Arcoverde Transmissão de Energia S.A.

Financial Statements
December 31, 2017 2017

with Independent Auditor's Report

Arcoverde Transmissão de Energia S.A.

Financial Statements

December 31, 2017

Contents

Ernst & Young Auditores Independentes S.S.
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INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS
(Free Translation from the original in Portuguese)

The Board of Directors and Shareholders of
Arcoverde Transmissão de Energia S.A.
São Paulo – SP

Opinion

We have audited the financial statements of Arcoverde Transmissão de Energia S.A. ("Company"), which comprise the statement of financial position as at December 31, 2017, and the statements of income, of comprehensive income, of changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting practices.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Arcoverde Transmissão de Energia S.A. as at December 31, 2017, and its financial performance and cash flows for the year then ended in accordance with accounting practices adopted in Brazil.

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under this standards, are further described in the Auditor's responsibilities for the audit of financial statements section of our report. We are independent of the Company and in accordance with the relevant ethical principles set forth in the Code of Professional Ethics for Accountants, the professional standards issued by the Brazil's National Association of State Boards of Accountancy (CFC), and we fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide basis for our opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting practices adopted in Brazil and for such internal control as management determines is necessary to enable the preparation of financial statements that are free of material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

São Paulo, April 12, 2018

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2SP034519/O-6

Marcos Antonio Quintanilha
Accountant CRC-1SP132776/O

Arcoverde Transmissão de Energia S.A.

Balance sheets
December 31, 2017
(In Reais – R$)
(Free translation from the original in Portuguese)

ASSETS	Note	2017
Current		
Cash and cash equivalents	5	1,607,766
Prepaid expenses	7	115,510
Advances to suppliers	8	6,765,959
Other		77,499
		8,566,734
Non current		
Accounts receivable (concession asset)	6	4,617,928
Prepaid expenses	7	329,452
		4,947,380
TOTAL ASSETS		**13,514,114**

LIABILITIES AND EQUITY	Note	2017
Current		
Loans and financing	9	12,335,999
Accounts payable		12,451
Provisions	10	551,659
Taxes and social charges payable	11	177,730
		13,077,839
Non current		
Deferred PIS and COFINS	12	425,645
Deferred income tax and social contribution	12	3,580
		429,225
Equity		
Capital subscribed	14a	1,000
(-) Capital to be paid-in	14a	(900)
Earnings reserve	14b	6,950
		7,050
TOTAL LIABILITIES AND EQUITY		**13,514,114**

See accompanying notes.

Arcoverde Transmissão de Energia S.A.

Income Statements
Period of 7 months and 6 days ended December 31, 2017
(In Reais – R$)
(Free translation from the original in Portuguese)

	Note	2017
Net Operating Revenue	15	4,192,283
Costs of infrastructure implementation	16	(4,160,923)
Income before financial income (expenses)		**31,360**
Financial expenses	17	(20,830)
Income before income taxes and social contribution		10,530
Income Taxes and Social Contribution		
Deferred	18	(3,580)
Net income for the year		**6,950**
Basic & diluted earnings per share (per share – in R$ 1,00)	**14c**	**69.50**

See accompanying notes.

Arcoverde Transmissão de Energia S.A.

Statements of comprehensive income
Period of 7 months and 6 days ended December 31, 2017
(In Reais – R$)
(Free translation from the original in Portuguese)

	2017
Net income for the year	6,950
Other comprehensive income	-
Total Comprehensive Income for the year	**69.50**

See accompanying notes.

Arcoverde Transmissão de Energia S.A.

Statement of changes in equity
Period of 7 months and 6 days ended December 31, 2017
(In Reais – R$)
(Free translation from the original in Portuguese)

		Capital			Earnings reserve			
	Note	**Subscribed**	**To be paid-in**	**Capital increase proposal**	**Legal reserve**	**Special unearned income reserve**	**Retained earnings**	**Total**
At May 26, 2017		-	-	-	-	-	-	-
Issued of share capital	14a	1,000	-	-	-	-	-	1,000
(-) Capital to be paid-in	14a		(900)					(900)
Net income of the year		-	-	-	-	-	6,950	6,950
Allocation of income:								
Legal reserve	14b	-	-	-	200	-	(200)	-
Special unearned income reserve	14b	-	-	-	-	67	(67)	-
Capital increase proposal	14b	-	-	6,683	-	-	(6,683)	-
At December 31, 2017		1,000	(900)	6,683	200	67	-	7,050

See accompanying notes.

Arcoverde Transmissão de Energia S.A.

Statement of cash flows
Period of 7 months and 6 days ended December 31, 2017
(In Reais – R$)
(Free translation from the original in Portuguese)

	2017
A. Cash flow from operating activities	
Net income for the year	6,950
Non-cash adjustment to reconcile profit before tax to net cash flows:	
Deferred income tax and social contribution	3,580
Deferred PIS and COFINS taxes	425,645
Monetarily update of financial assets	(32,889)
Finance expenses	19,705
	422,991
(Increase) / decrease in assets	
Accounts receivable (concession asset)	(4,585,039)
Prepaid expenses	(444,962)
Advances to suppliers	(6,765,959)
Other assets	(77,499)
	(11,873,459)
Increase / (decrease) in liabilities	
Trade accounts payable	12,451
Provisions	551,659
Taxes and social charges payable	177,730
	741,840
Cash used in operating activities	**(10,708,628)**
B. Cash flow from financing activities	
Equity Capital (Note 14a)	100
Loan and financing (Note 9)	12,316,294
Cash from financing activities	**12,316,394**
Increase in cash and cash equivalents (A+B)	**1,607,766**
Cash and cash equivalents at end of year	1,607,766
Cash and cash equivalents at beginning of year	-
Changes in cash and cash equivalents	**1,607,766**

See accompanying notes.

1. Operations

1.1 Social object

THE Arcoverde Transmissao de Energia S.A ("Company") is a privately held company controlled by Sterlite Power Grid Ventures Limited, established on 26 May 2017, authorized to operate as a utility power company, whose main activity is the transmission of electricity, which requires planning, implementation of the infrastructure and operation and maintenance of subordinate systems the transmission lines, substations, centers control and its infrastructure, including support and administrative services, the provision of equipment and materials reservation, schedules, measurements and other complementary services necessary for the transmission of electricity, according to the standards established by the Concession Agreement.

1.2 Concessions

The Company has the right to operate, directly or indirectly, the following public service concession contract for Electric Power Transmission:

			Periodic Tariff			Annual Allowed Revenue - RAP	
Contract	Term (years)	Maturity	Term	Next	correction index	**R$** thousand	Base month
35/2017	30 years	08/10/2047	5 years	2022	IPCA	24,600	10/2016

Auction No. 05/ 2016

On April 24, 2016, through ANEEL auction No. 05/2016, in a public session held at B3, headquarters in São Paulo, the Company bought lot 15 independently.

Description
230 kV T/L, Garanhuns II - Arcoverde II, with 89 km; 89 Km LT 230 kV Caetés II - Arcoverde II, with 50 km; 56 Km 1 No. 230 KV Bay Extension at Caetés II Substation 230/69 kV Arcoverde II - 2 x 100 MVA; SE 230/69 kV Garanhuns II - new patio 69 kV - 2 x 100 MVA.

2 Presentation of financial statements

2.1 Basis of preparation and presentation

The financial statements were prepared and are presented in accordance with accounting practices adopted in Brazil, which include the provisions of the Law of Corporations and pronouncements, interpretations and guidelines issued by the Accounting Pronouncements Committee ("CPC"), approved the Federal Accounting Council ("CFC"), and show all relevant information from its own financial statements, and only them, which are consistent with those used by management in its management.

Except for the net income of the year, the Company has no other comprehensive income.

The financial statements were prepared based on historical cost, except when otherwise indicated, as described in the following accounting practices. Historical cost is based on the value of the consideration given in exchange for assets.

Non-financial data included in these financial statements, such as volume and power capacity, contractual data, projections, safe and environment, they have not been audited.

2.2 Functional and presentation currency

The Company's financial statements are presented in Reais, the currency of the primary economic environment in which the entity operates ("the functional currency").

2.3 Judgments, estimates and assumptions

The preparation of financial statements requires the Company to make judgments, using estimates and assumptions based on objective and subjective factors and on the opinion of legal counsel to determine the appropriate values to record certain transactions affecting assets, liabilities, income and expenses. Actual results of these transactions may differ from these estimates.

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

Judgments, estimates and assumptions are related to: accounting for concession contracts moment of recognition of the financial asset, determining revenue of infrastructure and operation and maintenance, setting the effective rate of the financial asset interest, asset constitution or deferred tax liability.

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

In recognizing service concession arrangements, the Company performs analyses involving management's judgment, substantially in relation to applicability of service concession arrangement interpretation, determination and classification of expenses with implementation of infrastructure, expansion, reinforcements and improvements as financial assets. The accounting treatment for each concession arrangement of the Company and its characteristics are described in Notes 3.13 and 6.

  - Timing of recognition of financial asset

The Company's management assesses the timing of the recognition of financial assets based on the economic characteristics of the concession agreement. Accounting for subsequent additions to financial assets only occur when the service implementation of infrastructure related to expansion / improvement / strengthening of infrastructure that represents potential for additional revenue generation. The financial asset is recorded against the infrastructure revenue, which is recognized as the expenses incurred. The indemnification financial asset is identified when the implementation of the infrastructure is completed.

- Determining the interest effective rate of the financial asset

The effective interest rate is the rate that exactly discounts estimated future payments or cash receipts through the expected life of the instrument. This interest rate is determined by the concession contract, being individualized by projects. When the entity revises its estimates of payments, income or interest rate, the carrying amount of the financial asset is adjusted to reflect the estimated flows of real and revised box, and the adjustment recognized as income or expense in the income.

- Determination of infrastructure revenue

When the concessionaire provides services implementation of the infrastructure, infrastructure revenue at fair value and the costs relating to the infrastructure provided implementation services is recognized and thus consequently clears profit margin. In accounting of infrastructure revenues the Company's management evaluates issues related to the primary responsibility for the provision of implementation of the infrastructure services, even in cases where there is outsourcing of services, cost management and / or monitoring of the work, taking into consideration that the projects include sufficient margin to cover the implementation costs of infrastructure and charges. All those assumptions are used for purposes of determining the fair value of the infrastructure implementation activities.

· Value of the indemnifiable asset

As defined in the concession agreement signed with the granting authority, the termination of the concession will determine the reversion to the Grantor of the assets related to the service, proceeding to surveys and assessments, as well as determining the amount of compensation due to the concessionaire, subject to the amounts and dates of incorporation to the electrical system (note 3.6 and 6).

· Determination of operating revenue and maintenance

When the concessionaire provides operation and maintenance services, revenue is recognized at fair value and related costs, as consideration for the services.

2.4 Accounting Regulatory Statements

In line with the Accounting Manual of the Electricity Sector, the Company is required to disclose the Regulatory Financial Statements - "DCR" which presents the complete set of financial statements for regulatory purposes and will be presented independently of these statutory financial statements.

These DCR shall be audited by the same company to audit the financial statements for statutory purposes, and as determined in the Accounting Manual of the Electricity Sector (MCSE) and Order No. 4,356, of December 22, 2017 issued by ANEEL, will be available on the website e of that Agency and the Company until April 30, 2018.

3 Significant accounting practices

3.1 Statement of income

The result of operations is determined in accordance with the accrual basis of accounting.

3.2 Revenue recognition

Revenues are recognized in accordance with established by ICPC 01 (R 1) (OCPC 05, see note 3.14). The concession holder must register and measure revenues from services they provide in compliance with the technical pronouncements CPC 17 (R1) - Construction Contracts and CPC 30 (R1) - Revenue recognition (operation and maintenance services), even when provided under a single concession agreement. The Company’s revenues are classified into the following groups:

(a) Infrastructure revenues

Refers to services implementation of infrastructure and reinforcement of electricity transmission facilities. The infrastructure revenues are recognized as incurred and calculated expenses adding up the PIS and COFINS to the value of the investment, since the projects include sufficient margin to cover the implementation costs of the infrastructure and costs, considering that all of its facilities is implemented through outsourced contracts with unrelated parties.

(b) Remuneration of concession assets

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

(c) Operation and maintenance revenue

It refers to the operation of services and maintenance of electricity transmission facilities in order not to interrupt the availability of these facilities.

3.3 Current and deferred income tax and social contribution

(a) Current tax:

The Company, in 2017, adopts the actual estimated monthly income regime. Income tax and social contribution for the year are calculated based on the rates of 15% plus a surcharge of 10% on taxable income exceeding R$ 240 for income tax and 9% on taxable income for social contribution on net income liquid, and consider the offsetting of tax losses and negative basis of social contribution limited to 30% of taxable income, if any.

(b) Deferred tax:

According to the expected realization deferred taxes are measured at the rates applicable in the period in which it is expected that the liability is settled or the asset realized, based on tax rates and tax legislation in force at the end of each exercise, or when new legislation has been substantially approved.

Deferred tax assets and liabilities are offset only when there is a legally enforceable right to offset current tax assets with current tax liabilities and when they relate to taxes administered by the same taxation authority and the Company intends to settle the net value of its assets and liabilities current tax.

3.4 Financial instruments

(a) Financial assets

(i) Classification and measurement

Financial assets are classified into the following specific categories: financial assets at fair value through profit or loss, investments held to maturity, financial assets available for sale and loans and receivables. When an equity instrument is not quoted in an active market and their fair value cannot be reliably measured, it is measured at cost and tested for impairment.

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

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

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 them on a net basis, or realize the asset and settle the liability simultaneously.

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

Financial assets are classified at fair value through profit or loss when they are held for trading or designated at fair value through profit or loss. Financial assets at fair value through profit or loss are stated at fair value and any resulting gains or losses are recognized in statement of profit & loss. Net gains or losses recognized in statement of income includes dividend or interest earned on the financial asset and will be included in "Other gains and losses", when applicable, in the income statement.

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

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

On December 31, 2017, financial assets classified in this category are related to cash equivalents.

· *Loans and receivables*

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are included in this classification. They are included in current assets, except those with maturities greater than 12 months after the balance sheet date, which are classified as noncurrent assets.

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

As on December 31, 2017, the Company's financial assets classified in this category comprised mainly accounts receivable (assets of the concession).

(b) Financial liabilities

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

As on December 31, 2017, the Company's financial liabilities classified as fair value through profit and loss comprise of the short term unsecured loans received from the holding company.

3.5 Cash and cash equivalents

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

For a short-term investment to qualify as a cash equivalent it must be readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, for example, three months or less from the date of purchase.

3.6 Accounts receivable (assets of the concession)

Financial assets classified as loans and receivables include amounts receivable relating to implementation services of the infrastructure, compensation revenue of concession assets and operations and maintenance services, as well as the value of the indemnity asset.

The indemnification asset recorded at the end of the implementation of the infrastructure, refers to the estimated portion of the investments made and not amortized until the end of the concession and to which the Company will be entitled to receive cash or another financial asset at the end of the contract grant. As defined in the contract, the termination of the concession will determine the reversion to the Grantor of the assets related to the service, proceeding to surveys and assessments, as well as determining the amount of compensation due to the concessionaire, subject to the amounts and dates of incorporation the electrical system.

The company considers that the indemnity amount that it will have the right to receive by the end of the concession period should correspond to the New Reposition Amount (VNR) adjusted by the accumulated depreciation of each item.

Whereas the Management monitors steadily regulation of the sector, in the event of changes in this regulation that we may change the estimate of the compensation value of the assets, the accounting effects of these changes will be dealt with prospectively in the financial statements

3.7 Other current and non-current assets

Presented at the net realizable value.

Provisions are recorded at amounts considered unlikely realization of assets on the balance sheet date.

3.8 Current and non-current liabilities

Stated at known or estimated amounts including, when applicable, the corresponding charges, monetary and / or exchange variations incurred through the balance sheet date.

3.9 Provisions

Provisions are recognized for present obligations resulting from past events and likely subject to estimated cash settlement value reliably loss.

The amount recognized as a provision is the best estimate of the expenditure required to settle the obligation at the end of each year, considering the risks and uncertainties surrounding the obligation. When the provision is measured based on estimated cash flows to settle the obligation, its carrying amount is the present value of those cash flows.

Provisions are quantified at the present value of the expected disbursement to settle the obligation using the appropriate discount rate according to the related risks. They updated until the balance sheet date the estimated amount of probable losses, considering their nature and based on the opinion of the Company's lawyers.

3.10 Business segment

Operating segments are defined as business activities which can generate revenues and incur expenses, availability of individual financial information and whose operating results are regularly reviewed by management in the decision-making process.

In the opinion of Company management, while recognizing revenue for implementation of activities of the infrastructure implementation and operation and maintenance, it was considered that these revenues are for concession contracts that have only one business segment: Electric power transmission.

3.11 Statement of cash flow ("DFC")

The cash flow statement was prepared by the indirect method and is presented in accordance with the accounting standard CPC 03 (R2) - Cash Flows.

3.12 Earnings per share

The Company makes the profit for shares calculations using the weighted average number of total common shares outstanding during the period corresponding to the result as CPC 41.

Basic earnings per share is computed by dividing net income of the period by the weighted average number of shares issued. There are no dilutive potential ordinary shares nor diluted earnings per share.

3.13 Concession Arrangements (ICPC 01 (R1) and OCPC 05)

The Company adopts for classification and measurement of concession activities forecasts interpretation ICPC 01 (R1) issued by the CPC. This interpretation guides the concession holders on how to account for service concessions to private entities.

For qualified concession agreement for the application of ICPC 01 (R1), the deployed infrastructure, expanded, enhanced or improved by the operator is not recorded as fixed assets of the operator itself because the concession agreement does not transfer to the concessionaire the right to control the use of public services infrastructure. It is envisaged only the transfer of ownership of such property for the performance of public services, namely (assets) reversed the Granting Authority after the end of the contract. The dealer has the right to operate the infrastructure for the provision of public services on behalf of the Granting Authority, as provided in the contract.

Thus, under the terms of the concession agreement within the scope of ICPC 01 (R1), the operator acts as a service provider. The operator implements, extends, enhances or improves the infrastructure (infrastructure implementation services) used to provide a public service in addition to operating and maintaining that infrastructure (operation and maintenance services) within a specific period. The operator shall record and measure revenues from services it provides according to CPCs 17 (R1) - Construction Contracts and CPC 30 (R1) - Revenues. If the operator performs more than one service (for example, infrastructure implementation services or operation services) governed by a single contract, the consideration received or receivable shall be allocated based on the relative fair values of the services if the amounts are separately identifiable. Thus, the consideration for infrastructure implementation services made the concession assets shall be classified as financial assets, intangible assets or both.

The financial asset arises at the moment that the operator has an unconditional contractual right to receive cash or another financial asset from the granting authority for infrastructure implementation services; the Grantor has little or no discretion to avoid payment, usually because the agreement is enforceable by law. The operator has the unconditional right to receive cash if the Grantor guarantee in the contract payment (a) specified or determinable amounts or (b) failure, if any, of the amounts received from users of public services with respect to specified or determinable amounts even if payment is contingent on the guarantee by the concessionaire that the infrastructure meets the specific requirements of quality or efficiency. The intangible asset arises at the moment the operator receives a right (a license) to charge users of public services. This right is not an unconditional right to receive cash because the amounts are contingent on use of the service by the public. This right is not an unconditional right to receive cash because the amounts are contingent on use of the service by the public. If the infrastructure implementation services of the concession holder are recognized partially in financial asset and partly by an intangible asset it is necessary to account for each compensation component separately. The consideration received or receivable for both components shall be recognized initially at the fair value received or receivable.

The criteria for adoption of the interpretation of the concessions held by the Company are described below:

The Interpretation ICPC 01 (R1) was considered applicable to the concession agreement for public-private service in which the Company is part.

The concession was classified within the financial asset model, and the recognition of revenues and costs of the works related to the formation of financial assets through expenses incurred. The indemnity financial asset is identified when the implementation of the infrastructure is completed and included as remuneration of the infrastructure implementation services.

As defined in the contracts, the termination of the concession will determine the reversion to the Grantor of the assets related to the service, proceeding to surveys and assessments, as well as determining the amount of indemnity due to the concessionaire, subject to the amounts and dates of incorporation the electrical system.

The Company determined the fair value of the infrastructure implementation services considering that the projects include sufficient margin to cover the implementation costs of infrastructure and charges levied. The effective interest rate used to remunerate the financial asset arising from the implementation of infrastructure services was determined by considering the expected cash flow for the asset with these characteristics.

The Financial assets was classified as loans and receivables and the monetary update of the concession assets is calculated monthly and recorded directly in the income statement.

Revenues from implementation of infrastructure and compensation revenue from concession assets calculated on the financial assets of the infrastructure implementation is subject to the deferral of the Social Integration Program - PIS and Contribution for the Financing of Social Security - cumulative COFINS, recorded under "deferred taxes" in non-current liabilities.

4 New and revised standards and interpretations not yet adopted

The Company adopted all pronouncements (new or revised) and interpretations issued by the CPC that were in effect on December 31, 2017.

(a) Accounting pronouncements, guidance and interpretations new and / or revised.

The following pronouncements will become effective for periods after the date of these financial statements, and will be adopted by the Company when becomes effective.

Pronouncements that will become effective from 1 January 2018:

- CPC 47 - Contract Revenue from client - CVM Resolution 762 on December 22, 2016; and
- CPC 48 - Financial instruments - CVM Resolution 763 on December 22, 2016

These new standards has no effect on the Company's financial statements.

5 Cash and cash equivalents

	2017
Cash and bank balance	1,607,766
Total	**1,607,766**

6 Accounts receivable (concession assets)

	2017
Financial asset	
Accounts receivable – infrastructure implementation (i)	4,617,928
Total não circulante	**4,617,928**

(i) Receivables from infrastructure implementation – Amounts to be receivable from infrastructure construction costs, expansion, reinforcement and improvements of electric power transmission infrastructure up to the termination of each service concession arrangement in force, of which the Company is signatory, adjusted to present value and remunerated by the effective interest rate.

Movement of these financial assets can be summarized as follows:

Balances as of May 26, 2017	
Infrastructure revenues (note 13)	4,585,039
Monetary update of the concession assets (note 13)	32,889
Balances as of December 31, 2017	**4,617,928**

7 Prepaid expenses

On December 31, 2017, the Company has the total amount of R$ 444,962 recorded as prepaid expenses, of which R$ 427,776 refers to the payment of indemnity insurance, whose insured is the National Electric Energy Agency - ANEEL, for losses arising from the default of the obligations assumed by the Company through the concession agreement of public electricity transmission service.

8 Advances to suppiers

As at December 31, 2017, the company has recorded the amount of R$ 6,765,959 that refers to the advances given to EPC and other consultants as per the payment terms agreed. These advances will be adjusted against the future billing done by vendor. These advances are secured by the Insurance guarantees received by the respective vendors

9 Loans and financing

Break down of Loans and financing is as follows:

Creditor	Internal rate of return - IRR p.a.	Final Maturity	2017
Sterlite Power Grid Ventures Limited	-	On demand	3,436,837
Sterlite Power Grid Ventures Limited	9%	On demand	8,879,457
Interest accrued on above Loan			19,705
Total current			**12,335,999**

10 Provisions

	2017
Provision for vacation and charges	66,992
Provision for variable pay (SMIS)	175,000
Statutory audit fees	29,000
Legal & professional expense	263,481
Others	17,186
Total	**551,659**

11 Taxes and social charges payable

	2017
Social contribution tax (CSLL)	51,187
Social Security Tax (INSS)	52,873
Unemployment Compensation Fund (FGTS)	14,867
Withholding Income Tax (IRRF)	58,803
Total	**177,730**

12 Deferred taxes

	2017
Deferred PIS	349,778
Deferred COFINS	75,867
	425,645
IRPJ (Income tax)	2,632
CSLL (social contribution)	948
	3,580
Total	**429,225**

The deferred PIS and COFINS is on the implementation of revenue from infrastructure and remuneration of the concession assets calculated on the financial asset and recorded as accrual. The gathering occurs as the effective receipt, pursuant to Law 12,973 / 14.

The deferred IRPJ and CSLL refers to temporary differences, tax losses and negative basis. The breakdown of the deferred income taxes and social contribution as of December 31, 2017, is as follows:

	Balance sheet	**Profit & Loss**
Deferred tax assets:		
Tax losses / Negative basis	7,602	7,602
Total deferred tax assets	7,602	7,602
Deferred tax liabilities:		
Monetary update of financial assets (i)	(11,182)	(11,182)
Total deferred tax liabilities	(11,182)	(11,182)
Deferred tax liability, net	**(3,580)**	**(3,580)**

(i) Refer to the interest on financial asset (ICPC 01 (R1)) recognized on an accrual basis, which are offered taxation measure of actual receipt, as provided in Article No. 168 of Instruction No. 1,700 / 17:36 of Law No. 12,973 / 14.

13 Provision for contingencies

The Company is involved in a lawsuit on grounds of contractual fines, moral damages, and matters arising from the non-signing of EPC contract. On March 23, 2018 was held a conciliation hearing and the Company presented its defense on April 12, 2018. The updated amount of the lawsuit is R$29,890,000. The likelihood of loss is classified as possible by the Company's internal and external lawyers and, for this reason, no provision have been made. The assessment of this probability is based on reports prepared by the Company's internal and external legal advisors.

14 Equity

(a) Capital

The Company's authorized capital in 2017 is R$ 1,000 in common shares, all registered shares, par value of R$ 1.00.
In 2017, the composition of subscribed capital amounts to R$ 1,000 capital and paid R$ 100, represented by common shares. The common shares give the holder the right to one vote at general meetings.

(b) Distribution of income

The Company’s bylaws stablish a minimum dividend of 1%, calculated based on the net income of each year adjusted as required by article 202 of Law nº 6,404/1976

	2017
Net income of the year	6,950
Legal reserve (i)	(200)
Minimum required dividends - Special unearned income reserve (ii)	(67)
Capital increase destination (iii)	(6,683)
Total	-

(i) The legal reserve is set up at 5% of net income for the year, limited to 20% of capital, before allocation. At December 31, 2017, the legal reserve reached the limit of 20% of capital.
(ii) Destination of minimum dividend in the total amount of R$ 67, in accordance with article 201 of Law nº 6.404/1976. Due to the Company’s pre operational phase, Management, based on paragraphs 4th e 5th of article 202 from Law nº 6.404/1976, recorded the amounts in the special unearned income reserve, which will be paid as dividends whenever the company’s financial situation permits.
(iii) Capital increase proposal, recorded in specific line in equity until approved by the Company’s Board, when it will be recorded as capital.

(c) Earnings per share

Earnings per share is calculated by dividing the Company's results, based on the weighted average number of common shares during the period. The profit or loss per diluted share is calculated using the weighted average number of outstanding shares, adjusted by instruments potentially convertible into shares, with diluted effect in the periods presented.

The table below shows the income and share data used in calculating basic and diluted:

	2017
Earnings per share	
Net Income for the year	**6,950**
Weighted - average shares	100
Earnings per share (basic & diluted) (in reais R$)	**69.50**

15 Net operating income

13.1 Breakdown of net operating income

	2017
Gross revenue	
Infrastrucure implementation (a) (note 6)	4,585,039
Monetary update of concession assets (b) (note 6)	32,889
Total gross revenue	**4,617,928**
Taxes on revenue	
COFINS	(349,778)
PIS	(75,867)
Total	**(425,645)**
Net revenue	**4,192,283**

(a) Infrastructure implementation and operation and maintenance services

Revenue from infrastructure implementation for provision of electric power transmission services under a service concession arrangement is recognized according to costs incurred. The operation and maintenance revenues are recorded in the period of which the services are rendered by the Company, along with the adjustment portion. When the Company provides more than one service under a service concession agreement, the consideration received is allocated by reference to the fair value of the services delivered.

(b) Remuneration of concession assets

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

13.2 Periodic Review of the Annual Allowed Revenue - RAP

In accordance with the concession agreement every five years after the date of signing the contracts, ANEEL will periodically tariff review of RAP of electricity transmission, in order to promote efficiency and low tariffs.

The periodic rate revision recipe comprises repositioning by determining:
a) the change of third-party capital costs in the concession agreement;
b) receipts from reinforcements and improvements;
c) identifying the amount to be considered as reducing rate - Other Income

16 Costs of infrastructure implementation services

	2017
Personnel	1,057,008
Services	2,895,125
Rent	87,596
Insurance	40,946
Others	80,248
Total	**4,160,923**

17 Financial expenses

	2017
Interest on unsecured loans	19,705
Bank charges	1,125
Total	**20,830**

18 Income tax and social contribution

Income tax and social contribution on net income are accrued monthly on the accrual basis and calculated, pursuant to Law 12,973 / 14. The Company computes taxable profit based on monthly accounting records ("Lucro real").

Deferred income tax and social contribution

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

	2017
Income before IRPJ and CSLL	10,530
Combined nominal rate	34%
Estimated IRPJ and CSLL	**(3,580)**
IRPJ and CSLL	
Current	-
Deferred	(3,580)
	(3,580)
Effective rate	**34%**

19 Financial instruments

(a) Identification of the main financial instruments

	2017
Fiancial assets	
Cash and cash equivalents	1,607,766
Accounts receivable (concession asset)	4,617,928
Total	**6,225,694**
Financial liabilities	
Loans and financing	12,335,999

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The Company classifies financial instruments as Level 1 and Level 2, as required by the current CPC:

Level 1 - quoted prices (unadjusted) in active markets, liquid and visible for identical assets or liabilities that can be identified on reporting date;

Level 2 - Quoted prices (may be adjusted or not) for similar assets or liabilities in active markets, other unobservable inputs at level 1, directly or indirectly, in accordance with the asset or liability; and

Level 3 - assets and liabilities whose prices do not exist, or those prices or valuation techniques are supported by little or no market activity, unobservable or liquid. At this level the estimated fair value becomes highly subjective.

(b) Risk management

The main risk factors inherent to the Company's operations can be identified as follows:

(i) **Credit Risk** - The Company maintains agreements with the National Electric System Operator - ONS, concessionaires and other agents for regulating the provision of services related to the basic network, with a bank guarantee clause. Also, the Company maintains agreements regulating the provision of services in other transmission facilities - DIT, with a bank guarantee clause. Given that the electricity sector is highly regulated with assured income and guarantees, the risk of default is minimized.

(ii) **Market Risk** - The Company's revenues are in accordance with the concession agreement, annually adjusted by ANEEL based on the variation of IPCA, and part of the revenues is subject to periodic tariff review (refer note 15.2)

(iii) **Liquidity Risk** - The main sources of the Company's cash comes from its operations, particularly the use of its electric power transmission system by other concessionaires and agents. The amount of cash, represented by RAP linked to basic and other transmission facilities network facilities - DIT is defined in accordance with current legislation, by ANEEL.

The Company is remunerated by the availability of the transmission system, possible rationing of energy will not impact on revenue and its receipt.

The Company manages liquidity risk by maintaining credit lines and credit lines for loans that it deems appropriate, through continuous monitoring of expected and actual cash flows, and by combining the maturity profiles of financial assets and liabilities.

20 Related party transactions

Significant balance and transaction with related parties as follows:

	Nature of Transaction	Related Party	Liability	Revenue/ (Expense)
(i)	Issue of equity share capital (note 14a)	Sterlite Power Grid Ventures Limited	100	
(ii)	Receipt of unsecured Loans (note 9)	Sterlite Power Grid Ventures Limited	12,316,294	
(iii)	Interest payable on Unsecured Loans (note 9)	Sterlite Power Grid Ventures Limited	19,705	
(iv)	Interest expense on Unsecured Loans (note 17)	Sterlite Power Grid Ventures Limited		(19,705)
(v)	Management Compensation for the year (note 16)			(48,211)
vi)	Management Compensation for the year (note 10)		5,981	

21 Issurances

The Company contracted indemnity insurance, whose insured is the National Electric Energy Agency (ANEEL), for the possible losses, if any, resulting from the default of the obligations assumed by the Company through the concession agreement of public electric power transmission service, including the construction, operation and maintenance of the transmission facilities of the National Interconnected System, whose premium paid was R$ 468,722, and provides coverage for indemnities up to the amount of R$ 8,193,657 is and valid until May 8, 2023.