generation Scaling Factor*) below 1.

For us, at Duke, this factor has not caused loss of revenues, which increased by 1.5%, to R$ 1.4 billion, but it has caused significant impact to other generators. Our performance reflects conservative measures previously adopted, since we already have predicted the negative scenario for 2014. Thus, we reduced the volume of contracted energy for more flexibility in facing typical volatility of moments of crisis.

The high Differences Settlement Price (PLD) that remained in force during the year, reaching a maximum of R$ 822.83/MWh, showed the correct strategy to reduce our market exposure. If we had committed all our power in previous agreements, we would be forced to buy at this higher price to deliver to our customers. Despite the actions that reduced the impact of the crisis, we still had a 32% reduction in our net profit, which totaled R$ 286 million. The good news in the midst of crisis is that our bilateral contracts were not breached, a reflection of a good customer portfolio and a performance to celebrate in a challenging business environment.

We have had a decrease in cash generation, with EBITDA of R$ 704 million, which means a 23% reduction compared to 2013. However, our credit ratings were maintained at the level *Triple* A. Such condition made it possible an emission of debentures in the amount of R$ 479 million, at extremely competitive rates, with CDI (Interbank Deposit Certificate) +0.89% p.a and IPCA + 7.01% p.a., with a demand higher than the initial offering. These resources were used to extend debt profile and reduce indebtedness costs.

We firmly maintained our strategy based in six sets of initiatives – management and operational excellence, marketing, growth, development of human capital, and social and environmental responsibility – with goals condensed throughout the company. In 2014, we established adjustments, necessary corrections and defined metrics for each objective on a long-term vision as an advance, understanding the sustainability as something that is part of all of these aspects.

We directed our focus to the quality of management. We continued repowering the Chavantes plant, including the replacement of the turbines, which will allow greater efficiency and increased energy available in the system. The focus on operational excellence has resulted in a high performance of our equipment, with an availability of 91.45%.

We were ranked sixth place according to *Great Place to Work* as a result of the management of our human resources. For the tenth consecutive year, the Duke is among the best companies to work for in Brazil, aligned to our strategic objectives of engaging employees and maintaining a high level of organizational environment.

We also made advances in our relationship with the communities. We have developed 247 initiatives focused on the population of 74 municipalities, positively impacting about 80 thousand people. This represents activities in 96% of our area of influence in Paranapanema Region. In 2014, Salto Grande was the first plant in Brazil to be certified with ISO 16000 standard for social responsibility, a way to ensure that our processes will be executed in accordance with the highest international standards.

That was also a year to celebrate. We celebrated 15 years of the start of operations in Brazil during a business meeting that had a record attendance of about 550 people, with customers, prospects and professionals from the power industry, for a reflection on the political, economic and industry scenario hosted by presenter Jô Soares. The 15-year anniversary was also celebrated with the release of a book that brought together 15 opinion-makers of Brazil discussing about 15 relevant topics of the current Brazilian scenario, including journalist Lucia Hippolito, reporter Mauricio Kubrusly, philosopher Viviane Mosé, astronaut Marcos Pontes and former racing driver Emerson Fittipaldi.

In short-term vision, the prospect for 2015 is an even more difficult year for the Brazilian power industry. We remain prepared to face a worsening in the crisis, including measures of restricted demand so that there could be a balance in the supply of electric power as a result of continuing drought. But the medium-and long-term scenario is favorable for growth and, at Duke Energy, we have better conditions to capture these opportunities. The keyword of the year will be synergy. We have about 2.3 GW of installed capacity and eight power plants to manage, an extremely solid portfolio. And we have a robust customer portfolio and an exceptional team of professionals committed to build results that create sustainable value for our shareholders and society as a whole.

Armando de Azevedo Henriques
Chairman

PROFILE

Duke Energy International, Geração Paranapanema S.A. is a listed company engaged in the generation and sale of electric power. The Company is a subsidiary and the main international investment of Duke Energy Corporation, one of the largest electric power companies in the United States, and manages eight hydroelectric power plants installed on the Paranapanema River, in the State of São Paulo, with installed capacity of 2,241.3 MW. The Company maintains administrative head office in the São Paulo state capital and at the end of 2014 had 322 employees.

The Company operates its powers plants under two concession agreements entered into with the National Electric Energy Agency (ANEEL). The first agreement, comprising the Jurumirim, Chavantes, Salto Grande, Capivara, Taquaruçu and Rosana units, is effective for 30 years, terminating in 2029. The agreement for the Canoas I and Canoas II power plants, operated through a consortium with Companhia Brasileira de Alumínio (CBA), is effective for 35 years, terminating in 2033. CBA owns 50.3% of the installed capacity, which is equivalent to the average volume of 53.8 MW, under this join arrangement. Because of its privileged location, due to the influence of the hydrometeorological systems in the South and Southeast Brazil, the maximum power storage capacity of its reservoirs makes up for 6 % of the a Southeast/Mid-west subsystem.

Recognition

The awards and acknowledgements received in 2014 by the company include: **Great Place to Work – sixth best company to work in Brazil**, in the category Small and Medium-sized Multinationals; Stood out among companies in the **“50 Psychologically Healthy Companies”**, published by the magazine "Gestão e RH"; **Environmental Benchmarking Award 2014** – The Company participated with the projects Circuito de Educação Ambiental, achieving **7th place**, and Gibi – A Reprodução dos Peixes, which achieved **16th place; 100+ Inovadoras no Uso de TI (100 Most Innovative Companies in the Use of IT)**, according to IT Fórum magazine; and **Prêmio TOP de Marketing 2014 (2014 Marketing TOP Award)** – with the Case – Guia do Cliente Livre (Free Customer's Guide), Digital Edition. More detailed information about acknowledgements and awards obtained in 2014 are available on the company's website at www.duke-energy.com.br - *"Quem somos"* - "Duke Energy Brasil" - "Reconhecimentos e Prêmios".

CORPORATE GOVERNANCE

The company believes that the adoption of corporate governance practices is essential to build a relationship of trust and transparency between the Company and its stakeholders. The strict compliance with legislation and the adoption of best practices are the distinguishing feature of Duke Energy’s corporate governance. The Company maintains processes and automated control systems and also provides its professionals with training on issues related to the Prevention of Corruption Practices Abroad, in accordance with the Foreign Corrupt Practices Act (FCPA).

The Company seeks to follow the practices recommended by the Brazilian Institute of Corporate Governance (IBGC), such as the hiring of an independent firm to audit its financial statements and the establishment of duties and limits of authority for the directors and other executives. The Business Ethics Code contains guidelines on the behavior expected from employees. Another tool is the Ethics Line, an external communication channel available 24 hours a day and used to report improper behavior, which can be made anonymously by telephone or e-mail. Through this tool, anyone interested can also request information on the Company's policies and procedures.

Organizational structure

The permanent governance bodies of Duke Energy are the Board of Directors and the Executive Board. The Board of Directors is made up of five members and their respective deputies, with one member and one deputy representing the employees. All members are elected at a General Stockholders' Meeting for a three-year term in office, and reelection is permitted. The duties of this body are: to establish the general policies of the business, to elect and replace members of the Executive Board, as well as approve their attributions and supervise their performance.

The Executive Board is responsible for managing the business and implementing the resolutions of the Board of Directors. In December 2014 was comprised with five members elected by the Board of Directors for a two-year term in office, with the possibility of reelection. It is the CEO's responsibility to assign the functions and duties of each executive officer.

On April 28, 2014, as determined by the Annual Ordinary Shareholders Meeting, the Supervisory Board was comprised of three active members and three deputies and is responsible for analyzing the financial statements and inspecting Management actions, among other tasks. Independent of Company`s management and Independent external auditors, the Supervisory Board will act until the 2015 Ordinary Shareholders` meeting takes place.

External Audit

Hiring external audit services is based on principles that safeguard the auditor's independence. Therefore, it makes sure that the auditor does not audit his own work, does not perform managerial functions in the Company or promote the Company's interests. The fees paid to Deloitte Touche Tohmatsu Auditores Independentes in connection with the audit of the financial statements and limited review of 2014 quarterly information, amounted to R$ 288,9 thousands. The Company's management informs that Deloitte Touche Tohmatsu Auditores Independentes was not engaged to provide other services during the year.

Rating

In 2014, the risk rating agencies Standard & Poor's and Moody's confirmed Duke Energy as investment grade (investment rating) based on its solid capital structure and credit metrics, low debt levels and stable cash generation.

Corporate credit rating	Agency	*Rating*	Perspective	Reference Date
Global Scale	Standard & Poor's	BBB-	Stable	12/22/2014
	Moody's	Baa3	Stable	04/11/2014
National Scale	Standard & Poor's	brAAA	Stable	12/22/2014
	Moody's	Aaa.br	Stable	04/11/2014

BUSINESS PERFORMANCE

Economic environment

The year of 2014 was marked by a modest scenario for world economic growth. China reported the lowest level of growth in the last 24 months. The United States raised its growth forecast in the year, primarily due to the reduction in the unemployment rate and the increase in consumption, while the Eurozone confirmed a low economic recovery, especially as a result of the high level of unemployment and low investment level.

The year of 2014 did not bring positive results for the economic and financial environment in Brazil, and events like the World Cup and presidential elections further reduced economic activity in the country; market expectations for the GDP in 2014 is -0.5% compared to 2.3% growth recorded in 2013. Inflation as measured by the General Market Price Index (IGP-M), released by Fundação Getúlio Vargas (FGV), a university, was 3.7%, below prior year's 5.5%. As for the National Broad Consumer Price Index (IPCA), it ended 2014 at 6.4 %, above the 2013 IPCA at 5.9%.

As a result of the persistence of deepening the monetary adjustment to hold inflation, the Central Bank increased its policy rates from 7.3% per year in April 2013 to 11.8% per year in December 2014.

Reference indicators

	As of December 31				
	2010	2011	2012	2013	2014
IGP-M	11.3%	5.1%	7.8%	5.5%	3.7%
IPCA	5.9%	6.5%	5.8%	5.9%	6.4%
Exchange rate	1.7	1.9	2.0	2.3	2.7
Δ% Exchange rate	-4.3%	12.6%	8.9%	14.6%	13.4%
Annualized Selic	10.8%	11.0%	7.3%	10.0%	11.8%

Generation

In 2014, Duke Energy produced 11,195 GWh, 11.5% below the prior year and corresponding to 2.1% of the power produced in Brazil in the period. The volume was 18% above the guaranteed energy/physical guarantee for the year, which was set at 9,510 GWh, corresponding to 1,085.6 MW average.

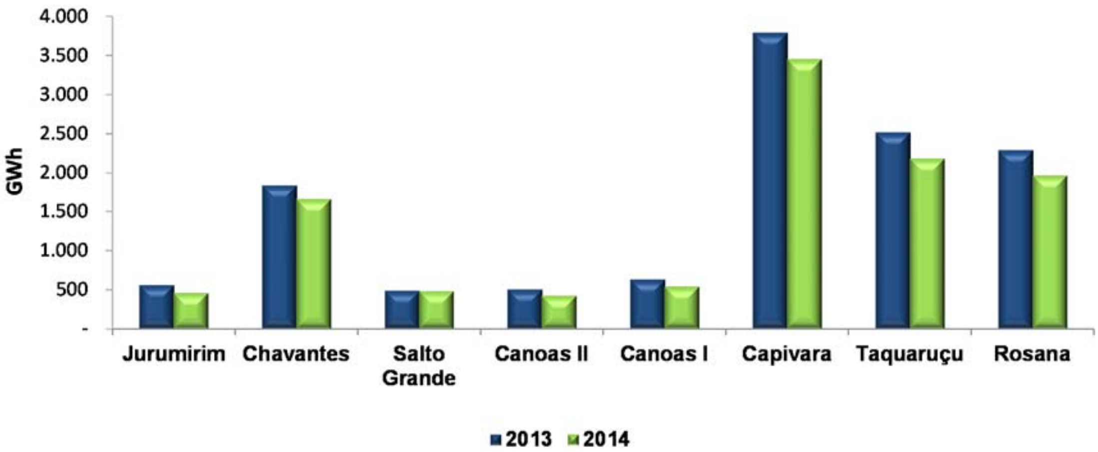
The decrease in power generation, compared to the previous year, was driven by the adverse condition of hydrology below average in reservoirs throughout the National Interconnected System - SIN and, consequently, in the reservoirs in Paranapanema basin, where the Company's Hydroelectric Power Plants are located. As a result of this unfavorable hydrologic condition across the country, a reduction in hydroelectric power generation and increased thermoelectric generation in SIN has occurred in order to preserve the storage level of the reservoirs and to fully meet the demand for electric energy.

The water inflow of the year, on the Paranapanema River basin, was below average (85% Long Term Average – LTA) and despite the power production monthly modulation, he reservoirs closed 2014 with 21.5% in stored water, which is lower than the Company's historical average of 64.1%.

A highlight of the year was the operating performance of the Company's assets, with an availability of 91.45%, and the low outage rate in the generating units. This index arises from our employees' accumulated experience, technical capacity and commitment, our consistent capital expenditure policy, which includes improvements in operating systems - and efficient equipment maintenance.

Although the general performance of the power plants remained at favorable levels, the Company is developing a number of projects for the improving of its production capacity, focusing on the reliability and availability of its facilities.

Power Generation (GWh)



Power Generation - GWh			
Power Plant	2013	2014	%
Jurumirim	563.98	461.50	-18.2
Chavantes	1,842.85	1,661.66	-9.8
Salto Grande	491.52	485.40	-1.2
Canoas II	506.98	428.20	-15.5
Canoas I	636.82	544.32	-14.5
Capivara	3,795.81	3,458.70	-8.9
Taquaruçu	2,519.99	2,186.57	-13.2
Rosana	2,292.06	1,968.28	-14.1
Total	**12,650.01**	**11,194.63**	**-11.5**

Physical guarantee

On December 27, 2012 the Ministry of Mining and Energy (MME) published Administrative Rule 184, which resulted in the alteration of the total physical guarantee of the Company from 1,087 MW to 1,085.6 MW. Of this volume, 1,008.8 MW is reserved for sale, since 53.8 MW produced by the consortium of plants Canoas I and Canoas II was allocated to Compnahia Brasileira de Alumínio – CBA and 23.0 MW was used for internal consumption and system losses. Note that we have been challenging this revision of the physical guarantee with the competent bodies, but the status remained unchanged in 2014.

Sales

In 2014, the power available for sale was 1,008.8 MW average. 92.3% of the Company's physical guarantee was contracted. The percent lower than the previous year, followed the strategy of preserving to the Company's assets through the allocation of 7.7% of the volume of power available for sale for the so-called "Hydrologic Hedge" as a result of the negative hydrological condition in the year, which resulted in lower financial exposure to the Spot Market Settlement (MCP) and maintained the stable revenue flow. This performance benefited from the implementation of the brand strengthening program and the execution of new agreements with free consumers, other sellers and independent power producers (PIE).

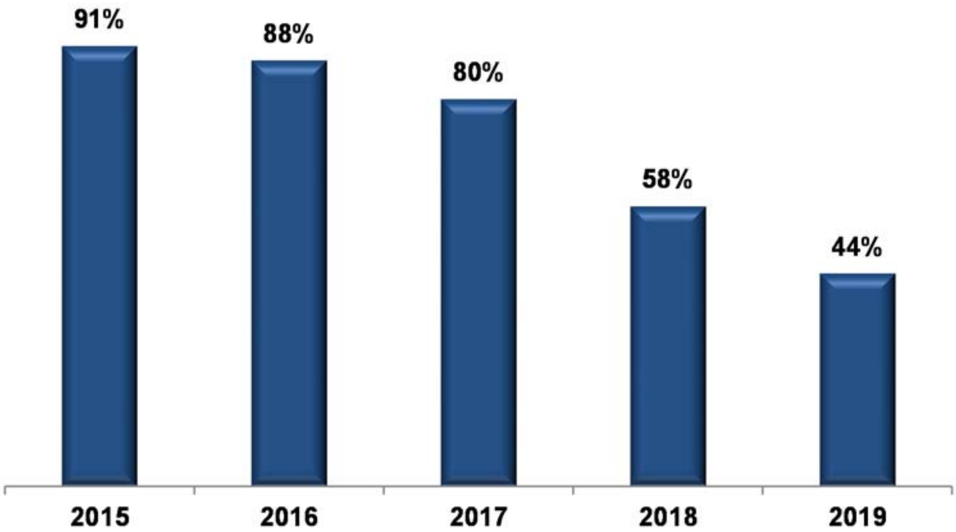
The focus on sales and marketing efforts in the Framework of Free Contracting (ACL) allowed, until the end of the period, that 44 sales contracts in that contracting environment and for symbolic delivery to the center of gravity of the Southeast and Midwestern Regions, with an increased average price compared to 2013. Sales for this segment accounted for 76.9% revenue from the supply of electricity power, and the sales in the Regulated Contracting Framework (ACR) to energy distribution companies accounted for 16.3% of such revenue. Duke Energy currently keeps good contracting levels in the long term.

It is worth mentioning that the contracts in the Regulated Contracting Framework (ACR), the supply period of which was 2006-2014, were terminated on December 31, 2014.

The results are in line with the Company’s strategy of expanding the volume of revenue on ACL, considering that the terms and conditions of that environment are more adherent to the Company’s profile as there is more flexibility in their negotiation.

Notwithstanding the strategy adopted, in the year of 2014, to reduce financial exposure in the CCEE, the balance sheet between revenues and expenses from the exercise of he Energy Relocation Mechanism (MRE) and the Spot Market Settlements (MCP) make up a negative result of 7.9% in the total sales revenues of contracts to ACL and ACR. Both the MRE exercise and the MCP revenues depend on National Interconnected System (SIN) conditions regarding the storage levels of the reservoirs between the electricity subsystems, water inflow forecasts, and the Differences Settlement Price (PLD).

Contracted Power



Research & Development

Duke Energy develops Research & Development (R&D) projects, aligned with the sector regulations which establishes the obligation to designate 1% of its net operating income in innovative projects. The resources are applied in the development of solutions aiming technological advanced and improves to the operating income. Achievements of Duke Energy's R&D program in 2014:

- **Over R$ 6.5 million in investments;**
- **Development of 24 innovative projects;**
- **Conclusion of 07 R&D projects;**
- **Prospection of 10 projects;**
- **Start of the following projects:** Remote sensing of vegetation using unmanned aerial vehicle; Development and validation of protocols for monitoring terrestrial environments in the areas surrounding hydroelectric plants; Sphartacus – Methodology for Definition of Weekly and Monthly Policies of SIN in the Medium-Term Horizon with Individualized Modeling of Hydroelectric Plants.

For more details about R&D projects, visit www.duke-energy.com.br - "P&D".

ECONOMIC AND FINANCIAL PERFORMANCE

Main indicators (in thousands of Reais)

	2013	2014	% Variation
Economic indicators			
Gross operating revenue	1,354,619	1,374,929	1.5
(-) Deductions from operating revenue	(138,583)	(151,931)	9.6
Net operating revenue	1,216,036	1,222,998	0.6
(-) Operating expenses	(519,808)	(736,085)	41.6
Service income	696,228	486,913	-30.1
Ebitda	913,664	703,697	-23.0
EBITDA margin - %	*75.1%*	*57.5%*	
Finance income	(101,131)	(91,796)	-9.2
Operating income	595,097	395,117	-33.6
Net income	418,251	285,578	-31.7
Net margin - %	*34.4%*	*23.4%*	
Shares			
Outstanding shares (in thousand shares)	94,433	94,433	
Net income per shares lot (in Reais)	4,429.06	3,024.12	-31.7

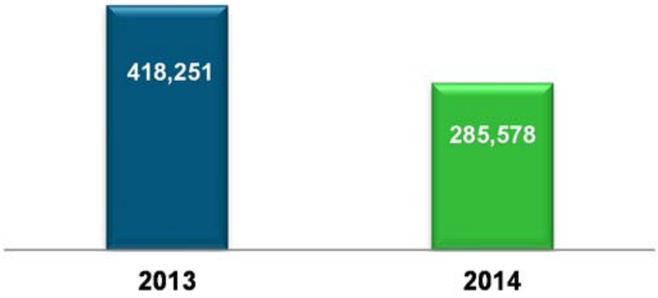
	2013	2014	% Variation
Financial indicators			
Total assets	4,510,311	3,843,843	-14.8
Debt in local currency	(1,111,133)	(1,195,937)	7.6
Equity	(2,423,270)	(1,869,566)	-22.8

Net income

In 2014, the Company reported a reduction of 31.7% in net profit compared to 2013. The main factor that contributed to this reduction was the increase in operating expenses in the caption "Power purchased for resale", as a result of the negative hydrological scenario due to shortage of rainfall.

According to its bylaws, the Company allocated 100 % of its profit to the payment of dividends and interest on capital, after recognizing the legal reserve.

Net income
(In thousands of Reais)

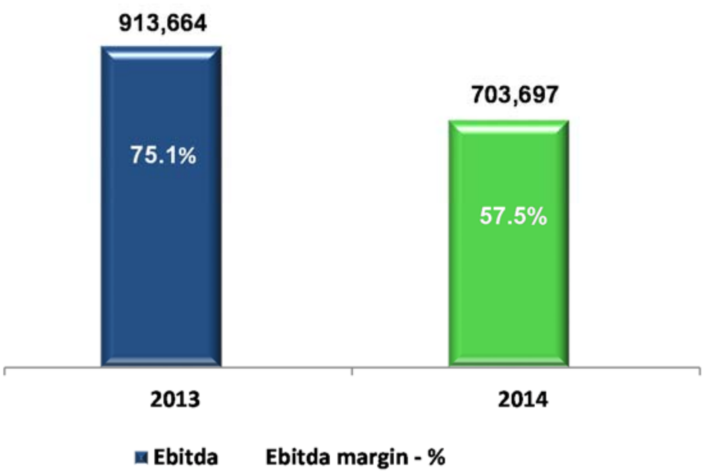


Ebitda

EBITDA (earnings before interest, income taxes, including social contribution on net income, depreciation and amortization) is calculated as net income plus net finance income and costs, income tax and social contribution, depreciation and amortization. Ebitda is not an accounting measure and is calculated based on the provisions of the Brazilian Securities and Exchange Commission (CVM) Instruction No. 527/2012. Ebitda should not be considered as an alternative to cash flow as an indicator of liquidity.

Company's Management believes that EBITDA provides a useful measurement of our performance, widely used by investors and analysts to evaluate performance and compare companies.

Ebitda
(In thousands of Reais)



Ebitda and Ebitda margin
(In thousands of Reais)

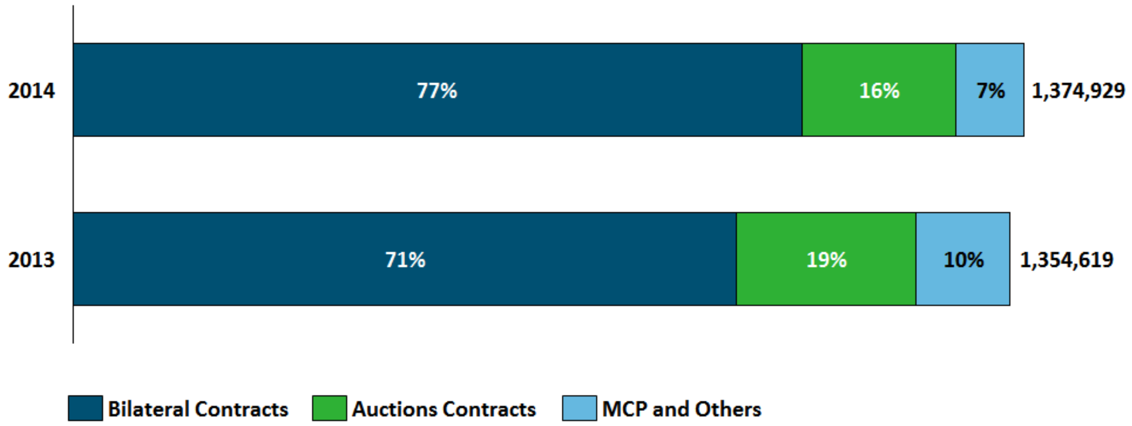
	2013	2014	% Variation
Net income	418,251	285,578	-31.7%
Income tax and social contribution	176,846	109,539	-38.1%
Net finance income (costs)	101,131	91,796	-9.2%
Depreciation and amortization	217,436	216,784	-0.3%
Ebitda	**913,664**	**703,697**	**-23.0%**
Ebitda margin	*75.1%*	*57.5%*	

Ebitda decreased 23.0% compared to the year 2013, mainly due to the increase of power purchased for resale.

Gross operating revenue

Gross operating revenue in 2014 was R$1,374.9 million, a year-on-year R$20.3 million growth, or 1.5 %. The positive impact related to the increased volume and price on bilateral contracts was partially offset by the reduction of volumes of power sold in the spot market settlement.

Revenue composition
(In thousands of Reais)



Deductions from operating revenue

Deductions from operating revenue increased R$13.3 million, or 9.6 %, from 2013. Such increase occurred mainly due to changes in operating revenue breakdown in captions Spot Market Settlements (MCP), Regulated Contracting Framework (ACR) and Free Contracting Framework (ACL).

Operating expenses (in thousands of Reais)

	2013	2014	% Variation
Electric energy purchased for resale	(17,033)	(233,647)	1,271.7
Depreciation and amortization	(217,436)	(216,784)	(0.3)
Electric grid usage charges	(77,604)	(81,761)	5.4
Personnel	(73,397)	(77,328)	5.4
Financial Compensation due to the use of water resources	(62,024)	(57,792)	(6.8)
Outsourced services	(40,542)	(44,914)	10.8
Others	(11,109)	(8,807)	(20.7)
Insurances	(4,364)	(4,843)	11.0
ANEEL inspection fee	(4,190)	(4,073)	(2.8)
Material	(4,025)	(3,997)	(0.7)
Leases and rents	(3,741)	(3,604)	(3.7)
Provision for tax, labor and environmental risks	(4,714)	(333)	(92.9)
Allowance for doubtful accounts	371	1,798	384.6
	(519,808)	(736,085)	41.6

Operating expenses

Operating expenses totaled R$ 736.1 million, an increase of 41.6% compared to the previous year (R$ 519.8 million), mainly due to the increase in power purchased for resale.

Other general and administrative expenses increased mainly due to the inflationary adjustments.

Financial income

In 2014 we posted net finance costs of R$91.8 million, which corresponds to 9.2% of decrease from 2013. Increased revenues result from financial investments and, on the other hand, increased expenses result from higher inflation rates.

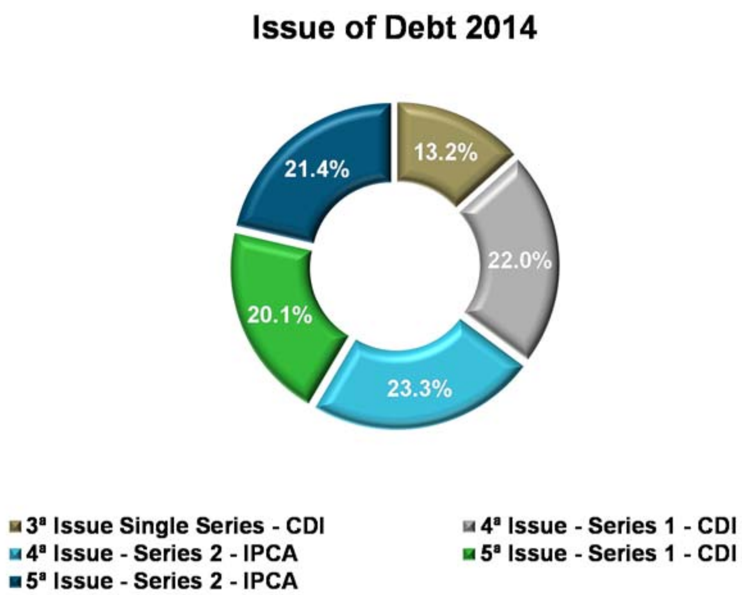
Financial income
(In thousands of Reais)

	2013	2014	% Variation
Finance income	37,928	75,992	100.4
Finance costs	(139,059)	(167,788)	20.7
Net finance income (costs)	(101,131)	(91,796)	-9.2

Debt

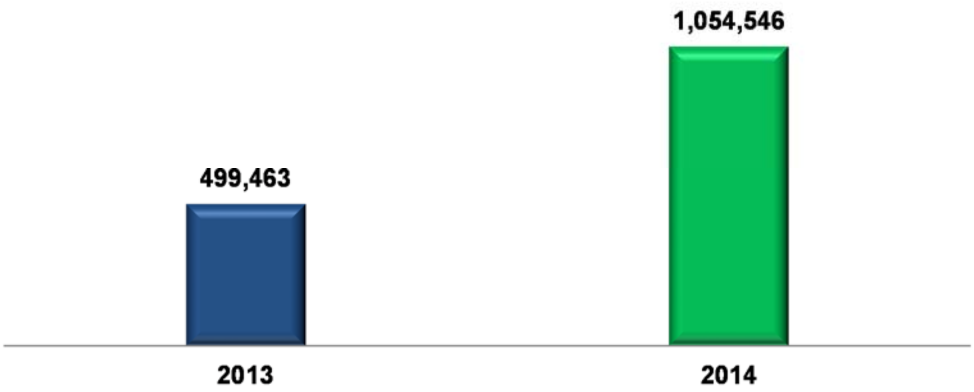
As of December 31, 2014 the gross debt totaled R$1,195.9 million, a 7.6 % increase from the R$1,111.1 million at the year of 2013, mainly resulting from the R$ 479 million in new debentures issued in May 2014, partially offset by the payment of interests of the 3rd Issue debentures and settlement of the 2nd Issue, in July and August 2014, respectively.

Debt profile – Debentures (In thousands of Reais)					
Issue	Series	Remuneration	Maturity	2013	2014
2nd	Single	Variation IGP-M + 8.59% p.y.	7/16/2015	432,780	-
3rd	Single	Variation CDI + 1.15% p.y.	01/10/2017	156,621	158,320
4th	1	Variation CDI + 0.65% p.y.	7/16/2018	260,331	262,876
4th	2	Variation IPCA + 6.07 % p.y.	7/16/2023	261,401	278,688
5th	1	Variation CDI + 0.89% p.y.	5/20/2019	-	240,357
5th	2	Variation IPCA + 7.01% p.y.	5/20/2021	-	255,696
				1,111,133	1,195,937



Company's net debt, represented by debt less cash and cash equivalents, increased 111.1% in 2014 compared to the year 2013. Such variation mostly results from the decrease in cash and cash equivalents.

Net Debt
(In thousands of Reais)



Property, plant and equipment

In 2014 property, plant and equipment included R$ 43.5 million in increases mainly due to the refurbishment of the Chavantes plant.

PERSONNEL MANAGEMENT

Duke offers salaries compatible with those of similar companies, plus profit sharing and bonuses, which is calculated based on individual achievement and collective goals. It also offers benefits in addition to those set forth in the law, such as health and dental, meal, transportation, life insurance, supplementary pension plan. In 2014 these benefits represented 10.7% of payroll.

During the reporting period, 25 employees and 9 trainees were terminated, totaling 322 employees at the end of 2014 (employees and young apprentices). In the same year, we hired 33 staff members — of which 61 % with college degrees, including 10 % with post-graduate degrees — and 7 trainees. All this new hires received the Induction Manual and the Code of Business Ethics, which set down the guidelines and the behaviors desired by the Company, in addition to training sessions that included subjects such as healthcare and occupational safety and anticorruption practices. In addition, the company invested R $ 1,531.7 million in training, recycling and instruction programs, which accounted for 177 hours (or 22 days) per employee.

Duke Energy encourages the organizational environment, seeking to create a participative environment, with mutual trust, sharing its achievements and developing training and professional improvement, health, leisure and well-being programs. The company also invests in the strengthening of prevention concepts so as to own and consolidate standards and processes relating to the safety, health and life quality of employees, own or service providers. For more details about all Duke Energy's programs, guidelines, plans and initiatives, visit www.duke-energy.com.br – “Quem somos” – “Recursos Humanos” – “Programas e Iniciativas de RH”.

SOCIAL MANAGEMENT

The efforts to encourage and build stronger relationships, always seeking the best development of the communities where Duke Energy operates, had a year full achievements in 2014. And with an important achievement: the implementation and certification of a **Management System on Social Responsibility – ABNT NBR 16001:2012** – within the scope of operation, maintenance and management processes for the generation of electric power in Salto Grande Hydroelectric Power Plant. This fact confirms the investment made for years, which reflects the strategy of corporate sustainability, through which the company constantly matures and extends its activities in communities, based on its Private Social Investment (ISP) guidelines. In addition to certification, we also mention:

- **Duke Energy Award – Energy from innovation**, the first edition was held in an event at Unesp campus, in the city of Rosana/SP, with the presentation of three university projects successfully completed: together with Fanorpi (Santo Antonio da Platina-PR), the project of solid waste management by garbage gatherers in Andirá; together with Unesp (Rosana/SP), a project focused on tourism development; and together with Fatec (Presidente Prudente/SP), which proposed providing management and event training to youngsters;

- **Latin Entrepreneurials** - A program focused on training and empowering women, in order to generate income and raise their self-esteem;

- **Duke Energy Cultural Circuit**, which broke records of visited cities in 2014: 70 cities watched different shows, the traveling movie theater, which showed a medium-length film produced by the community of Alto Paranapanema with an attendance of more than 46 thousand people in almost 300 free movie or theater sessions;

- Broadening of the **Projeto Guri** for the Sandovalina pole thus increasing the potential openings for 1013 children and adolescents;

- **Inauguration of the House of Culture in Porecatu/PR**, with permanent exhibition and free access to the whole community;

- Investment in the **Educating Through Sport Project**, which was made possible by the Incentive to Sport Act, and supported the training of 150 children;

- 4th edition of **Race and Powerwalk of Avaré**;

- 2nd Workshop for Journalists, held at Taquaruçu Power Plant.

We should also highlight the investment in 16 new projects focused on the work of the Municipal Child and Adolescent Rights Councils (CMDCAs), directly benefiting approximately 3 thousand children and adolescents, and finally the sponsorships to social and environmental activities, enabling a series of events, such as: the **XII Diálogo Interbacias**, o **6th Duke Energy Topography Meeting, Londrina Botanical Garden, VII Environmental Law Forum of Pontal do Paranapanema and** the celebrations with educational activities for the **Day of Paranapanema River**. More detailed information about activities of culture, sports, citizenship, events and sponsorships held on 2014 are available on the Company's website at www.duke-energy.com.br, "Responsabilidade Social" - "Temas Centrais da Responsabilidade Social".

ASSET MANAGEMENT

Through a series of initiatives, the company invests in the management and preservation of its assets, and the protection of the natural resources in the areas surrounding our hydroelectric plants. Among these initiatives we highlight the 191 inspections in all reservoirs, environmental conservation of 10.4 thousand hectares of forests, fire protection of 159 hectares, maintenance of 15,380 meters of fences against territorial encroachment, publication of "*Guia Espaço Legal*" (Legal Space Guide) – focusing on main users that use the reservoirs and the continuous exchange of information with environmental inspection bodies to identify and regulate the use and occupation of the areas under concession.

The strengthening of the relationship with the public prosecution offices, environmental agencies and other stakeholders through preventive search for the regular use of these areas and in controlling existing irregular occupations are some of the results of such work. The integration with the involved communities takes place through the participation in specific events and meetings. In addition, the Company conducts georeferencing activities in all our reservoirs of the property boundaries, both to comply with the relevant law and meet the requests of those challenging the current limits of the areas under concession.

In 2014, there was an increase in the Company's results, amounting to R$ 3,841.9 million, arising from the sale of the Pousada of Salto Grande.

More detailed information about activities of Equity and Environmental management performed during 2014 are available on the Company's website at www.duke-energy.com.br, "Responsabilidade Social" - "Temas Centrais da Responsabilidade Social".

ENVIRONMENTAL MANAGEMENT

In 2014, several meetings with environmental agencies, such as IBAMA and CETESB, were held, besides the constant activities with the regional agencies. The renewal of the Operating Permit (L.O.) of Capivara Hydroelectric Power Plant was being discussed, among the negotiations with IBAMA. We obtained the important **Renewal of Operating Permits (RLO) of Canoas I and Canoas II Hydroelectric Power Plants, granted for a term of 10 years**. Other **13 permits from environmental agencies were also obtained**, to: 1) conduct studies of fauna; 2) monitor ichthyofauna; 3) the control of macrophytes; 4) handle vegetation in APP; 5) the waste disposal (CADRI); and 6) capture, collect and transport biological material. Such permits enable us to maintain several environmental programs according to their specific legislations.

Other actions that must be pointed out are the **release of 1.5 million native fishes**, engagement of **4,000 people** in the Social Communication and Environmental Education Program, forest enrichment planting of approximately **30 hectares in protected area "Jurumirim-Piraju"**, donation of about **160 thousand tree seedlings**, launch of **Climate Changes and Environmental Education Plans (PEA),** the entry into the Brazilian GHG Protocol Program on Climate Change. For more details about adaptations, restocking of fish, environmental education program, fauna and flora monitoring, reforestation, climate change plan and public policies, visit www.duke-energy.com.br, "Responsabilidade Social" – "Gestão Ambiental e Patrimonial".

SOCIAL BALANCE

1- Calculation Basis	2013 Amount (R$ '000)	2014 Amount (R$ '000)
Net revenue	1,216,036	1,222,998
Operating income (expenses)	696,228	486,913
Gross payroll	73,397	77,328

2- Internal Social Indicators	2013 Amount (R$ '000)	2014 Amount (R$ '000)
Meals	3,400	3,904
Mandatory payroll taxes	15,568	16,122
Pension plan	1,156	962
Healthcare	3,499	3,075
Occupational Safety and Health	439	534
Education	546	760
Culture	-	-
Professional training and development	815	922
Daycare center and/or childcare allowance	71	62
Profit sharing	4,668	3,596
Others	7,618	7,761
Total - internal social indicators	37,780	37,698

3- External Social Indicators	2013 Amount (R$ '000)	2014 Amount (R$ '000)
Education	638	621
Culture	2,555	2,745
Health and sanitation	-	500
Sports	412	407
Fighting hunger and food safety	-	-
Others	-	330
Total contributions to society	3,605	4,603
Taxes (excluding social charges)	-	-
Total - external social indicators	3,605	4,603

4- Environmental Indicators	2013 Amount (R$ '000)	2014 Amount (R$ '000)
Investments related to company production/operation	827	610
Investments in external programs and/or projects	3,119	3,413
Total environmental investments	3,946	4,023
With regard to the setting of "annual goals" to minimize waste, general consumption in production/operation, and improve the efficiency in the use of natural resources, the company	( ) has no goals ( ) meets 0 to 50% ( ) meets 51 to 75% (X) meets 76 to 100%	( ) has no goals ( ) meets 0 to 50% ( ) meets 51 to 75% (X) meets 76 to 100%

5 - Staff Indicators	2013	2014
No. of employees at the end of the period	314	322
No. of hirings during the period	20	33
No. of outsourced workers	Not Available	Not Available
No. of interns	10	8
No. of employees above 45 years old	86	96
No. of female employees	60	65
% of leading positions held by female employees	17.00%	18.84%
No. of black employees	29	32
% of leading positions held by black employees	3.00%	4.35%
No. of disabled employees or employees with special needs	7	7

6 – Significant information on the exercise of corporate citizenship	2014			2015 Goals		
Highest wage to entry level wage ratio in the company	38.5			38.5		
Total number of occupational accidents	AT WORK	Without leave	With leave	AT WORK	Without leave	With leave
	Employees	-	-	Employees	-	-
	Outsourced	1	3	Outsourced	-	-
	COMMUTING ACCIDENT	Without leave	With leave	COMMUTING ACCIDENT	Without leave	With leave
	Employees	-	-	Employees	-	-
	Outsourced	-	-	Outsourced	-	-
The social and environmental projects developed by the company were defined by:	( ) officers	(X) officers and managers	( ) all employees	( ) officers	(X) officers and managers	( ) all employees
The safety and health standards in the work environment were set by:	(X) officers and managers	( ) all employees	( ) all + CIPA	(X) officers and managers	( ) all employees	( ) all + CIPA
As regards unionization freedom, the right to collective bargaining and internal representation of employees, the company:	( ) does not get involved	( ) follows ILO standards	(X) encourages and follows ILO	( ) does not get involved	( ) follows ILO standards	(X) encourages and follows ILO
The pension fund encompasses:	( ) officers	( ) officers and managers	(X) all employees	( ) officers	( ) officers and managers	(X) all employees
Profit sharing encompasses:	( ) officers	( ) officers and managers	(X) all employees	( ) officers	( ) officers and managers	(X) all employees
In the selection of suppliers, the same ethical and social and environmental responsibility standards adopted by the Company:	( ) are not considered	( ) are suggested	(X) are required	( ) are not considered	( ) are suggested	(X) are required
As regards the involvement of employees in voluntary work programs, the company:	( ) does not get involved	( ) supports	(X) organizes & encourages	( ) does not get involved	( ) supports	(X) organizes & encourages
Total number of complaints and criticisms from consumers:	at company NA	at Procon NA	at courts NA	at company NA	at Procon NA	at courts NA
% of complaints and criticisms pursued or solved:	at company NA	at Procon NA	at courts NA	at company NA	at Procon NA	at courts NA
Total value added for distribution (in thousand of R$)		R$ 858,852			Not Available	
Distribution of value added (DVA)	38.8% government 39.5% shareholders	8.0% employees 20.0% third parties	- 6.3% retained		Not Available	
7 - Information relevant to corporate citizenship						

Industry: Electric Power Generation - SP - Registered Office: São Paulo - CNPJ: 02.998.301/0001-81

This company does not use child, degrading or work similar to slave labor. The company is not involved with prostitution or sexual exploitation of children or adolescents, or corruption.

Our company values and respects diversity both internally and externally.

BALANCE SHEETS AS OF DECEMBER 31, 2014 AND 2013
(In thousands of Reais)

Assets	Note	2014	2013
Current assets			
Cash and cash equivalents	6	141.391	611.670
Trade receivables	7	129.513	168.728
Recoverable taxes	8	15.909	5.059
Services in progress		16.790	12.661
Prepaid expenses		401	321
Sundry debtors		1.553	1.014
Due from related parties	13.1	409	-
Other assets		110	990
Total current assets		**306,076**	**800,443**
Noncurrent assets			
Trade receivables	7	960	1.555
Recoverable taxes	8	960	318
Escrow deposits	9	39.093	35.544
Restricted funds		12	525
Prepaid expenses		3.599	3.861
Investments		26	26
Property, plant and equipment	10	3.460.966	3,633,639
Intangible assets	11	32.151	34.400
Total noncurrent assets		**3,537,767**	**3,709,868**
Total assets		**3,843,843**	**4,510,311**

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

BALANCE SHEETS AS OF DECEMBER 31, 2014 AND 2013
(In thousands of Reais)

LIABILITIES AND EQUITY	Note	2014	2013
Current liabilities			
Trade payables	12	79,113	15,079
Payroll and related taxes		13,693	14,094
Debentures	14	42,584	249,245
Taxes, Fees and Contributions	8	96,878	182,240
Dividends and interest on capital	20.4	115,363	269,055
Accrued liabilities		7,180	6,558
Cibacap	15	2,283	344
Regulatory charges	19	27,721	26,268
Other liabilities		3,695	344
Total current liabilities		**388,510**	**763,227**
Noncurrent liabilities			
Debentures	14	1,153,353	861,888
Deferred revenues		13,026	9,269
Special obligations	18	3,180	3,703
Provision for tax, labor and environmental risks	17	19,526	19,828
Cibacap	15	6,935	8,697
Deferred income tax and social contribution	8	368,430	399,903
Distribution tariff system (Tusd-g)	12	6,861	5,098
Regulatory charges	19	9,184	10,156
Other liabilities		5,272	5,272
Total noncurrent liabilities		**1,585,767**	**1,323,814**
Equity			
Share capital	20.1	839,138	1,339,138
Capital reserves	20.2	99,537	99,512
Earnings reserve	20.3	127,176	112,586
Valuation adjustments to equity	20.6	803,715	872,034
Total equity		**1,869,566**	**2,423,270**
Total liabilities and equity		**3,843,843**	**4,510,311**

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

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2014 AND 2013
(In thousands of Reais, unless otherwise stated)

	Note	2014	2013
Net operating revenue	21	**1,222,998**	**1,216,036**
Operating income / (expenses)			
Personnel		(77,328)	(73,397)
Materials		(3,997)	(4,025)
Outsourced services		(44,914)	(40,542)
ANEEL Inspection Fee		(4,073)	(4,190)
Energy purchased for resale	23.2	(233,647)	(17,033)
Electric grid usage charges	23.3	(81,761)	(77,604)
Financial Compensation due to the use of water resources		(57,792)	(62,024)
Depreciation and amortization	11.b	(216,784)	(217,436)
Provision for tax, labor and environmental risks		(333)	(4,714)
Allowance for doubtful accounts		1,798	371
Leases and rents		(3,604)	(3,741)
Insurances		(4,843)	(4,364)
Others		(8,807)	(11,109)
	22	**(736,085)**	**(519,808)**
Operating income		**486,913**	**696,228**
Finance income (expenses)			
Income		75,992	37,928
Costs		(167,788)	(139,059)
	24	**(91,796)**	**(101,131)**
Profit before income tax and social contribution		**395,117**	**595,097**
Income tax and social contribution			
Current		(141,173)	(209,453)
Deferred		31,634	32,607
	8.3	**(109,539)**	**(176,846)**
Profit in the period		**285,578**	**418,251**
Earnings per share from continuing operations (R$ per share)			
Basic/diluted earnings per share (PN)	25	3.02412	4.42906
Basic/diluted earnings per share (ON)	25	3.02412	4.42906

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

STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2014 AND 2013
(In thousands of Reais, unless otherwise stated)

	2014	2013
Profit in the period	**285,578**	**418,251**
Actuarial gains (losses) on defined benefit pension plans	472	2,208
Deferred income tax and social contribution on actuarial gains (losses)	(161)	(746)
	311	**1,462**
Comprehensive income for the period	**285,889**	**419,713**

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

STATEMENTS OF CHANGES IN EQUITY
YEARS ENDED DECEMBER 31, 2014 AND 2013
(In thousands of Reais)

	Share capital	Reserves		Retained earnings	Valuation adjustments to equity (see Note 20.6)	Total
		Capital	Earnings			
Balance as of December 31, 2013	**1,339,138**	**99,512**	**112,586**	**-**	**872,034**	**2,423,270**
Comprehensive income for the period						
Profit in the period	-	-	-	285,578	-	285,578
Actuarial gains (losses) on defined benefit pension plans	-	-	-	-	472	472
Deferred income tax and social contribution on actuarial gains (losses)	-	-	-	-	(161)	(161)
Reclassification of net actuarial gains – CPC 33 (R1)	-	-	311	-	(311)	-
	-	**-**	**311**	**285,578**	**-**	**285,889**
Contributions and distributions to shareholders						
Capital reduction	(500,000)	-	-	-	-	(500.000)
Legal reserve	-	-	14,279	(14,279)	-	-
Interim dividends (R$ 2.292676 per preferred share and R$ 2.292676 per common share)	-	-	-	(216,505)	-	(216,505)
Dividends (R$ 0.639706 per preferred share and R$ 0.639706 per common share)	-	-	-	(60,410)	-	(60,410)
Interests on capital (R$ 0.66400 per share)	-	-	-	(62,703)	-	(62,703)
Share-based payment	-	25	-	-	-	25
Valuation adjustments to equity (see Note 20.6)	-	-	-	103,514	(103,514)	-
Deferred tax on valuation adjustments to equity	-	-	-	(35,195)	35,195	-
	(500,000)	**25**	**14,279**	**(285,578)**	**(68,319)**	**(839,593)**
Balance as of December 31, 2014	**839,138**	**99,537**	**127,176**	**-**	**803,715**	**1,869,566**

	Share capital	Reserves		Retained earnings	Valuation adjustments to equity (see Note 20.6)	Total
		Capital	Earnings			
Balance as of December 31, 2012	**1,339,138**	**99,432**	**90,211**	**-**	**938,773**	**2,467,554**
Comprehensive income for the period						
Profit in the period	-	-	-	418,251	-	418,251
Actuarial gains (losses) on defined benefit pension plans	-	-	-	-	2,208	2,208
Deferred income tax and social contribution on actuarial gains (losses)	-	-	-	-	(746)	(746)
Reclassification of net actuarial gains – CPC 33 (R1)	-	-	1,462	-	(1,462)	-
	-	**-**	**1,462**	**418,251**	**-**	**419,713**
Contributions and distributions to shareholders	-					
Legal reserve	-	-	20,913	(20,913)	-	-
Interim dividends (R$ 1.972965 per preferred share and R$ 1.972965 per common share)	-	-	-	(186,314)	-	(186,314)
Dividends (R$ 2.23237 per preferred share and R$ 2.23237 per common share)	-	-	-	(210,810)	-	(211)
Interests on capital (R$ 0.70900 per share)	-	-	-	(66,953)	-	(66,953)
Share-based payment	-	80	-	-	-	80
Valuation adjustments to equity	-	-	-	101,118	(101,118)	-
Deferred tax on valuation adjustments to equity	-	-	-	(34,379)	34,379	-
	-	**80**	**20,913**	**(418,251)**	**(66,739)**	**(463,997)**
Balance as of December 31, 2013	**1,339,138**	**99,512**	**112,586**	**-**	**872,034**	**2,423,270**

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

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013
(In thousands of Reais)

	2014	2013
Cash flows from operating activities		
Profit in the period	285,578	418,251
Adjustments:		
Depreciation and amortization	216,784	217,436
Write-offs of property, plant and equipment	(2,289)	710
Deferred income tax and social contribution	(31,634)	(32,607)
Allowance for doubtful accounts	(1,798)	(371)
Accrued interest on debentures	125,081	91,792
Inflation adjustment on debentures	33,798	35,996
Provision for tax, labor and environmental risks	(22)	4,694
Inflation adjust to provision for tax, labor and environmental risks	429	301
Inflation adjustment to escrow deposits	(3,540)	(803)
Share-based payment	25	80
Changes in assets and liabilities		
Trade receivables	41,608	(53,543)
Sundry debtors	(539)	(950)
Related parties	(409)	391
Escrow deposits	(9)	(22,743)
Services in progress	(4,129)	(4,247)
Restricted funds	513	(50)
Prepaid expenses	182	304
Trade payables	65,797	(33,088)
Payroll and related taxes	(401)	456
Taxes, fees and contributions	111,419	221,894
Estimated payables	622	657
Deferred revenue	3,757	3,959
Cibacap	177	(605)
Provision for tax, labor and environmental risks	(709)	(2,971)
Other gains and losses	5,026	8,283
Cash provided by operations	**845,317**	**853,226**
Interest and inflation adjustment on debentures	(215,727)	(147,598)
Income tax and social contribution	(217,568)	(40,485)
Net cash provided by operating activities	**412,022**	**665,143**
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	4,020	-
Purchase of property, plant and equipment	(43,455)	(44,241)
Purchase of intangible assets	(661)	(2,672)
Net cash used in investing activities	**(40,096)**	**(46,913)**
Cash flows from financing activities		
Amount received for the issuance of debentures	479,000	501,000
Transaction costs associated with the issuance of debentures	(3,998)	-
Payment of debentures	(333,350)	(320,220)
Dividends and interest on capital	(483,857)	(356,892)
Capital reduction	(500,000)	-
Net cash used in financing activities	**(842,205)**	**(176,112)**
Increase (decrease) in cash and cash equivalents	**(470,279)**	**442,118**
Cash and cash equivalents at the beginning of period	611,670	169,552
Cash and cash equivalents at the end of period	141,391	611,670

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

STATEMENTS OF VALUE ADDED
YEARS ENDED DECEMBER 31, 2014 AND 2013
(In thousands of Reais)

	2014	2013
Revenue		
Sales revenue	1,370,125	1,337,386
Revenues obtained through property construction	43,455	44,241
Allowance for doubtful accounts	1,798	371
	1,415,378	**1,381,998**
Inputs acquired from third parties		
Energy purchased and power grid charges	(315,408)	(94,637)
Materials and outsourced services	(48,911)	(44,567)
Property construction	(43,455)	(44,241)
Other operating costs	(12,764)	(18,705)
	(420,538)	**(202,150)**
Gross value added	**994,840**	**1,179,848**
Depreciation and amortization	(216,784)	(217,436)
Net value added	**778,056**	**962,412**
Rentals	119	57
Finance income	75,992	37,928
Others	4,685	17,175
Total value added received	**80,796**	**55,160**
Total value added for distribution	**858,852**	**1,017,572**
Distribution of value added		
Personnel		
Salaries and wages	41,845	37,417
Benefits	8,249	8,379
FGTS	3,815	3,777
Accrued bonuses	7,516	7,365
Profit sharing	3,596	4,668
Payroll taxes (except INSS)	3,220	3,519
	68,241	**65,125**
Taxes, fees and contributions		
Federal	314,864	375,075
State	18,627	16,182
Municipal	150	139
	333,641	**391,396**
Lenders and lessors		
Rents	3,604	3,741
Interest on debentures	125,081	91,792
Inflation adjustment on debentures	33,798	35,996
Recovery of interests and monetary adjustment of debentures (see Note 14.3)	(3,431)	-
Other finance costs	12,340	11,271
	171,392	**142,800**
Own capital remuneration		
Interest on capital (see note 20.4)	62,703	66,953
Dividends (see note 20.4)	276,915	397,124
	339,618	**464,077**
Others		
Retained earnings	14,279	20,913
Deemed cost of property, plant and equipment	(68,319)	(66,739)
	(54,040)	**(45,826)**
Total value added distributed	**858,852**	**1,017,572**

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(All amounts in thousands of Reais, unless otherwise stated)

1. GENERAL INFORMATION

Duke Energy International, Geração Paranapanema S.A, (the "Company") is a listed company and a public utility concessionaire, operating as an independent producer, and is headquartered in the City and State of São Paulo. Its main activities are the generation and sale of electric power, which are regulated and monitored by the National Electric Energy Agency (ANEEL), associated with the Ministry of Mines and Energy (MME).

The Company's installed capacity is 2,241.3 MW, comprising the following generating complex 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, Taquaruru Hydroelectric Power Plant and Rosana Hydroelectric Power Plant and 49,7% of the Canoas Complex, formed by Canoas I and II Hydroelectric Power Plants.

The issue of these financial statements was authorized by the Board of Directors on March 18, 2015.

2. SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES AND PRESENTATION OF FINANCIAL STATEMENTS

The main accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

2.1. Basis of preparation

The financial statements have been prepared and are presented in accordance with accounting practices adopted in Brazil, including the pronouncements, guidelines and interpretations issued by the Accounting Pronouncements Committee (“CPC”) and approved by the Federal Accounting Council (“CFC”) and the Brazilian Securities Commission (“CVM”) and in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”).

The financial statements have been prepared under the historical cost convention, as modified by the "deemed cost" of dams, buildings, machinery, furniture and vehicles on the transition date to IFRS, and certain financial assets and liabilities measured at fair value through profit or loss.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Company's financial statements, are disclosed in note 3.

2.2. Cash and cash equivalents

Cash and cash equivalents include cash in hand, bank deposits, other short-term highly liquid investments, and with immaterial risk of change in value, as well as overdraft accounts settled in a short-term period.

2.3. Financial instruments

2.3.1. Classification

The company classifies its financial assets according to the following categories: (i) measured at fair value through profit or loss and (ii) loans and receivables. Management determines the classification of financial assets at initial recognition. The classification depends on the purpose for which the financial assets were acquired. In these financial statements, the Company has recognized the following financial instruments:

i. Financial assets at fair value through profit or loss

   Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for realization in the short-term. Assets in this category are classified as current assets.

ii. Loans and receivables

   Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets or non-current assets, depending on whether they fall due within or after 12 months from the balance sheet date. The Company's loans and receivables comprise "Cash and cash equivalents (see note 7) and other receivables".

The Company does not operate with derivatives, nor does it apply the hedge accounting methodology (*hedge accounting*).

2.3.2. Recognition and measurement

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. The costs of the transactions involving financial assets at fair value through profit or loss (held for trading) are expensed in the statement of income. Loans and receivables are recorded at amortized cost.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Gains or losses arising from changes in the fair value of the "Financial assets at fair value through profit or loss" category are presented in the statement of income within "Other income (expenses), net" in the period in which they arise.

2.3.3. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle, or realize the asset and settle the liability simultaneously.

2.3.4. Impairment of financial assets

Assets carried at amortized cost

The Company assesses at the end of each year whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (“loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

i. significant financial difficulty of the issuer or debtor;

ii. a breach of contract, such as a default or delinquency in interest or principal payments;

iii. the Company, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that it would not otherwise consider;

iv. it becomes probable that the borrower will enter bankruptcy or other financial reorganization;

v. the disappearance of an active market for that financial asset because of financial difficulties; or

vi. observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

- adverse changes in the payment status of borrowers in the portfolio; and

- national or local economic conditions that correlate with defaults on the assets in the portfolio.

The amount of any impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the statement of income. If a loan or investment has a floating interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment based on an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the statement of income, provided that the carrying amount of the investment on the date of such reversal does not exceed the possible amortized cost if the *impairment* had not been recognized.
Impairment testing of trade receivables is described in note 2.5.

2.4. Trade receivables

Trade receivables are amounts due from customers in the ordinary course of the Company's activities. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Trade accounts receivable comprise the amounts related to the supply of electric energy invoiced and not yet invoiced, including the sale of electric energy made through the Chamber for Electric Energy Sales (CCEE).

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less a provision for impairment of trade receivables. Usually, in practice, they are recognized at the amount billed, adjusted by the provision for impairment, when necessary.

2.5. Provision for impairment of trade receivables (Impairment)

The allowance is recorded based on the estimate of losses which may arise on collection of the receivables.

The provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to realize the amounts due according to the original terms of the receivables. The amount of the provision is the difference between the book value and the recoverable value.

2.6. Inventories

Material and equipment held in inventory, recorded within "Other assets" in current assets (maintenance and administrative storeroom) are recorded at acquisition cost, with does not exceed replacement costs or realizable values, net of provisions for losses, when applicable.

2.7. Prepaid expenses

The amounts recorded in assets represent prepaid insurance expenses, to be recognized on the accrual basis (i.e., amortized on a straight-line basis over the term of the insurance policy), as well as expenditures incurred on the database system for registration of the properties surrounding the reservoirs, amortized over the period of the concession.

2.8. Services in progress

These refer to the resources allocated to R&D projects, in conformity with ANEEL Resolution 444/2001. At their completion, these projects are subject to the approval of the ANEEL superintendence, which is responsible for their evaluation, and they are subsequently written off against the R&D liabilities account.

2.9. Intangible assets

2.9.1. *Softwares*

Computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives of five years.

Costs associated with maintaining computer software programs are recognized as expenses, as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognized as intangible assets.

2.9.2. Utilization of Public Assets (UBP)

In order to exploit the electric power generation granted through the concession agreements, the Company paid, over five years as from the execution of the contracts, annual charges divided into monthly installments, with respect to the Utilization of Public Assets (UBP). Such disbursements, at historical amounts, were recognized in intangible assets and are amortized over the period of the concession.

2.10. Property, plant and equipment

Property, plant and equipment are stated at historical or deemed cost less accumulated depreciation. Except for land, all assets, or groups of assets, whose carrying amounts substantially differed from the fair values at the date of the first-time adoption of the new accounting standards were stated at fair value as deemed cost as of the transition date, January 1, 2009. Historical cost includes expenditure that is directly attributable to the acquisition of the items and qualifying assets.

Land was maintained at historical cost, as the Company understands that this is the amount accepted by the regulatory agency for indemnity purposes at the end of the concession period.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be reliably measured. The carrying amount of the replaced items or parts is derecognized. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to reduce their cost to the residual values over their remaining useful lives, as follows:

Average remaining useful life:	
Reservoirs, dams and water mains	16 years
Buildings, civil construction and improvements	21 years
Machinery and equipment	13 years
Furniture and fittings	04 years
Vehicle	05 years

The Company's management believes, based on the opinion of its legal counsel, that there was no change, until the present time, in the indemnity conditions relating to assets to be reversed at the end of concession and that there is right to indemnity of the residual amount of all related and reversible assets, including land, based on the facts and circumstances at the time. If a new law that changes the current conditions is enacted, the Company will assess its effects on the financial statements.

The depreciation and residual amount and the depreciation of the assets are reviewed and adjusted, if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds of sold assets with the residual carrying amount and are recognized within "Other income (expenses), net" in the statement of income.

2.10.1. Concession agreements

On September 22, 1999, the Company and ANEEL signed the Generation Concession Agreement 76/1999, which regulates the concessions for use of public assets in electric power generation held by the Jurumirim, Chavantes, Salto Grande, Capivara, Taquaruçu and Rosana power plants, granted by an unnumbered Decree dated September 20, 1999. The agreement grants the Company the right to generate and sell electric power as an independent producer, no longer paying, as of that date, the Global Reversion Reserve (RGR) (except resources originally held by CESP and partially transferred to the Company due to the partial split-off of that company), but instead a Charge for Use of Public Assets, for a five-year period. The concession and contractual term is 30 years counted from the execution date of the agreement, and may be renewed for up to 20 years at the discretion of the Concession Grantor.

On July 30, 1998 the Concession Agreement No. 183/98 was signed and on August 18, 2000 the First Amendment to such agreement was signed, which regulates the concessions for electric power generation of Canoas I and Canoas II plants, having as parties ANEEL and the companies of the Canoas Consortium, formed by the Company, as independent producer of electric energy, and Companhia Brasileira de Alumínio – CBA, as self-producer. This agreement establishes that an average of 53.8MW will be made available to CBA. Any surpluses of energy not used by CBA must be absorbed, without onus, by the Company. Reciprocally, in the normal course of operations, when generation is lower than that established in the contract, the difference will be supplemented, without onus, by the Company. The concession agreement is effective for 35 years, as from the date of signature, and may be renewed for up to 20 years at the discretion of the Concession Grantor.

ANEEL Concession Agreement	Power Plant	Type	State	River	Installed power (MW)	Guaranteed Power (average MW)	Start of Concession	End of Concession
76/1999	Jurumirim	Hydroelectric Plant	SP	Paranapanema	101.0	47.0	9/22/1999	9/21/2029
76/1999	Chavantes	Hydroelectric Plant	SP	Paranapanema	414.0	172.0	9/22/1999	9/21/2029
76/1999	Salto Grande	Hydroelectric Plant	SP	Paranapanema	73.8	55.0	9/22/1999	9/21/2029
76/1999	Capivara	Hydroelectric Plant	SP	Paranapanema	619.0	330.0	9/22/1999	9/21/2029
76/1999	Taquaruçu	Hydroelectric Plant	SP	Paranapanema	525.0	200.6	9/22/1999	9/21/2029
76/1999	Rosana	Hydroelectric Plant	SP	Paranapanema	354.0	176.0	9/22/1999	9/21/2029
183/1998	Canoas I	Hydroelectric Plant	SP	Paranapanema	82.5	57.0	7/30/1998	7/29/2033
183/1998	Canoas II	Hydroelectric Plant	SP	Paranapanema	72.0	48.0	7/30/1998	7/29/2033
					2,241.3	1,085.6		

2.11. Impairment of non-financial assets

Assets that are subject to depreciation and amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

For the year ended December 31, 2014, the Company performed said review as described in note 10.7, which did not indicate impairment loss to be recognized.

2.12. Trade and other payables

Trade and other payables are obligations to pay for goods, electric power, electric grid usage charges, material and services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due in one year or less, or as non-current liabilities, if payment is due after one year (or in the normal operating cycle of the Company's business, even if longer).

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method. In practice, they are usually recognized at the amount of the related invoice.

2.13. Debentures

Debentures are recognized initially at fair value, net of transaction costs incurred and are subsequently carried at amortized cost. Any difference between the proceeds (net of transaction costs) and the settlement value is recognized in the statement of income over the period of the borrowings using the effective interest method.

Fees paid in connection with the issue of debentures are recognized as transaction costs when it is probable that some or all of the facility will be drawn down. In such case, fees are deferred until the drawdown occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the related period.

Debentures are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

2.14. Provisions

Provisions for environmental restoration, restructuring costs and legal lawsuits (labor, civil and taxes) are recognized when the Company has a present legal or constructive obligation as a result of past events: it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a rate before tax effects that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2.15. Current and deferred income tax and social contribution

The income tax and social contribution expenses for the period comprise current and deferred taxes. Income taxes are recognized in the statement of income, except to the extent that they relate to items recognized in comprehensive income or directly in equity. In such case, the taxes are also recognized in equity or comprehensive income.

The current income tax and social contribution are calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken by the Company in income tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities

The current income tax and social contribution are presented net, separated by taxpaying entity, in liabilities when there are amounts payable, or in assets when the amounts prepaid exceed the total amount due on the reporting date.

Deferred income tax and social contribution are recognized, using the liability method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax and social contribution are not accounted for if they arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences and/or tax losses can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities.

In order to calculate the income tax and social contribution on current profit, the Company maintains for year 2014 the adoption of the Transitional Tax System (RTT), which authorizes the elimination of the effects arising from the changes introduced by Laws 11638/2007 and 11949/2009 from the calculation bases of these taxes. The company did not opt for the anticipation of the effects of the law 12.973/2014.

2.16. Employee benefits

2.16.1. Pension obligation

The Company sponsors retirement and pension plans for its employees. These plans were established as defined benefits and defined contribution. The costs, contributions and the actuarial assets or liabilities of the defined benefits plan are annually determined, at December 31, by independent actuaries, using the projected unit credit method, and recorded pursuant to CVM Resolution 695/2012 (CPC 33 (R1)). A defined contribution plan is a pension plan under which the Company pays fixed contributions to a separate entity. Under this plan, the Company has no legal or constructive obligations to pay further contributions if the fund does not have sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefits plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. In this case, the Company is legally obliged to pay further contributions if the fund does not hold sufficient assets to pay the benefits to all employees.

The Company recognizes a liability in the balance sheet in relation to the defined benefits pension plans if the present value of the defined benefit obligation at the balance sheet date is higher than the fair value of the plan's assets.

The Company recognizes an asset in the balance sheet if the surpluses of the defined benefits plan lead to an actual reduction in the payments of future contributions. Currently, the surplus calculated does not meet this criterion and no assets have been recognized.

The plan's current costs, including interest, less the expected return on assets, are recognized in the statement of income for the year, when incurred. Actuarial gains and losses are recognized in other comprehensive income, with an immediate impact on the Company's equity.

2.16.2. Equity-settled, share-based compensation plan

There is no compensation plan based on shares issued by the Company for the members of the Board of Directors, Executive Board and Statutory Directors.

Duke Energy Corporation ("Parent Company"), on the other hand, has an equity-settled, share based compensation plan and selects some of the Company's officers to participate in it.

The Company receives the services from eligible executives as consideration for the Parent Company's share-based compensation, and these amounts are calculated at the fair value of the Parent Company's shares at the grant date, and recognized as expenses with a corresponding entry to the Company's equity, pursuant to CPC 10 R1 ("Share-based Payments") (note 20.5).

2.16.3. Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits when it is demonstrably committed to a termination and when the entity has a detailed formal plan to terminate the employment of current employees without possibility of cancellation, or termination benefits are provided in the case of an offer made to encourage voluntary termination.

2.16.4. Profit sharing

The Company recognizes a liability and an expense for profit-sharing based on a formula that takes into consideration the result from services pursuant to a Collective Agreement in force.

2.17. Share capital

Common and preferred shares are classified as equity. Preferred shares have no voting rights, but take priority in the settlement of their portion of share capital. The other characteristics of preferred shares are described in note 20.1.

2.18. Revenue recognition

2.18.1. Revenue from power sale

Revenue comprises the fair value of the consideration received or receivable for sales in the ordinary course of the Company's activities. Sales revenue is shown net of value-added tax, returns, rebates and discounts granted.

The Company recognizes revenue when: (i) the amount of revenue can be reliably measured; (ii) it is probable that future economic benefits will be obtained from the transaction and (iii) specific criteria have been met for each of the Company's activities, as described below. The amount of revenue is not considered reliably measured until all sales-related contingencies have been settled. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

The Company recognizes revenues from sale of energy in bilateral agreements, auctions, MRE and the MCP in the month of supply of energy, in accordance with the amounts included in the contracts and Company's management estimates, subsequently adjusted upon confirmation of such information.

2.18.2. Deferred revenue

The Company enters into long-term agreements for the sale of power containing, besides the inflation adjustment clause based on price indexes, the projected reduction of the price of power to be supplied in the future. Under OCPC 05 (Guidance on Concession Arrangements), for purposes of straight-line basis of the revenue over time, the Company defers the portion of revenue obtained between the sales price and the average sales price over the contractual term.

2.18.3. Finance income

Finance income is recognized on the accrual basis using the effective interest rate method, and is mainly represented by earnings on financial investments, and interest and discounts obtained.

2.19. Distribution of dividends and interest on equity (JCP)

Distributions of dividends to the Company's stockholders are recognized as a liability in the Company's financial statements at year-end based on the Company's bylaws.

The Company's Bylaws establish that the payment of interest on capital can be deducted from the amount of dividends payable. The amount of interest on capital is calculated in accordance with the applicable legislation and the tax benefit generated is recognized in the statement of income.

2.20. Value added statements

The Company has prepared statements of value added (DVA), pursuant to the terms of technical pronouncement CPC 09 – Statement of Value Added, which are presented as an integral part of the financial statements as required by Brazilian Corporate Law for publicly-traded companies. For IFRS purposes, such statements are supplementary financial information.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Accounting estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events which are believed to be reasonable under the circumstances.

3.1. Critical accounting estimates and assumptions

Based on assumptions, the Company makes estimates concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below:

3.1.1. Income tax, social contribution and deferred taxes

The liability method for income tax and social contribution accounting is used to calculate deferred tax arising from temporary differences between the carrying amounts of assets and liabilities and their respective amounts for tax purposes. Deferred tax assets are reviewed at each balance sheet date and reduced by the amount, if any, which is no longer realizable through future taxable profit. Deferred tax assets and liabilities are calculated using the tax rates applicable to taxable income in the years these temporary differences should be realized. Future taxable income may be higher or lower than the estimates considered upon the definition of the need to record, and the amount to be recorded, of tax assets.

The tax credits arising from temporary differences were recognized according to their estimate of realization.

3.1.2. Useful lives of long-lived assets

On January 1, 2009, the Company applied the deemed cost upon first-time adoption of IFRS in accordance with CPC 27 ("Property, Plant and Equipment") and engaged advisors from external consultant to prepare the appraisal of its property, plant and equipment. The Company records its depreciation in accordance with the estimated useful lives determined by the appraisers, which take the following into consideration: (i) the residual values of the assets (of the indemnity at the end of the period of concession or permit issued by the regulatory agencies); and (ii) 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. The Company does not believe that there are indications of a material change in the estimates and assumptions used to calculate impairment losses on long-lived assets.

3.2. New and revised standards and interpretations

The Company did not adopt new and revised IFRSs, and not yet effective, listed below:

Pronouncement	Description	Effectiveness
IFRS 9 – Financial Instruments	It refers to the project of replacing IAS 39 - Financial Instruments: Recognition and Measurement.	Years beginning after January 1, 2018.
IFRS 15 – Revenue from Contracts with Customers	It refers to the convergence of the IASB (International Accounting Standards Board) on the recognition of revenue.	Years beginning on or after January 1, 2018.
Amendments to IFRS 11/CPC 19 (R2) – Joint Arrangements	It refers to the accounting for joint contractual arrangements.	Years beginning on or after January 1, 2016.
IAS 38 / CPC 40 (R1) - Intangible Assets	Clarification of acceptable methods of depreciation and amortization.	Years beginning on or after January 1, 2016.

The Company's Management understands that the application of the above-mentioned pronouncements to be adopted in its financial statements on the required dates may have some effects on the balances previously reported. However, it is not possible to provide a reasonable estimate of such effect until a detailed review at the time of the actual adoption is made.

4. BUSINESS RISK MANAGEMENT

4.1. Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Company's risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Risk management is carried out by the Company according to policies approved by the Board of Directors. The risk management area identifies, evaluates and hedges financial risks.

4.1.1. Market risk

Cash flow and fair value interest rate risk

The Company's interest rate risk arises from long-term debentures and cash and cash equivalent.

The debentures issued at floating rates expose the Company to cash flow interest rate risk.

The impact caused by the fluctuation of the interbank deposit (CDI) rate, the Extended National Consumer Price Index (IPCA) and the General Market Price Index (IGP-M) on debentures is minimized by the yield of short-term investments based on the CDI and by the increase in the prices of bilateral agreements and auctions, which are also indexed to the variation of the IPCA or IGP-M indexes.

4.1.2. Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and other financial institutions, as well as credit exposures to customers, including outstanding receivables. For banks and other financial institutions, only independently rated parties with a minimum rating of "A" are accepted. The Company's credit analysis department assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

In the contracts with the distributors through public auction, the Company seeks to minimize the credit risks with the use of guarantee mechanisms involving the receivables of the distributors. The auction contracts have standardized language and other types of credit support may be provided at the purchaser's initiative, such as bank guarantees and the assignment of Bank Deposit Certificates ("CDB"). Most of the distributors have provided the credit support based on their receivables. Contracts entered into with free consumers (CCEAL) also use guarantee mechanism to mitigate their credit risks, which may be bank guarantee, assignment of Bank Deposit Certificates – CDB or corporate letter of guarantee.

The price of the electric energy sold to distributors and free consumers, determined in auction and bilateral contracts, is consistent with market prices and any excesses or shortages of energy will be settled in the ambit of the CCEE (see note 23.1).

4.1.3. Liquidity risk

The Company monitors rolling forecasts of the liquidity requirements to ensure it has sufficient cash to meet operational needs. Such forecasting takes into consideration the Company's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable, external regulatory or legal requirements.

The Company invests surplus cash in interest-earning current accounts, time deposits, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts.

4.1.4. Debt acceleration risk

The Company's debentures have restrictive covenants normally applicable to transactions of this type, relating to compliance with certain economic and financial ratios, cash generation and other matters. These covenants were complied with and do not restrict the normal course of the Company's operations (see note 14).

4.1.5. Sensitivity analysis

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

The sensitivity for the probable scenario was calculated taking into consideration the variations between the rates and indexes in Wednesday, December 31, 2014 and the estimates available in the market for the next 12 months (Source: Focus of Brazilian Central Bank). The sensitivity analysis also considered another four scenarios favorable and unfavorable, 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			12/31/2014	Scenario - Δ 50%	Scenario - Δ 25%	Probable Scenario	Scenario + Δ 25%	Scenario + Δ 50%
Debentures	Issue	Index						
	3rd	CDI	(158,320)	(10,378)	(14,656)	(18,935)	(23,214)	(27,492)
	4th S1	CDI	(262,876)	(15,917)	(23,021)	(30,126)	(37,230)	(44,334)
	4th S2	IPCA	(278,688)	(25,848)	(30,314)	(34,780)	(39,246)	(43,712)
	5th S1	CDI	(240,357)	(15,130)	(21,626)	(28,122)	(34,617)	(41,113)
	5th S2	IPCA	(255,696)	(26,119)	(30,217)	(34,314)	(38,412)	(42,509)
			(1,195,937)	(93,392)	(119,834)	(146,277)	(172,719)	(199,160)
Cash and cash equivalents		CDI	141,391	7,642	11,463	15,284	19,105	22,926
Total net exposure			(1,054,546)	(85,750)	(108,371)	(130,993)	(153,614)	(176,234)

Change in index	Scenario - Δ 50%	Scenario - Δ 25%	Probable Scenario	Scenario + Δ 25%	Scenario + Δ 50%
IPCA	3.21%	4.81%	6.41%	8.01%	9.62%
CDI	5.41%	8.11%	10.81%	13.51%	16.22%

4.2. Management of capital

	2014	2013
Debentures	1,195,937	1,111,133
Cash and cash equivalents	(141,391)	(611,670)
Net Debt	**1,054,546**	**499,463**
Total equity	1,869,566	2,423,270
Total capital	**2,924,112**	**2,922,733**
Financial leverage ratio (%)*	**36.1**	**17.1**

*Net debt / total capital.

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for stockholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may review its dividend policy or return capital to the stockholders.

4.3. Fair value estimation

The carrying value of trade receivables (net of the impairment provision) and payables is assumed to approximate fair value. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the current bid price.

4.4. Other risks

4.4.1. Hydrological risks

This risk is associated with a shortage of water to generate electric power. The National Interconnected System (SIN) is served by 70% of hydroelectric generation. In order to mitigate this risk, the Energy Reallocation Mechanism (MRE) was created, which is a financial mechanism that enables the sharing of the hydrological risks of the plants centrally dispatched by the National System Operator (ONS). It should be pointed out that the risk is systemic, i.e., there will be an effective risk for the companies that own hydroelectric power plants when the system as a whole is in an unfavorable hydrological condition and not only the region where the plants are located.

4.4.2. Regulatory risk

The Company's activities, as well as those of its competitors, are regulated and monitored by ANEEL. Any change in the regulatory environment may impact the Company's activities.

4.4.3. Environmental risk

The Company's activities and facilities are subject to various federal, state and municipal laws and regulations, as well as to a number of operational requirements related to the protection of the environment. In addition, the Company's inability to operate its plants due to environmental notices of violation or environmental lawsuits can put the generation of operating revenue at risk and adversely impact the Company's results.

The Company uses the Environmental, Health and Safety Management Policy (MASS) to ensure a balance between environmental conservation and the performance of its activities, mitigating the risks it may face.

5. CREDIT QUALITY OF FINANCIAL ASSETS

The credit quality of financial assets that are not past due is assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates (see note 6):

Cash and cash equivalents					
Standard & Poor's	Moodys	2014	Standard & Poor's	Moodys	2013
A-3	BR-1	125,051	A-3	BR-1	274,075
A-2	BR-1	7	A-2	BR-1	328,030
A-3	-	16,330	A-2	-	9,559
B	BR-1	-	-	BR-1	3
*	*	3	*	*	3
		141,391			611,670

* The balance of R$3 as of December 31, 2014 (R$3 as of December 31, 2013) refers to imprest cash fund and, therefore, has no risk classification.

6. CASH AND CASH EQUIVALENT

	2014	2013
Cash and banks	3,105	659
Short-term investments		
Bank certificates of deposit (CDB)	135,462	611,011
Fixed-income fund	2,824	-
	141,391	**611,670**

Financial investments correspond to fixed-income investment funds and bank deposit certificates, with institutions operating in the local financial market and entered into in accordance with usual market rates and conditions. The investments have high liquidity, low credit risk and remuneration based on the Interbank Deposit Certificate (CDI) rate. The gains or losses arising from variations in the fair value of these assets are presented in the statement of income within "Finance income (costs)" in the period in which they Occur (see note 24).

On December 31, 2014, a 77.4% reduction has occurred in financial applications compared to the balance as of December 31, 2013, mainly due to the capital reduction carried out by the Company in November 2014. (see note 20.1)

7. TRADE RECEIVABLES

	2014			2013		
	Current	Noncurrent	Total	Current	Noncurrent	Total
Receivables under bilateral contracts	96,411	-	**96,411**	88,642	-	**88,642**
Receivables under auctions contracts	27,000	1,245	**28,245**	31,313	1,747	**33,060**
Spot market energy (MRE/spot)	6,322	-	**6,322**	51,146	-	**51,146**
	129,733	**1,245**	**130,978**	**171,101**	**1,747**	**172,848**
Allowance for doubtful accounts	(220)	(285)	**(505)**	(2,373)	(192)	**(2,565)**
	129,513	**960**	**130,473**	**168,728**	**1,555**	**170,283**

Changes in the allowance for doubtful accounts	
Balance as of December 31, 2013	**(2,565)**
Allowances in the period	(1,508)
Reversals in the period	3,306
Reversal for effective loss	262
Balance as of December 31, 2014	**(505)**

Invoices issued by the Company for bilateral contracts are due on one maturity date in the month following that of supply, while those related to auction contracts are divided into three equal installments, falling due on the 15th and 25th of the month following that of supply and on the 5th of the second subsequent month.

The provision for impairment of trade receivables is evaluated as described in note 2.5.

8. RECOVERABLE/PAYABLE TAXES

	2014		2013	
	Current	Non-current	Current	Non-current
Assets				
Recoverable income tax and social contribution	8,584	819	4,772	-
Recoverable taxes on revenue (PIS and COFINS)	7,265	141	227	-
Recoverable State VAT (ICMS)	-	-	-	318
Service tax (ISS)	21	-	21	-
Social security tax (INSS)	39	-	39	-
	15,909	960	5,059	318
Liabilities				
Income tax and social contribution	75,475	-	160,538	-
PIS and COFINS	10,145	-	10,018	-
ICMS	1,468	-	1,442	-
Withholding income tax (IRRF) on interest on capital	9,454	-	9,934	-
Other	336	-	308	-
	96,878	-	182,240	-
Deferred tax assets				
Temporary differences	-	(10,971)	-	(11,495)
Tax benefit	-	(32,185)	-	(36,518)
Deferred Revenue	-	(4,448)	-	(3,152)
Deferred tax liabilities				
Equity valuation adjustments	-	414,036	-	449,231
Actuarial adjustment Pension plan	-	1,998	-	1,837
Deferred tax liabilities (net)	-	368,430	-	399,903

The Company opted for the Transitional Tax System (RTT) for taxable income calculation, which addresses the tax adjustments arising from the new accounting methods and criteria introduced by Law 11638/2007 and by articles 36 and 37 of Provisional Measure 449/2008 (converted into Law 11941/2009). These new standards modify the criteria for the recognition of revenues, costs and expenses in the statement of income for the year defined in article 191 of Law 6404/1976. The effects resulting from the adoption of the above-mentioned laws will have no effects for purposes of the calculation of the taxable income of legal entities subject to the RTT, and, for tax purposes, the accounting methods and criteria effective at December 31, 2007 should be considered.

8.1. Deferred income tax and social contribution

On January 1, 2009, as established in CPC 27 ("Property, plant and equipment") and in compliance with the guidance provided by ICPC 10 ("Interpretation of the First-time Adoption of CPCs 27, 28, 37 and 43 to Property. Plant and Equipment and Investment Properties"), the Company recognized the fair value of property, plant and equipment (deemed cost) as of the date of the first-time adoption of CPCs and IFRS. Consequently, the Company also recognized the related deferred income tax and social contribution amounts, as of the transition date.

As of December 31, 2014, the Company established a provision for deferred income tax and social contribution on a gain arising from an appraisal of the assets of the pension and retirement plan, in the amount of R$ 161 (R$ 746 as of December 31, 2013).

As of December 31, 2014, the temporary differences represented by expenses deductible in the future amount to R$ 32,268 (R$ 33,809 as of December 31, 2013), corresponding to R$10,971 in deferred tax assets (R$11,495 as of December 31, 2013). The realization of income tax and social contribution will occur as these amounts become deductible for tax purposes.

The Company classifies deferred income tax and social contribution as non-current, pursuant to CPC 26 ("Presentation of Financial Statements").

8.2. Tax benefit – Merged goodwill

The goodwill amount absorbed by the Company, due to the merger of Duke Energia do Sudeste Ltda, ("Duke Sudeste"), was attributed to the expectation of future profitability and will be amortized up to 2030, as determined by ANEEL Resolution 28/2002, based on the projection of future results prepared by external advisors on the merger date.

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:

	2014			2013
	Goodwill	Provision	Net Amount	Net Amount
Balance arising on merger (see Note 20.2)	305,406	(201,568)	103,838	103,838
Realization	(210,732)	139,079	(71,653)	(67,320)
Closing balance	**94,674**	**(62,489)**	**32,185**	**36,518**

For financial statement presentation purposes, the net amount corresponding to the tax benefit – income tax and social contribution, detailed above, is presented in the balance sheet as a reduction of these taxes within "Deferred taxes" in non-current liabilities. As determined by the regulations of the Brazilian Securities Commission (CVM No. 319/1999), there are no effects on the result for the year, as shown below:

	2014	2013
Goodwill amortization	(12,745)	(13,752)
Reversal of allowance	8,412	9,076
Tax benefit	4,333	4,676
Net effect for the period	-	-

Expected realization of the tax benefit referring to the goodwill merged from Duke Sudeste.

	2015	2016	2017	2018	2019	2020 -2021	2022 - 2024	After 2025	Total
Expected realization	4,002	3,695	3,299	2,946	2,630	4,445	5,035	6,133	32,185

8.3. Income tax and social contribution calculation

The reconciliation between the income tax and social contribution expense at the nominal and effective rates is shown below:

	2014			2013		
	Income Tax	Social Contribution	Total	Income Tax	Social Contribution	Total
Income before income tax and social contribution		**395.117**			**595.097**	
Income tax and social contribution statutory rate	25%	9%	34%	25%	9%	34%
Income tax and social contribution at statutory rates	**98.779**	**35.561**	**134.340**	**148.774**	**53.559**	**202.333**
Adjustments to effective rate						
Amortization Inflationary credit charge	(2.196)	74	(2.122)	(2.212)	74	(2.138)
Nondeductible expenses	2.365	710	3.075	2.082	610	2.692
Interest on capital	(15.676)	(5.643)	(21.319)	(16.738)	(6.026)	(22.764)
Tax benefits	(4.414)	-	(4.414)	(3.607)	-	(3.607)
Adjustment of 2012 balance	-	-	-	244	118	362
Others	(29)	8	(21)	(39)	7	(32)
Income tax and social contribution affecting profit or loss	**78.829**	**30.710**	**109.539**	**128.504**	**48.342**	**176.846**
Income tax and social contribution	102.089	39.084	141.173	152.480	56.973	209.453
Deferred income tax and social contribution	(23.260)	(8.374)	(31.634)	(23.976)	(8.631)	(32.607)
Total income tax and social contribution affecting profit or loss	**78.829**	**30.710**	**109.539**	**128.504**	**48.342**	**176.846**
Applicable tax rate	**20.0%**	**7.8%**	**27.8%**	**21.6%**	**8.1%**	**29.7%**

In the determination of the calculation basis of the Company's federal taxes, as determined by the Transitional Tax System (RTT), the accounting adjustments arising from the application of the following standards were eliminated. Technical Pronouncements CPC 33 R1 (“Employee Benefits"), CPC 10 (R1) ("Share-based Payments") and CPC 27 ("Property, Plant and Equipment").

8.4 Law 12.973/2014.

A result of the conversion of MP 627/2013 into law, this act changes the federal tax laws regarding Corporate Income Tax - IRPJ, Social Contribution on Net Income - CSLL, Contribution to the PIS/Pasep and the Contribution for Social Security Fund - Cofins; repeals the Transition Tax Regime - RTT established by law No. 11.941, of May 27, 2009, and provides on the taxation of legal entities domiciled in Brazil, regarding the increase of assets arising from participation in profits earned abroad by subsidiary companies and affiliates.

The company decided not to anticipate the effects of this Law for 2014 and concluded that this law will not impact the Company's operations.

9. ESCROW DEPOSITS

	2014	2013
Environmental	4,977	4,612
Tax:	8,362	7,768
Real Estate Tax (IPTU) (City of Primeiro de Maio Municipality)	1,236	1,152
Late payment fine on IRRF, IRPJ and CSLL	111	103
Late payment fine on PIS, COFINS, IRPJ, CSLL and Tax on Financial Transactions (IOF)	7,015	6,513
TUSD-g	25,754	23,164
	39,093	**35,544**

Only judicial deposits for appeals not related to probable contingent liabilities are recorded under this caption and all of them are monetarily restated (see note 17).

i. **Environmental** – Judicial deposits made by the Company in connection with annulment action filed against Instituto Ambiental do Paraná - IAP and Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis – IBAMA, referring to the administrative fines.

ii. **Tax:**

a. **IPTU –** The Company filed a lawsuit for the annulment of tax debts related to the Municipal Real Estate Tax (IPTU) levied on real estate properties that form part of the reservoir of the Capivara Basin, claimed by the municipality of Primeiro de Maio. The judicial deposits were made in 2008 and 2010.

b. **Arrears fine on IRRF, IRPJ and CSLL due –** Judicial deposits referring to the writ of mandamus filed by the Company to be assured of the right to settle the amounts relating to IRRF, IRPJ and CSLL without the application of a late payment fine, in view of voluntary disclosure.

c. **Arrears fine on PIS, COFINS, IRPJ, CSLL and IOF** – Judicial deposit made, referring to the writ of mandamus as guarantee and for suspension of the enforceability of tax debts arising from the application of late payment fine. The Company, supported by the opinion of its legal advisors, understands that the arrears fine is not due in the event of voluntary disclosure, as determined by article 138 of the National Tax Code and, there are no liability recorded regarding this matter.

iii. **Tusd-g –** Escrow deposits to obtain a court decision that suspends the collection of this fine imposed by the ANEEL for the alleged noncompliance of the obligations to sign the Contracts for Use of Distribution System - CUSDs and pay the liability accumulated from July 2004 to June 2009. For further information, see note 12 for a description of the progress of discussions regarding TUSD-g.

10. PROPERTY, PLANT AND EQUIPMENT

a) Composition

	2014			2013	Annual average depreciation rate
	Cost	Accumulated depreciation	Net	Net	
In service					
Land	210,989	-	210,989	210,997	-
Reservoirs, dams and water mains	3,408,728	(915,287)	2,493,441	2,674,464	4.5%
Buildings, civil construction and improvements	461,868	(149,263)	312,605	325,042	3.2%
Machinery and equipment	829,711	(272,178)	557,533	560,767	5.7%
Vehicles	6,107	(1,681)	4,426	2,991	14.7%
Furniture and fixtures	1,817	(1,444)	373	404	5.2%
(-) Canoas I e II plant reserves	(200,675)	-	(200,675)	(200,675)	
	4,718,545	**(1,339,853)**	**3,378,692**	**3,573,990**	
In progress					
Land	4,248	-	4,248	4,249	
Reservoirs, dams and water mains	1,898	-	1,898	1,609	
Buildings, civil construction and improvements	1,529	-	1,529	2,199	
Machinery and equipment	71,991	-	71,991	50,352	
Vehicles	1,453	-	1,453	280	
Furniture and fixtures	1,155	-	1,155	960	
	82,274	**-**	**82,274**	**59,649**	
	4,800,819	**(1,339,853)**	**3,460,966**	**3,633,639**	
(-) Concession-related obligations (see note 18)	(1,677)	82	(1,595)	(1,677)	
	4,799,142	**(1,339,771)**	**3,459,371**	**3,631,962**	

b) Changes in property, plant and equipment

	Net amount at 12/31/2013	Addition	Depreciation	Write-offs	Reclassifications and transfers	Net amount at 12/31/2014
Land	215.246	-	-	(9)	-	215.237
Reservoirs, dams and water mains	2.676.073	1.492	(153.944)	(9)	(28.273)	2.495.339
Buildings, civil construction and improvements	327.241	2.040	(14.977)	(170)	-	314.134
Machinery and equipment	611.119	34.854	(44.562)	(1.139)	29.252	629.524
Vehicles	3.271	3.832	(822)	(402)	-	5.879
Furniture and fixtures	1.364	1.237	(92)	(2)	(979)	1.528
(-) Canoas I e II plant reserves	(200.675)	-	-	-	-	(200.675)
	3.633.639	**43.455**	**(214.397)**	**(1.731)**	**-**	**3.460.966**
(-) Concession-related obligations (see note 18)	(1.677)	-	82	-	-	(1.595)
	3.631.962	**43.455**	**(214.315)**	**(1.731)**	**-**	**3.459.371**

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.

On 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 years ended 12/31/2014 and 12/31/2013 was R$ 102,969 and R$ 101,042 respectively.

Land was maintained at historical cost.

10.2. Depreciation rates

The Company calculates its depreciation under the straight-line method, by component, the depreciation rate of which takes into consideration the economic-useful lives estimated by the regulatory agencies. 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 pending decision by ANEEL, which deals with the review of this resolution.

10.4. Concession agreements

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 has reported that the Performance Commitment Action filed by the State of São Paulo related to the 15% expansion of its installed capacity is in progress.

10.6. Sale of Property – Pousada Salto Grande

On July 31, 2014, Pousada of "Salto Grande" was sold at a public auction. The winning bid was R$ 4,020, 25% of which was paid on August 1, 2014 and the remaining 75% on September 23, 2014, as agreed between the parties.

The cost calculated in the sale of property, plant and equipment was R$ 178, corresponding to the residual balance of the asset at the date of the transaction. The income from the transaction is recorded in caption "Other operating revenues", in the statement of income.

10.7. Impairment Analysis

During the year, the Company identified a change in the macroeconomic scenario of the electricity industry that impacted the income earned during the year, as explained in note 23.2. The Company believes that this situation could impact the recoverable value of its assets. Thus, Management performed an analysis of the recoverable amount of these assets, which did not indicate impairment loss to be recognized as of December 31, 2014.

11. INTANGIBLE ASSETS

The balance as of December 31, 2014 mainly comprises rights to use software, right of passage and Utilization of Public Assets (UBP).

a) Composition

	12/31/2014			12/31/2013	
	Cost	Accumulated amortization	Net	Net	Annual average amortization rate
In service					
UBP	53,494	(25,735)	27,759	29,609	3.5%
Software	23,624	(21,287)	2,337	3,331	4.5%
Rights of way	75	-	75	75	
	77,193	**(47,022)**	**30,171**	**33,015**	
In progress					
Software	1,980	-	1,980	1,385	
	79,173	**(47,022)**	**32,151**	**34,400**	
(-) Concession-related obligations (see note 18)	(2,207)	622	(1,585)	(2,026)	
	76,966	**(46,400)**	**30,566**	**32,374**	

b) Changes in intangible assets

	Net amount at 12/31/2013	Addition	Amortization	Net amount at 12/31/2014
UBP	29,609	-	(1,850)	27,759
Software	4,716	661	(1,060)	4,317
Rights of way	75	-	-	75
	34,400	**661**	**(2,910)**	**32,151**
(-) Concession-related obligations (see note 18)	(2,026)	-	441	(1,585)
	32,374	**661**	**(2,469)**	**30,566**

12. TRADE PAYABLES

	2014			2013		
	Current	Non-current	Total	Current	Non-current	Total
Electricity supply	59,111	-	59,111	7	-	7
Materials and services	9,398	-	9,398	6,367	-	6,367
Electric grid usage charges	10,604	6,861	17,465	8,705	5,098	13,803
Tust	9,698	-	9,698	7,871	-	7,871
Tusd-g	884	6,861	7,745	813	5,098	5,911
Connection charges	22	-	22	21	-	21
	79,113	**6,861**	**85,974**	**15,079**	**5,098**	**20,177**

Electric energy supply balance refers to the purchase of energy through bilateral agreements and via spot market, from CCEE In 2014, there was a great increase in such balance due to the negative hydrological scenario. Consequently, the effect can be observed in the Company's results, under caption "Energy purchased for resale" (note 23.2).

Electric grid usage charges

ANEEL regulates the tariffs for access to the distribution and transmission systems. The tariffs due by the Company are: (i) Tariff for the Use of Transmission Network (Tust); (ii) Tariffs for the Use of Distribution System Applicable to Generator Units Connected to the Distribution Systems (Tusd-g); and (iii) connection charges (note 23.3).

The Company is presently discussing in court, through a Civil Lawsuit, the review of the amounts to be paid on account of the Tariff for the Use of Distribution Network – Tusd-g, understanding that the Other Transmission Installations (DITs) and the Border Transformers are part of the transmission system and that the tariff for remunerating these assets of the transmission system should be calculated based on the location guideline.

In June 2009, the Company required in the records of the Civil Action the judicial deposit of the Tusd-g amounts and the judicial determination that the CUSD with the distributors be considered as signed up. In June 2009, the request for judicial deposit was rejected, but the judge recognized the CUSD with the distributors as signed up.

Accordingly, in view of the obligation to pay these amounts, on June 30, 2009, the Company recognized in its statement of income the amount of R$ 71,262 (R$ 59,311 of which under "Electric grid usage charges" and R$ 11,951 under "Finance costs"), R$ 30,534 in Current Liabilities and R$ 40,728 in Non-Current Liabilities, adjusting the amount recorded to that established by ANEEL's Ratifying Resolution 497/2007, in compliance with the decision rendered mentioned above. According to the Company's legal advisors, the chances of success in the Civil Action are not altered due to the rejection of the petition for deposit and remain classified as possible.

The Company appealed against the decision that overruled the deposit request and, in August 2009, the Courts authorized the deposit in escrow of the amounts related to the difference between the tariffs calculated in accordance with ANEEL Resolution 349/2009 and Resolution 497/2007.

In December 2014, a decision was rendered at trial court level, which fully granted the Company's requests in the Civil Action. The decision is subject to appeal by ANEEL and the distributors. The Company deposited the last installments of the escrow deposits in the first quarter of 2012, the amount of which, adjusted through December 31, 2014, is $ 60,982 (R$ 54,986 in December 31, 2013). The liability is stated net of the escrow deposits, and its balance as of December 31, 2014 is R$6,861 (R$5,098 as of December 31, 2013).

13. RELATED PARTIES

13.1. Transactions and balances

The Company has an expense sharing agreement with the associate DEB - Pequenas Centrals Hidreletricas Ltda. and with Duke Energy International, Brasil Ltda. (“Duke Brasil”). The balance receivable from related parties from these contracts in December 31, 2014 is $ 409.

When the Company's customers need guarantees in commercial transactions, Duke Brasil provides these guarantees on behalf of the Company, whose amount as of December 31, 2013 was R$ 196,759 (R$ 164,209 as of December 31, 2013). The other significant transactions with related parties refer to the payment of dividends and equity accounting.

13.2. Project development agreement

On December 21, 2012, the Extraordinary General Meeting (AGE), in accordance with the dispositions of ANEEL's Normative Resolution 334/2008 and the Company's Internal Policies, approved the execution of the Project Development Agreement ("Agreement"), whose counterparty is a company of the Company's economic group, 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.

This agreement refers to the Company's and Duke Brasil's initiative to regulate the way power industry projects are developed and acquired, under which Duke Brasil would bear all costs on the study of new projects, as well as the development-related risks, until the commercial operation phase is reached, and obtaining all the licenses and permits necessary for the development, construction and/or operation of each project, and the Company would provide technical, operational, and personnel support to Duke Brasil, under the Agreement.

In December 2013, the Independent Committee to study the potential acquisition of the project developed by the company of the Company's economic group, DEB – Pequenas Centrais Hidrelétricas Ltda. ("Project"), was established, which has already reached the Commercial Operation Phase, under the terms of the Agreement and the laws in force.

The purpose of the Independent Committee was to ensure that the transactions with Related Parties, conducted under the Agreement, are always strictly held on an arm's length basis, independently negotiated based on a transparent, secure process. The Committee consisted of three (3) members, one (1) member appointed by representatives of Company's noncontrolling shareholders, one (1) member appointed by Duke Brasil, and the third member jointly appointed by the other two (2) members.

In September 2014, after analysis of the transaction by the Independent Committee, the following recommendation was issued to the Stockholders Meeting, which would be responsible for reviewing the acquisition of DEB by the Company: "(a) the submission of the Due Diligence report about DEB for review of the Board of Directors, since in its understanding it has properly addressed the technical, fiscal, accounting, environmental, regulatory and legal situation of the Project; (b) the submission of the draft Stock Purchase and Sale Agreement to the Board of Directors, to be executed between Duke Brasil and the Company, with the intervention of DEB, for approval of the authorized corporate bodies of the Company to proceed with the Transaction; (c) the adoption of the Transfer Price, and the corresponding Acquisition Price, of R$ 181 million for the purchase and sale of the entire interests of Duke Brazil in the Project, the Acquisition Price being subject to adjustment, upwards or downwards, as a result of any change in the Company's Net Debt position between (i) June 30, 2014; and (ii) the Closing Date, as reported in the Closing Financial Statements; and (d) the setting of a deadline of up to six (6) months from the date of signature of the agreement in order to obtain the proper authorization by the National Electric Energy Agency – ANEEL for the transfer of the ownership interest".

Thus, the Stockholders Meeting held on October 02, 2014 approved the exercise of the call option of the Project by the Company, pursuant to Section VII, item 7.1 of the Project Development Agreement signed by and between the Company and Duke Brazil on December 21, 2012, subject to the prior consent of ANEEL, under the terms of ANEEL Resolution No. 484/2012.

On October 08, 2014, DEB filed with ANEEL a request for prior consent for the transfer of the corporate control, pursuant to the aforementioned Resolution. Until the date of approval of the financial statements, the Company is awaiting authorization from ANEEL to give effect to the Stock Purchase and Sale Agreement, executed by and between Duke Brasil and the Company, with the intervention of DEB.

13.3. Key management remuneration

The Stockholders Meeting held on April 28, 2014 approved the Management's annual remuneration of the Company in the overall amount of R$ 10,590 for 2014, distributed as follows: (a) $ 1,600 to the Board of Directors; (b) $ 8,000 to the Executive Board and (c) $ 990 to the Statutory Audit Committee. The Supervisory Board's compensation in 2014 was R$956 (R$895 in 2013).

Presented below is the composition of key management remuneration:

	2014	2013
Employee and management short-term benefits	6,171	5,826
Postemployment benefits	224	183
	6,395	**6,009**
Share-based compensation (Note 20.5)	25	80
	6,420	**6,089**

Certain Company managers are eligible for the Long-term Incentive Program (LTI) established by the indirect parent company and comprised of its shares. In 2014, the Company recognized expenses related to the Parent Company's share-based remuneration plan in the amount of R$ 25 (R$ 80 in 2013). The Company does not have a local plan involving its own shares.

14. DEBENTURES

14.1. Composition and maturity of the debentures

a) Composition

				Principal + Charges in					
				2014			2013		
				Current	Non-current	Total	Current	Non-current	Total
2nd	Single	Variation IGP-M + 8.59% p.y.	7/16/2015	-	-	-	224,301	208,479	432,780
3rd	Single	Variation CDI + 1.15% p.y.	01/10/2017	8,515	149,805	158,320	7,011	149,610	156,621
4th	1	Variation CDI + 0.65% p.y.	7/16/2018	13,265	249,611	262,876	10,876	249,455	260,331
4th	2	Variation IPCA + 6.07 % p.y.	7/16/2023	7,589	271,099	278,688	7,057	254,344	261,401
5th	1	Variation CDI + 0.89% p.y.	5/20/2019	2,724	237,633	240,357	-	-	-
5th	2	Variation IPCA + 7.01% p.y.	5/20/2021	10,491	245,205	255,696	-	-	-
				42,584	**1,153,353**	**1,195,937**	**249,245**	**861,888**	**1,111,133**

b) Maturity

	2014
Long-term Maturity	Non-current
2016	157,211
2017	237,064
2018	162,167
2019	161,403
2020	81,887
2021	172,535
2022	90,403
2023	90,683
	1,153,353

14.2. Changes

	2nd Issue	3rd Issue	4th Issue		5th Issue		Total
	Single Series	Single Series	Series 1	Series 2	Series 1	Series 2	
Net amount at December 31, 2013	432,780	156,621	260,331	261,401	-	-	1,111,133
Changes in debentures							
Issuance of debentures	-	-	-	-	239,000	240,000	479,000
Transaction costs	-	-	-	-	(1,974)	(2,024)	(3,998)
Amortization of transaction costs	2,188	195	156	77	208	180	3,004
Principal amortization	(333,350)	-	-	-	-	-	(333,350)
Interest accrual	31,528	17,609	28,029	16,697	17,426	10,788	122,077
Inflation adjustment accrual	10,368	-	-	16,678	-	6,752	33,798
Refund of interest and inflation adjustments accrual (*)	-	-	-	-	(1,591)	(1,840)	(3,431)
Refund of interest and inflation adjustments accrual (*)	-	-	-	-	1,591	1 840	3,431
Interest payments	(47,992)	(16,105)	(25,640)	(16,165)	(14,303)	-	(120 205)
Inflation payments	(95,522)	-	-	-	-	-	(95,522)
	(432,780)	1,699	2,545	17,287	240,357	255,696	84,804
Net amount at December 31, 2014	-	158,320	262,876	278,688	240,357	255,696	1,195,937

(*) See Note 14.3.

14.3 Fifth issue of debentures

On May 20, 2014 the Company raised R$ 479,000 (four hundred and seventy nine million Reais) 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.

The issue was made in two series, the first of which comprising 23,900 debentures, with a unit nominal value of R$ 10,000 and maturity in 5 years, and the second of which comprising 24,000 debentures, with a unit nominal amount of R$ 10,000 and maturity in 7 years, thus totaling 47,900 debentures.

The effective releases of the funds from the first and second series have occurred on June 10 and 11, 2014, respectively. Interests and monetary variation incurred between the date of issuance of the debentures and the effective release of funds, totaling R$ 3,431 (three million, four hundred and thirty one thousand Reais), were refunded to the Company and recorded in the Finance Result, under the subgroup "Finance Costs", under the caption "Recovery of interests and monetary adjustment of debentures" (see note 24).

The offer was issued based on the decisions made: (i) at the Company's Executive Board Meeting held on March 25, 2014; (ii) at the Company's Board of Directors Meeting held on April 3, 2014; (iii) by the favorable opinion of the Company's Statutory Audit Committee on April 3, 2014; (iv) in the deliberations of the Extraordinary General Meeting of stockholders held on April 28, 2014 and (v) at the Board of Directors Meeting held on May 29, 2014, which approved the proposal presented by Banco BTG Pactual S.A.

The issue proceeds were fully allocated to (i) the payment of outstanding amounts of principal, interest and inflation adjustment charged on all debentures of the second issue, pursuant to the Second Issue of Simple, Unsecured, Unconvertible Debentures Indenture, executed on July 5, 2010; (ii) the payment of interests charged on the third issue of the Company debentures, in July 2014, and the remaining balance shall be used to pay interests becoming due in January 2015, pursuant to the Third Issue of Unsecured, Unconvertible Debentures Indenture, executed on December 28, 2011.

The transaction costs incurred are being recorded as a reduction of the fair value initially recognized and were considered to determine the effective interest rate, in accordance with CPC 08 ("Transaction costs and premiums on issue of securities").

14.4 Financial Covenants

The restrictive covenants contained in the Public Issue of Unsecure, Nonconvertible Debentures Indenture of the Third, Fourth and Fifth issues of the Company are as follows:

1. Ratio between the Net Debt and EBITDA cannot exceed 3.20;
2. Ratio between Ebitda and the Financial Result cannot be equal to or exceed 2.0.

For the year ended December 31, 2014, the Company met such financial ratios and, therefore, has complied with these covenants.

14.5 Non-Financial Covenants

In addition to the restrictive covenants related to the financial ratios previously mentioned, there are restrictive covenants related to other topics, among which we point out the following:

(i) Non-payment of any other financial obligation, in an aggregated or individual manner, contracted by the issuer, in the domestic or foreign market in an amount above R$ 30 million;

(ii) Transfer of direct or indirect control of the Company, provided that, after such transfer, the risk classifications by Moody's or Standard & Poor's or, in their absence, Fitch, downgrade the Company's risk classification by two grades compared to the risk classification effective on the date of issue by reasons directly associated to the transfer of corporate control;

(iii) Split-up, merger or any form of corporate reorganization involving the Company, unless the requirements of items a, b and c of the same clause of the debenture indentures are met;

(iv) Early termination or intervention, for any reason, of any of the concession agreements by the concession grantor regarding the electric power utility service;

(v) Reduction of the Company's capital, except those previously approved by the Debenture Holders, in the case of the third issue and other issues, which does not exceed the reduction of capital authorized;

(vi) Other events detailed in the deeds of the Debentures issued.

15. CIBACAP – INTERMUNICIPAL CONSORTIUM OF THE CAPIVARA RIVER BASIN

The Company signed commitments with the Municipalities of the Capivara river basin and with the State Highway Department of the State of Parana, parties to the Consortium Intermunicipal da Bacia de Capivara - CIBACAP which is involved with the formation of the reservoir of the Capivara hydroelectric power plant ("Capivara"). These commitments involve projects, according to the Conduct Agreement (TAC) in connection with costs, damages and/or losses caused to these municipalities due to the construction of Capivara.

	2014	2013
Current	2,283	344
Noncurrent	6,935	8,697
	9,218	**9,041**

The Company periodically revises the amounts required to meet the obligations of this agreement, adjusting the balance of the provision recorded in liabilities whenever necessary.

16. PENSION AND RETIREMENT PLAN

The obligations with the CESP Foundation, (one of the entities managing the benefit plans), referring to the Defined Benefits Plan, are recorded in non-current liabilities, in the caption Retirement and pension plans.

Reconciliation of the assets/(liabilities) to be recognized in the balance sheet

	2014	2013
Present value of actuarial obligations totally or partially funded	(189,373)	(166,703)
Fair value of assets	228,043	214,761
Assets to be recognized in the balance sheet before adjustment	38,670	48,058
Effect of the limit of the debt	(38,670)	(48,058)
Assets/(liabilities) to be recognized in the balance sheet after adjustment	**-**	**-**

CPC 33 R1 ("Employee Benefits") requires that any assets generated be analyzed and, in the event the possibility of using these funds is not evidenced by the Company, the recognition thereof should be restricted. The restriction on the recognition of the Company's assets arose from the fact that the surpluses of the pension plan will not be used by the Company to reduce future contributions or for the return of funds to the Company.

Under the resolution issued by the Supplementary Pension Management Council - CGPC No. 26/2009, and based on the local results of the actuarial valuation of CESP Foundation, no Special Reserve was established at December 31, 2013 and therefore, the Company cannot benefit from the Plan's surplus at this time.

Change in assets/(liabilities) to be recognized in the balance sheet	2014	2013
(Expense) revenue for the year	(1,254)	(2,924)
Contributions made by the Company in the year	797	716
Gain (loss) immediately recognized - effect on equity	(15,461)	28,807
Change in the restriction on assets - effect on equity	15,918	(26,599)
(Liabilities) assets to be recognized at end of year	**-**	**-**

Changes in present value of liabilities at end of year	2014	2013
Present value of the obligations at the beginning of the year	166,703	216,479
Current service cost	2,275	3,513
Company contributions	1,351	2,698
Employee contributions	924	815
Interest cost	20,814	17,588
Benefits paid in the year	(10,211)	(9,646)
(Gain) loss on liabilities	9,792	(61,231)
Present value of the obligations at the end of the year	**189,373**	**166,703**

Changes in fair value of assets at end of year	2014	2013
Fair value of the assets at the beginning of the year	214,761	234,514
Fair value adjustment	314	1,805
Fair value of the assets adjusted	215,075	236,319
Actual return on plan assets	21,458	(13,443)
Expected return on plan assets	27,127	18,981
Gain (loss)	(5,669)	(32,424)
Contributions made by the Company	1,721	1,531
Benefits paid in the year	(10,211)	(9,646)
Fair value of the assets at the end of the year	**228,043**	**214,761**

Annual expense/(revenue) recognized in the statement of income for the year	2014	2013
Cost of current service	2,275	3,513
Interest cost	(6,313)	(1,393)
Employee contributions	(924)	(815)
Interest on the asset limit	6,216	1,619
Total	**1,254**	**2,924**

Assumptions used in actuarial valuations

Economic Assumptions	2014	2013
Discount rate (*)	11.62% p.y.	12.85% p.y.
Expected rate on return on plan assets	11.62% p.y.	12.85% p.y.
Future salary growth	8.88% p.y.	9.09% p.y.
Growth on social security benefits and limits	5.20% p.y.	5.91% p.y.
Inflation	5.20% p.y.	5.91% p.y.
Capacity factor		
Salaries	100%	100%
Benefits	100%	100%

(*) Using nominal rates

Demographic assumptions	2014	2013
Mortality Table (*)	AT-2000	AT-1983
Disability mortality table	AT-1949	AT-1949
Disability entry table	Light Weak	Light Weak
Turnover Table	Experience of CESP Foundation 2012	Experience of CESP Foundation 2012
Retirement Age	Age entitled to full benefits	Age entitled to full benefits
Percentage of active participants married at retirement date	95%	95%
Age difference between participant and spouse	Wives are 4 years younger than their husbands	Wives are 4 years younger than their husbands

(*) The change in the mortality table is due to the adherence study performed by CESP Foundation in 2014, through which it identified the need to update the mortality profile of participants, assisted and beneficiaries, which no longer was being represented in AT-1983. Thus, the mortality table was changed to AT-2000 (male), reduced by 10%.

16.1. Fundação CESP III

The Company is co-sponsor of Fundação CESP, a not-for-profit entity formed with the purpose of providing benefits for the supplementation of retirement and pension income, using the capitalization financial system, according to which the present value of the benefits to be paid, less the present value of the contributions and earnings, determine the need for reserves.

The Company has contract of Debt Acknowledgment Agreement to fund the actuarial deficit referring to the Supplementary Proportional Settled Benefit (BSPS), with final maturity on November 30, 2017. The balance of this agreement is adjusted by the variation of the actuarial cost, or by the General Price Index (IGP-DI) variation, plus interest of 6% per year, whichever is higher, and is added monthly to the principal amount.

In accordance with Clause 10, after the annual Publication of the Statement of the Results of the Benefit Plan Actuarial Evaluation (DRAA) relative to the previous year, the balance therein will be compared to the remaining debt balance. If the remaining balance is higher than the amount presented in the DRAA as the deficit of the plan, the installments determined in Clause B will be reduced proportionately. If the result of the comparison is, on the contrary, a lower value than that presented in the DRAA, the installments determined in Clause 8 will be revised in order to maintain in its totality the obligation specified in the contract, observing the terms of Clause 9, sole paragraph. Due to the existence of a surplus, the balance was reduced to zero in January 2007. That surplus continues up to December 31, 2014.

That contract is considered, in essence, a guarantee for solving the cash flow among the Company and the Fundação Cesp.

16.2. CVM Resolution 695/12 (CPC 33 - R1)

The Company appointed Towers Watson Consultoria Ltda. to perform the actuarial valuation of its post-employment benefits to order to determine the related benefit liabilities and costs, based on the rules of CPC 33 R1 ("Employee Benefits"), mandatory for listed companies through CVM Resolution 695/2012.

17. PROVISION FOR TAX, LABOR AND ENVIRONMENTAL RISKS

The Company's Management, based on analyses and reports prepared by the legal department and by external legal advisors, has been establishing provisions at amounts deemed sufficient to cover probable losses and obligations related to labor, tax, environmental and regulatory lawsuits.

Additionally, the Company has labor, tax, environmental and regulatory lawsuits, as shown in the table below, involving risks of loss classified by management as possible, based on the evaluation of the external legal advisors, for which no provision for was recognized. As described below.

Judicial deposits presented as deductions refer only to deposits related to labor and tax contingencies, and the other deposits are described in a particular note (see note 9).

17.1. Provision for tax, labor and environmental risks

Composition

			2014	2013
	Provision	Escrow deposit	Provision net	Provision net
Labor	4,275	(2,354)	1,921	3,228
Tax	12,833	(667)	12,166	11,975
Environmental	5,439	-	5,439	4,625
	22,547	**(3,021)**	**19,526**	**19,828**

Changes in the provision for tax, labor and environmental risks

	Labor	Tax	Environmental	Total
Balance as of December 31, 2013	**3,228**	**11,975**	**4,625**	**19,828**
Provisions				
Provision in the year	785	-	509	1,294
Reversals in the year	(1,316)	-	-	(1,316)
Adjustments in provisions	-	225	427	652
Agreements/disbursements in the year	(783)	-	(122)	(905)
	(1,314)	**225**	**814**	**(275)**
Escrow deposits				
Adjustments	(189)	(34)	-	(223)
Provisions in the year	(231)	-	-	(231)
Reversals	427	-	-	427
	7	**(34)**	**-**	**(27)**
Balance as of December 31, 2014	**1,921**	**12,166**	**5,439**	**19,526**

a) Labor

As of December 31, 2014, labor contingencies totaled R$1,921 (R$3,228 as of December 31, 2013), and refer to lawsuits brought by former employees and outsourced employees, involving overtime, health hazard premium, salary equalization, employment relationship, among other matters.

The constitutions refer to reevaluations made by the Company legal advisors. Write-offs in the year refer to the termination of lawsuits in the normal course of the proceedings and court settlements

b) Tax

The provisions as of December 31, 2014 related to tax contingencies, in respect of which unfavorable outcomes are regarded as probable, refer to the following:

i. Tax assessment related to the allocation of the payments of tax on inflationary gains to the Amazon Investment Fund (FINAM) tax incentive in January, February and March 2000. The Company filed administrative proceeding 19515.003540/2005-96 with the Federal Revenue Secretariat, which validated the payments made in January and February, remaining accrued the amount for March 2000, adjusted to December 31, 2014 amounting R$ 2,616 (R$ 2,530 as of December 31, 2013).

ii. Administrative proceeding 10880.723970/2011-33, which addresses the electronic requests for refund or reimbursement of COFINS credits of 2004. An administrative appeal was claimed because part of the amounts has not been confirmed by the Federal Revenue Service. The amounts adjusted through December 31, 2014 total R$7,915 (R$7,915 as of December 31, 2013);

iii. Administrative proceeding 16349.720107/2011-38, which addresses the electronic requests for refund or reimbursement of COFINS credits of 2001. An administrative appeal was claimed because part of the amounts has not been confirmed by the Federal Revenue Service. The amounts adjusted through December 31, 2014 total R$557 (R$557 as of December 31, 2013);

iv. Administrative proceeding No. 16349.720176/2012-22, which addresses the electronic refund requests of PIS and COFINS credits. An administrative appeal was claimed because the amounts has not been confirmed by the Federal Revenue Service. The amounts adjusted through December 31, 2014 total R$1,078 (R$973 as of December 31, 2013).

c) Environmental

The provisions as of December 31, 2014 related to environmental contingencies, in respect of which unfavorable outcomes are regarded as probable, refer to the following:

i. Lawsuits for compensation of environmental impacts filed by the municipality of Santo Inácio in the restated amount of R$ 2,707 (R$ 2,540 as of December 31, 2013);

ii. Lawsuits filed by fishermen referring to environmental damages in the amount of R$ 2.685 (R$ 2,038 as of December 31, 2013); and

iii. Contingency to compensate environmental impacts referring to land located in the Municipality of Pederneiras in the amount of R$ 47 (R$ 47 as of December 31, 2013).

17.2. Possible loss contingencies

	2014	2013
Labor	18,162	8,207
Tax	73,326	72,155
Environmental	34,718	31,976
Regulatory	70,071	65,872
	196,277	**178,210**

a) Labor

As of December 31, 2014, labor contingencies whose likelihood of loss is assessed as possible amount to R$18,162 (R$ 8,207 as of December 31, 2013).

b) Tax

As of December 31, 2014, the main tax contingencies, in respect of which unfavorable outcomes are regarded as possible, refer to the following:

i. Writ of mandamus 2004.61.00025355-3, filed with the Federal Revenue Service in São Paulo, requesting the preliminary injunction to recognize the Company's right of not being subject to late payment fines on the settlement of its debts of PIS, COFINS, IRPJ, CSLL and IOF through payments and offsets, based on the benefit of voluntary disclosure, as established in article 138 of the National tax Code (CNT). Debts whose payment was suspended by judicial deposits and the possible loss is estimated at R$ 7,068 (R$ 6,512 as of December 31, 2013);

ii. Tax assessment notice referring to the imposition of fine for alleged failure to issue tax documents relating to the Canoas II power plant, in the period from 2001 to 2005. The Company filed administrative proceedings at the Parana State Finance Secretariat. All the proceedings, amounting to R$ 8,672 (R$ 9,403 on December 31, 2013), await final decision at the administrative level;

iii. Administrative proceedings arising from requests for refund due to tax losses (IRPJ, IRRF and CSLL). For all the cases, the Company interposed appeals which await decision. The amount of R$ 23,218 (R$ 21,895 as of December 31, 2013) is classified as a possible loss; and

iv. Administrative proceedings arising from requests for refund due to tax overpaid by the Company (CSLL, IRPJ and COFINS) in the amount of R$ 31,114 (R$ 30,258 as of December 31, 2013).

c) Environmental

Environmental contingencies with expectation of possible loss refer to tax assessment notices issued by the Environmental Institute of Parana (IAP) and by the Brazilian Environmental Institute (IBAMA), relating to alleged environmental violations at the Chavantes, Canoas I, Canoas II, Taquaruçu and Capivara power plants. The Company filed administrative appeals and a lawsuits seeking the annulment of the fines.

The amount adjusted through December 31, 2014 is R$ 34,718 (R$ 31,796 as of December 31, 2013).

d) Regulatory

As of December 31, 2014, the main regulatory contingent liabilities classified as possible losses are as follows:

i. As the Company refused to pay the amounts under dispute in the Civil Action mentioned in note 12 (“Electric Grid Usage Charges”), ANEEL issued a Violation Notice under No. 014/09-SFG, which indicated that the Company allegedly (i) did not sign the CUSDs with the distribution concessionaires; and (ii) did not pay the accumulated liability of TUSD-g from July 2004 to June 2009. As a result, the Company filed a Writ of Mandamus to suspend the payment of the fine; the petition was granted in June 2009. In June 2013, the court issued a sentence denying the injunction requested by the Company and maintaining the fine imposed by the ANEEL. In October 2013, the Company filed a request to suspend the collection of the fine until a final decision is reached on the injunction, through the deposit of the full and adjusted fine. In November 2013, a decision was rendered denying suspensive effect. Against this decision the Company filed for a restraining order requesting the suspension of the fine, by depositing in escrow its full and adjusted amount, which was granted. On December 2013 the company filed an appeal requesting the annulment of the decision that overruled the Writ of Mandamus. The adjusted amount of the fine is R$ 24,622 (R$ 23,164 as of December 31, 2013) is classified as a possible loss; and

ii. In 2002, an electric energy distributor filed a lawsuit to stay the retrospective enforcement of ANEEL Resolution 288. The Company could be affected by a possible decision favorable to such distributor, and the amount adjusted through December 31, 2014 is R$32,370 (R$30,418 as of December 31, 2013);

iii. In 2010-2012, the distributing association and a distribution utility filed lawsuits to annul SFF/ANEEL Rulings no. 2.517/10 and no. 1.175/12, respectively. The Company could be affected by possible court decisions favorable to the distributors. The amount adjusted through December 31, 2014 is R$13,079 (R$12,290 as of December 31, 2013).

18. SPECIAL OBLIGATIONS

	2014	2013
Arising from PP&E (see Note 10)		
Equipment donations (ONS)	1,458	1,516
Research and Development (R&D)	137	161
	1,595	**1,677**
Arising from intangibles (see Note 11)		
Research and Development (R&D) - Software	1,585	2,026
	3,180	**3,703**

Equipment donations: Operating equipment assigned by the National System Operator (ONS).

Research and Development: Property, plant, equipment and intangible assets acquired and/or developed with resources of R&D.

19. ELECTRIC INDUSTRY CHARGES

The liabilities for charges established by legislation relating to the electricity sector are as follows:

	2014			2013		
	Current	Non-current	Total	Current	Non-current	Total
Financial compensation for use of water resources - CFURH	9,689	-	9,689	12,390	-	12,390
ANEEL Inspection Fee	339	-	339	349	-	349
Research and Development (R&D)	17,693	9,184	26,877	13,529	10,156	23,685
	27,721	**9,184**	**36,905**	**26,268**	**10,156**	**36,424**

Financial Compensation for Use of Water Resources - CFURH

Established by Law 7990/1989, the CFURH is intended to compensate the municipalities affected by the loss of farmland in areas flooded for the construction of hydroelectric power plant reservoirs.

Electric Energy Utility Service Inspection Fee – TFSEE

Introduced by Law 9427/1996, this fee is equivalent to 0.4% of the annual economic benefit earned by the concessionaire, licensee or authorized company of the Electric Power Utility Service. The annual amount of TFSEE is established by ANEEL to provide its revenue and is used to cover the cost of its activities. The TFSEE is fixed annually and one-twelfth of the fee is paid monthly by the concessionaires. ANEEL is responsible for the collection of this contribution.

Research and Development - R&D

According to the Law 9.991/2000, Article 24 of the Law 10.438/2002 and Article 12 of the Law 10.848/2004, the concessionaires of public services of distribution, generation or transmission of energy, as well as those authorized for the independent production of energy, except those that generate power exclusively from small hydro plants, biomass, qualified cogeneration, wind farms or solar, must apply annually a minimum %age of its net operating revenue in projects of Research and Technological Development of the Energy Sector - R&D, according to regulations established by ANEEL.

In accordance with Article 2 of Law 9.991/2000, the concessionaires of electric energy generation and companies authorized for the independent production of electric energy are obliged to apply, annually, at least, 1% of their operating revenue in research and development of the electric sector.

Regulatory Instruction 233/2006, effective as from January 1, 2007, established in its article 2 that the legal event necessary and sufficient for the constitution of the obligations referred to in its article 1 is the accounting recognition by the concessionaires and distributors, as well as by those authorized for the independent production of electric energy, of the items of operating revenues listed in article 3, 1st paragraph, of the Instruction.

In compliance with Circular Official Letter SFF/ANEEL 2.409/07, the Company has classified the expenses with Research and Development in the group of deductions from gross revenue.

Regulatory Instruction 316/2008 established that an electric energy company should submit, in the form provided for in paragraph of article 2, the final accounting and financial audit report specifically related to R&D projects, for ANEEL's evaluation and recognition of the investments made.

20. EQUITY

20.1. Share capital

As of December 31, 2014, the Company's authorized share capital is R$ 2,355,580 and comprises R$ 785,193 in common shares and R$ 1,570,387 in preferred shares, all of which are nominative, book-entry and with no par value.

Subscribed and paid up capital totals R$ 839,138 (R$ 1,339,138 as of December 31, 2013) represented by 94,433,283 shares, of which 31,477,761 are common shares and 62,955,522 are preferred shares, all of which are nominative, book-entry and with no par value.

	Share position on 12/31/2014 (in thousands of shares)					
	Common	%	Preferred	%	Total	%
Shareholders						
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
Vinci Gas Dividendos Fundo de Investimento em ações	3	0.01	760	1.21	763	0.81
Other individuals and legal entities	294	0.93	2,286	3.63	2,580	2.73
	31,478	**100.00**	**62,955**	**100.00**	**94,433**	**100.00**

The Extraordinary Stockholders' Meeting held on August 28, 2014 approved the capital reduction of the Company, which was currently considered unreasonably high for its corporate purpose. In November 2014, the amount was reduced by R$ 500,000, from R$ 1,339,138 to R$ 839,138.

There will be no cancellation of any common or preferred shares, and the %age shareholders ownership in the Company's capital shall remain unchanged.

Preferred shares have the following characteristics:

i. Priority to capital reimbursement, with no right to premium, in the case of the Company's liquidation;

ii. Priority dividend, non-cumulative, of 10% p.a., calculated on the capital of this type of share;

iii. Right of being included in the public offer for sale of control, under the conditions established in article 254-A of Law 6404/76;

iv. Right of indicating a member of the Statutory Audit Committee, and related alternate, chosen by the owners of the shares, in a separate vote;

v. Right of participating in capital increases, arising from the capitalization of reserves and profits, in conditions equal to those of the common shares;

vi. Do not have voting rights and will not be redeemable, whereas each nominative common share will be entitled to one (1) vote at General Stockholders Meetings.

20.2. Capital reserves

	2014	2013
Share subscription premium	468	468
Spin-off account	(6,418)	(6,418)
Goodwill on downstream merger (see Note 8.2)	103,838	103,838
Share-based payment	1,649	1,624
	99,537	**99,512**

In accordance with CVM Instruction 319/99 and ANEEL Resolution 28/02, Duke Energy International, Geração Paranapanema S.A. was authorized to merge its parent company Duke Energia do Sudeste Ltda., pursuant to the terms of the Appraisal Report of the independent consultants.

20.3. Earnings reserves

As of December 31, 2014, the balance of earnings reserves in the amount of R$127,176 (R$112,586 as of December 31, 2013) is comprised of Legal Reserve, in the amount of R$123,287 and the amount relating to the effects of the pension and retirement plan reclassified from "Other Comprehensive Income".

20.4. Dividends and interest on capital

a) Distribution of profit for the year

Calculation basis of the adjusted dividends	2014	2013
Net income for the year	285,578	418,251
Transfer to legal reserve	(14,279)	(20,913)
Depreciation (deemed cost)	102,969	101,042
Write-offs (deemed cost)	545	76
Deferred income tax and social contribution	(35,195)	(34,379)
	339,618	**464,077**

Dividends/interest on capital proposed	2014	2013
Interim dividends	(216,505)	(186,314)
Interest on capital	(62,703)	(66,953)
Proposed dividends	(60,410)	(210,810)
	(339,618)	**(464,077)**

b) Composition of dividends and interest on capital payable

	2014	2013
Proposed dividends	60,410	210,810
Interest on capital payable	53,394	57,137
Dividends, interest on capital and capital reduction in custody	1,559	1,108
	115,363	**269,055**

c) Value per share of dividends, interest on capital and capital reduction

Approval	Type of distribution	Amount	Amount per share (R$)	
			Preferred	Common
AGE on 12/29/2014	Interest on capital	62,703	0.66400	0.66400
AGE on 10/2/2014	Interim dividends	216,505	2.29268	2.29268
AGE on 8/28/2014	Capital reduction	500,000	5.29474	5.29474
AGO on 04/28/2014	Proposed dividends	210,810	2.23237	2.23237
AGE on 12/16/2013	Interest on capital	66,953	0.70900	0.70900
AGE on 10/14/2013	Interim dividends	186,314	1.97297	1.97297
AGO on 4/26/2013	Proposed dividends	83,969	0.88919	0.88919

Pursuant to the Company's Bylaws, the profits at June 30 and December 31 of each year will be distributed on a half-yearly basis, at a Stockholders Meeting, or in shorter periods, if the Board of Directors decides on the payment of interim or quarterly dividends. The Stockholders Meeting shall decide, up to October 31 of each year, on the distribution of dividends based on the results of the half-yearly financial statements as of June 30, as determined in the bylaws, in compliance with the provisions of paragraph 3 of article 205 of Law 6404/1976.

The Board of Directors may decide on the quarterly payment of dividends, based on special financial statements prepared for this purpose, providing that the total dividends paid in each six month period do not exceed the amount of the capital reserves defined in paragraph I of Article 182 of Law 6404/1976.

The Board of Directors can also determine the payment of interim dividends out of retained earnings or existing revenue reserves, based on the last annual or half-yearly financial statements already approved by the Stockholders Meeting.

Before the dividend distribution, 5% will be transferred to the legal reserve until the balance of this reserve reaches 20% of share capital.

The remaining profit, after the transfer to the legal reserve, will be distributed as follows:

i. dividend of up to 10% per year to preferred shares, to be equally apportioned among them, calculated on the capital corresponding to this type of share;

ii. dividend of up to 10% per year to common shares, to be equally apportioned among them, calculated on the capital corresponding to this type of share; and

iii. distribution of the remaining balance to common and preferred shares, on equal conditions.

Interim dividends, approved at the AGE held on October 02, 2014, the stockholders approved the proposal of the Company's Management for payment of interim dividends in the total amount of R$ 216,505, to be fully attributed to the profit for the year, and allocated to preferred or to common shares at the rate of R$ 2.29268 per share, as established in item (ii), article 5 and article 28, of the Company's Bylaws. The total dividends approved at the Extraordinary General Meeting were paid up on November 4, 2014 and the amount payable to the stockholders was not subject to monetary restatement corresponding to the period between the date of approval at the Meeting and the effective payment to the stockholders. This amount shall be considered as an advance for the purposes of calculating the fixed priority dividend attributable to preferred shares in the Ordinary General Meeting of 2015, according to legal and statutory provisions.

20.5. Share-based payments

There is no compensation plan based on shares issued by the Company for the members of the Board of Directors, Statutory Directors, or employees.

However, certain members of the Company's management are eligible for the Long-term Incentive Program (LTI), which is established by the Parent Company and subject to the fulfillment of global and/or individual corporate goals and/or permanence of the employee in the Company, as part of a strategy for long-term retention of professionals and creation of value for the business in a sustainable manner.

The program offers the employee an opportunity to receive a compensation based on the shares of the Parent Company, which is defined and granted by such Parent Company, with no burden on the Company. The Company does not have a local plan involving its own shares.

The mentioned program is granted to employees who are eligible. The program grants a certain number of shares or "performance shares" (the employee receives a certain number of shares of the Parent Company, as well as its equivalent dividends, and the number of shares can vary in accordance with certain predefined goals), as well as "phantom shares" (right granted to the executives to receive shares of Duke Energy Corporation after a three-year period has elapsed).

The table below presents the number of shares issued by the Parent Company and the related changes:

	In number of shares
Balance as of December 31, 2013	**311**
Exercised	(156)
Expired/Canceled	(155)
Balance as of December 31, 2014	-

In 2014, the Parent Company granted R$ 25 (R$ 80 in 2013), relating to the share-based payments to eligible executives, which was recognized as expense by the Company in the statement of income with a corresponding entry to capital reserves, in conformity with CPC 10 (R1) ("Share-based Payments") (see note 13.3); in such a way that all shares were exercised and canceled.

20.6. Carrying value adjustments

	Deemed cost	Pension plan	Total
Balance as of December 31, 2013	**872,034**	-	**872,034**
Valuation adjustments to equity			
Depreciation	(102,969)	-	(102,969)
Write-offs	(545)	-	(545)
Deferred income tax and social contribution	35,195	-	35,195
	(68,319)	-	**(68,319)**
Net comprehensive income			
Actuarial gains (losses) on defined benefit pension plans	-	472	472
Deferred income tax and social contribution on actuarial gains (losses)	-	(161)	(161)
	-	**311**	**311**
Reclassification of net actuarial gains – CPC 33 (R1)	-	(311)	(311)
Balance as of December 31, 2014	**803,715**	-	**803,715**

Information relating to the deemed cost are detailed in note 10.1

21. NET SALES REVENUE

	2014	2013
Electricity supply		
Bilateral contracts	1,053,325	958,980
Auction contracts	223,359	259,044
Spot market	65,942	88,585
Energy Reallocation Mechanism - MRE	27,499	30,777
	1,370,125	**1,337,386**
Other income	4,804	17,233
	1,374,929	**1,354,619**
Deductions from operating revenue		
PIS and COFINS	(121,183)	(110,373)
ICMS	(18,477)	(16,033)
R&D	(12,271)	(12,177)
	(151,931)	**(138,583)**
Net operating revenue	**1,222,998**	**1,216,036**

22. OPERATING COSTS AND EXPENSES

Operating costs and expenses, by nature, are detailed below:

	2014			2013
	Cost of power sold	General and administrative expenses	Total	Total
Personnel	42,091	35,237	77,328	73,397
Supplies	3,808	189	3,997	4,025
Outsourced services	28,519	16,395	44,914	40,542
ANEEL Inspection Fee	4,073	-	4,073	4,190
Energy purchased for resale	233,647	-	233,647	17,033
Electric grid usage charges	81,761	-	81,761	77,604
Financial Compensation due to the use of water resources	57,792	-	57,792	62,024
Depreciation and amortization	215,114	1,670	216,784	217,436
Provision for tax, labor and environmental risks	396	(63)	333	4,714
Allowance for doubtful accounts	-	(1,798)	(1,798)	(371)
Leases and rents	3	3,601	3,604	3,741
Insurance	4,843	-	4,843	4,364
Other	1,172	7,635	8,807	11,109
	673,219	**62,866**	**736,085**	**519,808**

23. ELECTRIC POWER SOLD AND PURCHASED AND ELECTRIC GRID USAGE CHARGES

23.1. Electric power sold

	2014		2013	
	MWh (*)	R$	MWh (*)	R$
Bilateral contracts	6,301,864	1,053,325	6,231,649	958,980
Auction contracts	1,849,596	223,359	2,315,564	259,044
Spot market	211,547	65,942	326,968	88,585
Energy Reallocation Mechanism - MRE	2,658,137	27,499	3,110,330	30,777
	11,021,144	1,370,125	11,984,511	1,337,386

(*) Unaudited by the independent auditors

The table below summarizes the volumes in MW of assured energy contracted by the Company in the frameworks of Free Contracting (ACL) and Regulated Contracting (ACR) as of December 31, 2014.

	MWm (*)	
	2014	2013
Power available for sale	**1,009**	**1,010**
ACR	**211**	**264**
2006 (8 years)	-	53
2007 (8 years)	211	**211**
ACL	**720**	**710**
Bilateral contracts with free customers	720	710
Deregulated Power Supply	**78**	**36**
Percentage power contracted	92.3%	96.4%

(*) Unaudited by the independent auditors

23.2. Electric energy purchased for resale

	2014		2013	
	MWh (*)	R$	MWh (*)	R$
Purchased power - bilateral	197,291	132,744	-	-
Purchased power - spot market	176,018	99,110	95,220	15,328
Purchased power – MRE	150,082	1,793	-	-
System Services Charge (ESS)	-	-	-	1,705
	523,391	233,647	95,220	17,033

(*) Unaudited by the independent auditors

Due to the negative hydrological scenario, there was a significant increase in energy purchases during the year 2014, as mentioned in note 12.

23.3. Electric grid usage charges

	2014	2013
Tust	73,995	68,522
Tusd-g	7,648	8,894
Connection charges	118	188
	81,761	**77,604**

The tariffs established by ANEEL and due by the Company are: Tariff for the Use of the Transmission System (TUST), TUSD-g and Connection Charges (see note 12).

TUST remunerates the use of the Basic Network, which comprises transmission installations with tension equivalent to or higher than 230 W. The participation of each company in the total charge is calculated based on: (i) amount common to all the ventures (stamp), referring to 80% of the TUST charge, and (ii) amount that considers the proximity of the generation venture in relation to the large consumer centers, in the case of generation, or proximity in relation to the large generating centers in the case of distributors or free consumers (location), referring to 20.0% of the TUST charge.

TUSD-g remunerates the use of the distribution system of a concessionaire of specific distribution. The distribution concessionaires operate energy lines in low and medium tensions that are used by the generators to connect their plant to the Basic Network or consumption centers. Only four of the Company's plants should pay TUSD-g to access the consumption centers, namely: Rosana Plant (which is in the concession area of Elektro Eletricidade e Servicos S.A.) and the Canoas I, Canoas II and Salto Grande Plants (which are in the concession area of the Empresa de Distribuiçãoo de Energia Vale Paranapanema S.A.). The other plants (Jurumirim, Capivara, Chavantes and Taquaruçu) are directly connected to the Basic Network.

The connection charge is paid monthly to CTEEP due to the use of installations in the distribution voltage (line input in 13.8 kV).

24. FINANCE RESULT

	2014	2013
Income		
Short-term investments	65,452	32,610
Inflation adjustments	8,143	3,333
Escrow deposits	7,974	3,333
Other	169	-
Interest and discounts obtained	2,397	1,985
	75,992	**37,928**
Expenses		
Interest on debentures	(125,081)	(91,792)
Inflation adjustments	(41,843)	(41,593)
Debentures	(33,798)	(35,996)
Tusd-g	(5,996)	(3,993)
Provision for tax, labor and environmental risks	(650)	(1,206)
Others	(1,399)	(398)
Recovery of interests and monetary adjustment of debentures (see Note 14.3)	3,431	-
Pension costs (see Note 16)	(1,254)	(2,924)
Other finance costs	(3,041)	(2,750)
	(167,788)	**(139,059)**
	(91,796)	**(101,131)**

25. EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing the profit attributable to the holders of the common and preferred shares by the weighted average number of common and preferred shares outstanding during the year.
The table below presents information on the results and number of shares used to calculate the basic and diluted earnings per share:

	2014	2013
Numerator		
Profit for the period attributable to the Company shareholders		
Profit attributable to preferred shareholders	190,385	278,834
Profit attributable to common shareholders	95,193	139,417
	285,578	**418,251**
Denominator		
Weighted average number of preferred share:	62,955	62,955
Weighted average number of common share:	31,478	31,478
	94,433	**94,433**
Basic and diluted earnings per share		
Per preferred share	**3.02412**	**4.42906**
Per common share	**3.02412**	**4.42906**

26. FINANCIAL INSTRUMENTS

The Company's operations comprise the generation and sale of electric power to distribution companies and free consumers. The sales are made through "bilateral agreements", formalized in the period subsequent to the Company's privatization, which determine the quantity and sales price of the electric power. The price is adjusted annually by the variation of the General Market Price Index (IGP-M) or of the Amplified Consumer Price Index (IPCA). Any differences between the quantity of generated power, allocated power and the sum of the quantities sold under contracts are adjusted in accordance with market rules and settled through the CCEE. The main factors of market risk which affect the Company's business are described in note 4.

In the contracts entered into in the free market with free consumers and traders, the Company, through its credit department, analyzes the credit risk and defines the limits and guarantees that will be required.

All the contracts contain clauses that permit the Company to cancel the contract and the delivery of power in cases of non-compliance with contractual terms.

Financial instruments in the balance sheet:

a) Cash and cash equivalents (see note 6)

Financial investments in fixed income instruments, plus accrued income up to the balance sheet date, are realizable in less than 90 days, and are recognized in the accounting records at values which reflect market rates.

b) Debentures (see note 14).

	2014		2013	
	Carrying amount	Fair Value	Carrying amount	Fair Value
Debentures	1,195,937	1,266,056	1,111,133	1,279,202

The Company did not carry out derivative transactions in the years 2014 and 2013, thus, it did not have derivative transactions outstanding at the date of these financial statements. The Company is not exposed to foreign exchange rate variations, since it does not have balances in foreign currency at such dates.

27. INSURANCE

The Company has insurance contracts compatible with the nature and degree of risk, to cover potential significant losses on its assets and/or from its civil liabilities. The main coverage, according to insurance policies, is:

	Amount covered in thousands of R$	
	2014	2013
Operational risk	1,103,982	983,062
Civil Liability	11,040	10,168

FISCAL BOARD OPINION

The Supervisory Board of Duke Energy International, Geração Paranapanema S/A. ("Company"), a publicly-held company, with head office at Avenida das Nações Unidas, nº 12.901, 30º andar, Torre Norte, Bairro Brooklin, in the City of São Paulo, State of São Paulo, enrolled with CNPJ under nº 02.998.301/0001-81, in exercising its legal and statutory duties, in a meeting held on March 19, 2015, has audited the Company's financial statements (and disclosures), annual management report, profit sharing proposal and independent auditor's report for the year ended December 31, 2014. Based on the audit work, subject to the analyses conducted and clarifications provided by the Company's management, the Supervisory Board unanimously issues an unqualified opinion on the Company's financial statements (and explanatory information), annual management report and profit sharing proposal, determining the submission of this report to the Annual General Meeting, for all legal purposes.

São Paulo, March 19, 2015.

Jarbas Tadeu Barsanti Ribeiro
Advisor

Marcelo Curti
Advisor

François Moreau
Advisor

Ary Waddington
Alternate Advisor

Edmundo Falcão Koblitz
Alternate Advisor

Murici dos Santos
Alternate Advisor

BOARD OF DIRECTIONS DECLARATION

The members of the Board of Directors of Duke Energy International, Geração Paranapanema S/A. (“Company”), a publicly-held company, with head office at Avenida das Nações Unidas, nº 12.901, 30º andar, Torre Norte, Bairro Brooklin, in the City of São Paulo, State of São Paulo, enrolled with CNPJ under nº 02.998.301/0001-81, represent that they have:

(i) audited and discussed the Company’s management report and other financial statements for the fiscal year ended December 31, 2014; and

(ii) expressed their unanimous agreement with the aforesaid documents.

In view of the foregoing, the Board of Directors represent that the aforesaid documents should be approved by the Annual General Meeting to be held in April 2015.

São Paulo, March 18, 2015.

Armando de Azevedo Henriques
Chief Executive Officer

Andrea Elizabeth Bertone
Member

Osvaldo Esteban Clari Redes
Member

Glaucio João Agostinho
Member

BOARD DECLARATION

As set forth in items V and VI of article 25 of CV Instruction 480, of December 7, 2009, the members of the Executive Board of Duke Energy International, Geração Paranapanema S/A. (“Company”), a publicly-held company, with head office at Avenida das Nações Unidas, nº 12.901, 30º andar, Torre Norte, Bairro Brooklin, in the City of São Paulo, State of São Paulo, enrolled with CNPJ under nº 02.998.301/0001-81, represent that they have:

(i) reviewed, discussed and agreed with the Company’s management annual report and financial statements for the year ended December 31, 2014; and

(ii) reviewed, discussed and agreed with the opinions contained in the report issued by Deloitte Touche Tohmatsu Auditores Independentes, the Company’s independent auditors, in connection with the Company’s financial statements for the year ended December 31, 2014.

São Paulo, March 12, 2015.

Armando de Azevedo Henriques
Chief Executive Officer

Carlos Alberto Dias Costa
Chief Operating Officer

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

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

BOARD MEMBERS

Board of Directors

Armando de Azevedo Henriques
Chairman

Andrea Elizabeth Bertone
Member

Elizabeth Christina DeLaRosa
Member

Osvaldo Esteban Clari Redes
Member

Glaucio João Agostinho
Member

Paulo Nicácio Júnior
Alternate Member

Fiscal committee

Jarbas Tadeu Barsanti Ribeiro
Advisor

Marcelo Curti
Advisor

François Moreau
Advisor

Ary Waddington
Alternate Advisor

Edmundo Falcão Koblitz
Alternate Advisor

Murici dos Santos
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
Environment, Health and
Safety Officer

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

Antonio Patricio Franco Martins
Corporate Controller

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