Energisa Borborema – Distribuidora de Energia S/A

Management Report and Financial Statements for 2013

Campina Grande, March 18, 2014 -The Management of Energisa Borborema – Distribuidora de Energia S/A ("Energisa Borborema" or "Company") hereby presents its headlines for FY 2013, along with the respective Financial Statements, prepared in accordance with International Financial Reporting Standards - IFRS. These statements were reviewed and approved by the Board of Directors and Executive Board on March 14, 2014.

1 – General considerations

Energisa Borborema is an electricity distribution company that serves around 188,000 clients and a population of approximately 500,000 in six municipalities in the state of Paraíba.

The Company's performance indicators and the quality of its services stand out amongst distribution companies in Brazil's north-east, which testifies to the correctness of the management employed and the commitment of its staff to the region's development and its customers' comfort.

In 2013 Energisa Borborema was awarded the Sustainable Energy Seal in the gold category awarded by Instituto Acende Brasil, which evaluated the various environmental liability initiatives employed by the Company, with acknowledgement of the construction of its head office, a mark in civil construction in the state of Paraíba.

2 – Investment

Energisa Borborema made investments of 2013 amounting to a total of R$ 15.5 million, primarily in works to enhance the quality of services, the regularization and construction of networks and connection on new clients, especially the start of the construction of the 69 kV Campina Grande Dois/Aeroclube Line with a length of 7.2 km.

The table below denotes the changes in Energisa Borborema's operating assets in the year:

Asset description	Dec / 2013	Dec / 2012	Addition (%) 2013/2012
Substations – Number	4	4	-
Installed capacity at the substations - MVA	75	75	-
Distribution grids (company) - Km	5,098	5,076	+ 0.4
Transformers installed in the distribution grids – no.	3,330	3,315	+ 0.5
Installed capacity of the distribution grids (company) - MVA	143	143	-

3 - Economic and financial performance

3.1 - Headlines: the Company's main economic and financial figures for 2013 have been summarized below:

Description	2013	2012 (Adjusted)	Change %
Results - R$ million			
Gross Operating Revenue	244.1	264.6	- 7.7
Net Operating Revenue	171.3	186.4	- 8.1
Net Operating Revenue, without Construction Revenue	157.2	164.9	- 4.7
Earnings before interest and tax (EBIT)	13.8	31.2	- 55.8
EBITDA	19.0	35.9	- 47.1
Adjusted EBITDA (EBITDA plus arrears charges on electricity bills)	21.7	38.4	- 43.5
Financial Income/Loss	(2.2)	2.9	-
Net Income	9.5	29.0	- 67.2
Financial Indicators - R$ million			
Total Assets	186.8	183.4	+ 1.9
Cash / Cash Equivalents / Short-Term Investments	20.8	14.0	+ 48.6
Shareholders' Equity	95.3	98.2	- 3.0
Net Debt	34.2	29.5	+ 15.9
Operating Indicators			
Number of Captive Consumers (thousands)	187.6	179.2	+ 4.7
Sales of Energy to Captive Consumers (GWh)	673.3	635.5	+ 5.9
Total Electricity Distributed (GWh)	679.6	660.8	+ 2.8
Relative Indicators			
Adjusted EBITDA / Net Revenue (%)	12.7	20.6	- 7.9 p.p
Net Debt / Adjusted EBITDA (times)	1.6	0.8	+ 100.0

3.2 – Regulatory environment - rate revision

By way of Decree 7891, on January 30, 2013 electricity rates in Brazil fell by an average of 20% following the reduction to sector charges and the conditions imposed on the renewal of concession arrangements for certain generators. Energisa Borborema subsequently underwent its 3rd Rate Review Cycle. The rate review resulted in an average effect to be felt by consumers of 6.18% from February 04, with the rates of low-voltage consumers rising by 6.71% and medium- and high-voltage consumers 5.50%.

Under Decree 7945/2013, Aneel publishes every month the CDE funds to be passed through by Eletrobrás to the Electricity Trading Chamber to cover the electricity acquisition and system service charges - ESS as a result of energy security, the hydrological risk and involuntary exposure in the spot market. In 2013 the amount of R$ 20.9 million was passed through to Energisa Borborema: The Company recorded the amount as a reduction to the purchased energy costs and system service charges.

Pursuant to Decree 7891/2013, Aneel also ratified funds from the Energy Development Account (CDE) to be passed through by Centrais Elétricas Brasileiras S.A. - Eletrobrás in the amount of R$ 2.8 million to the Company, referring to discounts imposed on rates applicable to users of the public electricity distribution service. The amount was recorded by the Company as energy sale revenue.

3.3 – Net income, cash generation and dividends

Energisa Borborema recorded net income of R$ 9.5 million in 2013, compared with R$ 29.0 million in 2012. The operating cash generation (Adjusted EBITDA) amounted to R$ 21.7 million in 2013, compared with R$ 38.4 million in 2012, a decrease of R$ 43.5%, primarily deriving from the reduction in electricity rates.

See below the change in the Company's cash generation:

Breakdown of Cash Generation Amounts in R$ million	2013	2012 (Adjusted)	Change %
(=) Net Income	9.5	29.0	- 67.2
(-) Income and social contribution taxes	(2.1)	(5.1)	- 58.8
(-) Financial result	(2.2)	2.9	-
(-) Depreciation and amortization	(5.3)	(4.7)	+ 10.6
(=) Cash generation (EBITDA)	19.0	35.9	- 47.1
(+) Arrears surcharge revenue	2.7	2.5	+ 8.0
(=) Adjusted cash generation (Adjusted EBITDA)	21.7	38.4	- 43.5
Adjusted EBITDA Margin	12.7	20.6	- 7.9

From its earnings in 2013, the Company has paid out interim dividends of R$ 7.3 million commencing:

i) July 10, 2013, R$ 3.9 million (R$ 13.1708035 per share), and
ii) August 20, 2013, equal to R$ 3.4 million (R$ 11.4706678 per share).

On top of these dividends, additional dividends will be paid out of R$ 0.01 million (R$ 0.04332377 per share), on a date to be determined. The total dividends for the year amounting to R$ 7.3 million represent 76.8% of the net income earned by the Company.

3.4 – Operating expenses

Operating expenses amounted to R$ 157.5 million in 2013, an increase of 1.5% (or R$ 2.3 million) over 2012. Controllable expenses (personnel, materials and outsourced services) contracted by 4.1% (R$ 1.2 million) to R$ 28.3 million. Noncontrollable expenses on electricity and transportation purchases rose by 12.3% (R$ 11.7 million).

Operating expenses break down as follows:

Breakdown of operating expenses (R$ million)	2013	2012	Change in R$ million
1 – Controllable expenses	28.3	29.5	- 1.2
1.1 Personnel (includes pension fund)	15.1	15.5	- 0.4
1.2 Material	1.4	1.5	- 0.1
1.3 Services	11.8	12.5	- 0.7
2 - Uncontrollable expenses (acquisition of energy and transmission)	106.7	95.0	+ 11.7
3 - Depreciation and amortization	5.2	4.7	+ 0.5
4 - Allowance for doubtful accounts and contingencies	0.6	0.1	+ 0.5
5 - Other expenses / revenue	2.6	4.4	- 1.8
Subtotal	**143.4**	**133.7**	**+ 9.7**
6 – Construction cost	14.1	21.5	- 7.4
Total	**157.5**	**155.2**	**+ 2.3**

4 - Operating performance

The commitment with the constant pursuit of improvements in operating activities has permitted the Company to maintain consisting earnings and remain amongst the best in the country. This fact is shown by the high levels of customer satisfaction.

The latest survey published by the Brazilian Association of Electricity Distributors (Abradee) showed that Energisa Borborema achieve an approval rating of 83.85% in the ISQP survey (Perceived Quality Satisfaction Index).

4.1 - Management of energy losses: the year saw the excellent results being maintained in the combating of overall electricity losses, which dropped to 6.0%, one of the lowest levels amongst all electricity distribution companies in the country.

4.2 - Default management: Consumer default in relation to unpaid electricity bills in the past 12 months also fell from 1.16% in 2012 to 0.89% in 2013, as did the number of monthly invoices (pending), which fell from 0.73 to 0.54.

4.3 - DEC and FEC: another highlight is the level of these indicators, which in 2013 confirmed the improvement trajectory, as a result of the investments being made based in the correct planning of the system's requirements.

Operating indicators	2013	2012	Change %
Power loss from the company's system (%)	6.00	6.69	- 0.69 p.p
Consumer default over the last 12 months (%)	0.89	1.16	- 23.2
Outstanding receivables (outstanding monthly invoices) – no.	0.54	0.73	- 26.0
ISQP (Perceived Quality Satisfaction Index) - Abradee	83.85	88.80	- 5.6
IASC (Aneel Consumer Satisfaction Index)	69.53	66.77	+ 4.1
DEC (Equivalent Outage Duration per Consumer) – hours	9.06	9.14	- 0.9
FEC (Equivalent Outage Frequency per Consumer) - times	6.37	6.76	- 5.8

4.4 - Electricity sales: In 2013 electricity sales to end consumers (captive market), located in Energisa Borborema's concession area, including energy associated with free consumers (TUSD), amounted to 677.3 GWh, an increase of 6.4% over 2012. Consumption was driven by the residential sector, which expanded by 9.5% in the year. Industrial consumption, including captive and free sales, rose by 1.4% in 2013. Total energy distributed in 2013 was 679.6 GWh, compared with 660.8 GWh in the previous year, as follows:

Total Electricity Distributed by Consumption Sector (in GWh)

Description	2013	2012	Change %
1) Energy sales to captive consumers	673.3	635.5	+ 5.9
✓ Residential	220.4	201.3	+ 9.5
✓ Industrial	214.8	214.8	-
✓ Commercial	142.2	131.5	+ 8.1
✓ Rural	24.4	22.9	+ 6.6
✓ Other Sectors	71.5	65.0	+ 10.0
2) Energy associated with free consumers (TUSD)	4.0	1.0	+ 300.0
3) Captive sales + TUSD (1+2)	**677.3**	**636.5**	**+ 6.4**
4) Sales to distributors and unbilled sales	2.3	24.3	- 90.5
5) Total Electricity Distributed (3+4)	**679.6**	**660.8**	**+ 2.8**

Energisa Borborema closed the year with 187,570 captive consumer units, 4.7% more than at the end of 2012 and two free consumers.

5 – People management

To meet its operational requirements, especially enhancing the quality of products and services offered, in 2013 Energisa Borborema provided 27,409 man-hours of training, equal to 109.2 hours of training/employee. The distance education system (EAD) accounted for 62% of the company's training program

The successful practices from recent years were maintained and bolstered, especially: Project Bússola, which disclosed the company's targets and guidelines to all staff; A Welcome Program, which involved a meeting between the Officers and recent recruits; the Meetings of Departments with accident victims; Workplace Gymnastics and the Programa e-nova, which seeks to value ideas and innovation of staff, all with a view to greater integration, operational efficiency, fewer accidents and commitment to results and the company's strategy.

People management practices in the company also became visible, with the practice of internal recruitment highlighted, along with development programs and performance assessment of potential leaders in the succession program. These fully serve all of Human Resources' needs across the various levels, in order to maintain the complete range of its operational activities.

6 - Social and Environmental Responsibility

In 2013 Energisa Borborema continued its initiatives in the areas of social / environmental responsibility and culture, especially at the Energy Center, which carried out educational work with the purpose of disseminating knowledge about history and science, especially as regards the importance of electrical power and how to use it rationally and efficiently. The Energy Center was visited by 18,759 people in 2013, equaling last year's performance.

The Art in the Company project (Arte na Empresa) held 12 exhibitions of work from of artists from Paraíba state in the Company's entrance hall, in order to showcase the art and establish and greater approximation between artists of the state, visitors and the company's staff.

Created in 2005 by Energisa Borborema as part of the Aneel Energy Efficiency Program, the Communities Project benefited some 6,489 families in 2013, and has permitted the company to be present in all municipalities in its concession area via its mobile units, which distributed 184 fridges and 6,035 low-energy bulbs. This program administered 111 lectures in 2013 and aims to instruct impoverished communities about precautions and the efficient and safe use of electricity, in addition to instructions about social matters and helping clients achieve a close and better relationship with the company.

The achievements in 2013 include: i) the presence of the Conta Cidadã project in three cities of the concession area, permitting the exchange of 238 tons of recyclable waste for financial credits in the consumers' electricity accounts, with the materials collected in the process going to supply the recycling industry; and ii) continuity of The Balcão de Livros (*book counter*) was launched in 2011, a groundbreaking project to encourage the habit of reading and further awareness, which through service centers and stations gives the company's clients access to leading works of literature, especially those in the Portuguese language.

7- Services rendered by the independent auditor

The total remuneration of Deloitte Touche Tohmatsu Auditores Independentes for the services provided to Energisa Borborema in 2013 was R$ 173,000, as follows: i) R$ 61,000 for reviewing the financial statements and ii) R$ 112,000 for reviewing the processes and procedures implemented to obtain corporate income tax incentives – Sudene.

The Company's engagement policy complies with the principles that sustain the auditor's independence, in accordance with existing standards, which mainly determine that the auditor should not audit its own work, perform managerial duties for its client or pursue its interests.

Management.

Financial Statements

1. Balance Sheet - Assets

ENERGISA BORBOREMA - DISTRIBUIDORA DE ENERGIA S/A
BALANCE SHEET
AT December 31, 2013
(In thousands of reais)

	Note	2013	2012
Assets			
Current			
Cash and cash equivalents	5	13,385	7,968
Money market and secured funds	5	3,837	2,353
Consumers and concessionaires	6	23,202	33,644
Credit receivables	7	2,246	2,828
Inventory		590	578
Recoverable taxes	10	4,575	4,037
Prepaid expenses		413	400
Low income and other receivables	11	6,135	4,253
Total current		**54,383**	**56,061**
Noncurrent			
Noncurrent assets			
Money market and secured funds	5	3,550	3,662
Credit receivables	7	4,079	4,159
Recoverable taxes	10	3,407	3,818
Tax credits	13	21,070	23,166
Escrow and secured deposits	19	5,252	5,313
Derivative financial instruments	27	3,407	1,621
Accounts receivable from the concession	14	22,709	19,468
Other accounts receivable		58	59
		63,532	**61,266**
Investments		81	82
Intangible assets	15	67,911	65,165
Property, plant and equipment	15	930	868
Total noncurrent		**132,454**	**127,381**
Total assets		**186,837**	**183,442**

See the accompanying notes to the financial statements.

2. Balance Sheet - Liabilities

ENERGISA BORBOREMA - DISTRIBUIDORA DE ENERGIA S/A
BALANCE SHEET
AT December 31, 2013
(In thousands of reais)

	Note	2013	2012
Liabilities			
Current			
Suppliers payable	16	14,864	14,100
Debt charges	17	608	362
Loans and financing	17	11,766	3,644
Payroll		323	232
Taxes and social contributions	18	7,550	9,475
Dividends	20.5	-	4,000
Consumer charges payable		34	947
Estimated obligations		1,058	903
Public lighting fee received		762	747
Intrasector Obligations		3,583	3,343
Other accounts payable		1,441	2,661
Total current		**41,989**	**40,414**
Noncurrent			
Suppliers payable	16	403	391
Loans and financing	17	42,622	39,450
Taxes and social contributions	18	2,723	1,854
Provisions for labor, civil and tax risks	19	3,777	3,143
Other accounts payable		62	-
Total noncurrent		**49,587**	**44,838**
Shareholders' equity			
Capital	20.1	62,752	57,017
Treasury stock	20.1	-	(50)
Capital reserves	20.2	24,098	24,148
Profit reserves	20.3 and 20.4	8,398	11,831
Additional dividends proposed	20.5	13	5,244
Total shareholders' equity		**95,261**	**98,190**
Total liabilities and shareholders' equity		**186,837**	**183,442**

See the accompanying notes to the financial statements.

3. Statements of Income

ENERGISA BORBOREMA - DISTRIBUIDORA DE ENERGIA S/A
STATEMENT OF INCOME
FINANCIAL YEAR ENDED DECEMBER 31, 2013
(In thousands of reais, except for net income per free float share)

	Note	2013	2012
Net operating revenue	21	171,267	186,389
Cost of the electricity service	22	(134,358)	(129,379)
Gross profit		**36,909**	**57,010**
Sales expenses	22	(6,244)	(6,690)
General and administrative expenses	22	(17,262)	(16,588)
Other revenue	23	1,337	1,793
Other expenses	23	(924)	(4,374)
Earnings before financial revenue and expenses and tax		**13,816**	**31,151**
Financial revenue	24	5,323	5,727
Financial expenses	24	(7,555)	(2,824)
Net financial income (expenses)		**(2,232)**	**2,903**
Income before tax		**11,584**	**34,054**
Current income and social contribution taxes	13	45	(5,264)
Deferred income and social contribution taxes	13	(2,096)	171
Net income for the year		**9,533**	**28,961**
Basic and diluted net income per common and preferred share - R$	25	**32.54**	**98.87**

See the accompanying notes to the financial statements.

4. Comprehensive Statement of Income

ENERGISA BORBOREMA - DISTRIBUIDORA DE ENERGIA S/A
COMPREHENSIVE STATEMENT OF INCOME
FINANCIAL YEAR ENDED DECEMBER 31, 2013
(In thousands of reais)

	2013	2012
Net income for the year	**9,533**	**28,961**
Items that will not be reclassified to the income statement		
Other comprehensive income	-	-
Total other comprehensive income for the year, net of tax	**9,533**	**28,961**

See the accompanying notes to the financial statements.

5. Statements of Cash Flows

ENERGISA BORBOREMA - DISTRIBUIDORA DE ENERGIA S/A
STATEMENT OF CASH FLOWS
FINANCIAL YEAR ENDED DECEMBER 31, 2013
(In thousands of reais)

	Note	2013	2012
Operating activities			
Profit before income and social contribution taxes		11,584	34,054
Expenses on interest and monetary and exchange variance - net		6,729	107
Amortization and depreciation	22	5,248	4,691
Allowance for doubtful accounts	22	189	66
Provisions for labor, civil and tax risks	22	460	63
Mark-to-market of Derivatives	24	1,081	(758)
Derivative Financial Instruments	24	(2,300)	(608)
Loss on the sale of PP&E and intangible assets	23	(413)	2,581
Changes in current and noncurrent assets			
Decrease (increase) in consumers and concessionaires		10,346	(10,476)
Decrease (increase) in credit receivables		3,784	(999)
(Increase) decrease in inventories		(12)	43
(Increase) decrease in recoverable taxes		(127)	1,960
Decrease in escrow deposits		61	117
(Increase) decrease in prepaid expenses		(13)	55
(Increase) in other accounts receivable		(2,597)	(1,128)
Changes in current and noncurrent liabilities			
Increase in trade payables		4	1,693
Increase in payroll		91	39
(Decrease) in taxes and social contributions		(122)	(572)
Income and social contribution taxes paid		(889)	(2,676)
Increase in estimated obligations		155	4
(Decrease) in consumer charges payable		(913)	(103)
(Decrease) increase in other accounts payable		(903)	883
Net cash produced by operating activities		**31,443**	**29,036**
Investment activities			
Capital increase and acquisition of shares in subsidiaries and other Investments		-	2
Money market and secured funds		(20,432)	(2,124)
Discharge of short-term investments		16,038	1,660
Increase in intangible assets and property, plant and equipment	15 and 32	(10,521)	(19,957)
Sale of PP&E and intangible assets	23	1,337	1,793
Net cash consumed in investment activities		**(13,578)**	**(18,626)**
Financing activities			
New loans and financing	17 and 32	10,000	19,360
Payments of loans - principal	17	(2,389)	(8,197)
Payments of loans - interest	17	(3,029)	(2,308)
Settlement of Derivative Financial Instruments		(568)	(255)
Payment of dividends	20.5	(16,462)	(19,741)
Net cash consumed in investment activities		**(12,448)**	**(11,141)**
Net cash variation		**5,417**	**(731)**
Opening cash and cash equivalents	5	7,968	8,699
Closing cash and cash equivalents	5	13,385	7,968
Net cash variation		**5,417**	**(731)**

See the accompanying notes to the financial statements.

6. Statement of Added Value

ENERGISA BORBOREMA - DISTRIBUIDORA DE ENERGIA S/A
STATEMENT OF ADDED VALUE - DVA
FINANCIAL YEAR ENDED DECEMBER 31, 2013
(In thousands of reais)

	Note	2013	2012
Generation of added value			
Revenue			
Revenue from energy sales and services	21	230,032	243,102
Other income	23	1,337	1,793
Revenue relating to construction of company assets	21 and 24	14,347	21,452
Allowance for doubtful accounts	22	(189)	(66)
(-) Consumables acquired from third parties			
Cost of electricity sold		115,391	103,682
Materials and outsourced services		13,385	14,336
Other operating costs		17,732	27,157
		146,508	**145,175**
Gross added value		99,019	121,106
Amortization and depreciation	22	5,248	4,691
Net added value		93,771	116,415
Transferred added value			
Financial revenue	24	5,323	5,727
Added value to be distributed:		**99,094**	**122,142**
Distribution of added value:			
Personnel			
Direct remuneration		9,171	9,813
Benefits		3,118	2,870
FGTS		701	797
Taxes and contributions			
Federal		16,167	20,173
State		48,721	46,614
Municipal		69	61
Intrasector Obligations		3,134	9,512
Interest expenses			
Interest		7,830	2,824
Rent		650	517
Interest earnings			
Dividends	20.5	7,218	16,606
Additional dividends proposed		13	5,244
Legal Reserve	20.3	477	1,448
Income tax reduction reserve	20.5	1,825	5,735
Prior-year dividends	20.5	-	(72)
		99,094	**122,142**

See the accompanying notes to the financial statements.

7. Statements of Changes in Shareholders’ Equity

ENERGISA BORBOREMA - DISTRIBUIDORA DE ENERGIA S/A
STATEMENTS OF CHANGES IN SHAREHOLDERS’ EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2013 (In thousands of Reais)

				Capital reserves		Profit reserves				
	Note	Capital	Treasury Stock	Remuneration of property, plant and equipment in progress	Special goodwill reserve	Legal reserve	Income tax decrease	Additional dividends proposed	Retained earnings	Total
Balances at January 01, 2012 - adjusted		**52,239**	**(50)**	**154**	**23,994**	**4,648**	**4,778**	**3,720**	**-**	**89,483**
Payment of additional dividends		-	-	-	-	-	-	(3,720)	-	(3,720)
Capital increase as per the AGM and EGM held 4/25/2012		4,778	-	-	-	-	(4,778)	-	-	-
Prior-year dividends		-	-	-	-	-	-	-	72	72
Net income for the year		-	-	-	-	-	-	-	28,961	28,961
Proposed allocation of net income for the year:										
Legal reserve	20.3	-	-	-	-	1,448	-	-	(1,448)	-
Tax Incentive - Ruling 0094/2004 - ADENE	20.4	-	-	-	-	-	5,735	-	(5,735)	-
Dividends	20.5	-	-	-	-	-	-	-	(16,606)	16,606)
Additional dividends proposed	20.5	-	-	-	-	-	-	5,244	(5,244)	-
Balances at December 31, 2012 - adjusted		**57,017**	**(50)**	**154**	**23,994**	**6,096**	**5,735**	**5,244**	**-**	**98,190**
Payment of additional dividends	20.5	-	-	-	-	-	-	(5,244)	-	(5,244)
Capital increase through share cancellation, as per AGM and EGM held 4/24/2013	**20.1**	5,735	50	(50)	-	-	(5,735)	-	-	-
Prior-year dividends		-	-	-	-	-	-	-	-	-
Net income for the year		-	-	-	-	-	-	-	9,533	9,533
Proposed allocation of net income for the year:									-	-
Legal reserve	20.3	-	-	-	-	477	-	-	(477)	-
Tax Incentive - Ruling 206/2012 - SUDENE	20.4	-	-	-	-	-	1,825	-	(1,825)	
Dividends	20.5	-	-	-	-	-	-	-	(7,218)	(7,218)
Additional dividends proposed	20.5	-	-	-	-	-	-	13	(13)	-
Balances at December 31, 2013		**62,752**	**-**	**104**	**23,994**	**6,573**	**1,825**	**13**	**-**	**95,261**

See the accompanying notes to the financial statements.

8. Balance Sheet

ENERGISA BORBOREMA - DISTRIBUIDORA DE ENERGIA S.A. BALANÇO SOCIAL ANUAL - 2013 (Em milhares de reais)						
1 - Base de Cálculo	**2013 Valor (Mil reais)**			**2012 Valor (Mil reais)**		
Receita líquida (RL)	171.267			186.389		
Resultado operacional (RO)	11.584			34.054		
Folha de pagamento bruta (FPB)	13.028			13.137		
2 - Indicadores Sociais Internos	**Valor (mil)**	**% sobre FPB**	**% sobre RL**	**Valor (mil)**	**% sobre FPB**	**% sobre RL**
Alimentação	1.908	14,65%	1,11%	1.734	13,20%	0,93%
Encargos sociais compulsórios	2.809	21,56%	1,64%	2.833	21,57%	1,52%
Previdência privada	165	1,27%	0,10%	153	1,16%	0,08%
Saúde	699	5,37%	0,41%	608	4,63%	0,33%
Segurança e saúde no trabalho	0	0,00%	0,00%	0	0,00%	0,00%
Educação	62	0,48%	0,04%	91	0,69%	0,05%
Cultura	0	0,00%	0,00%	3	0,02%	0,00%
Capacitação e desenvolvimento profissional	71	0,54%	0,04%	96	0,73%	0,05%
Creches ou auxílio-creche	238	1,83%	0,14%	245	1,86%	0,13%
Participação nos lucros ou resultados	1.040	7,98%	0,61%	1.388	10,57%	0,74%
Outros	240	1,84%	0,14%	230	1,75%	0,12%
Total - Indicadores sociais internos	7.232	55,51%	4,22%	7.381	56,18%	3,96%
3 - Indicadores Sociais Externos	**Valor (mil)**	**% sobre RO**	**% sobre RL**	**Valor (mil)**	**% sobre RO**	**% sobre RL**
Educação	0	0,00%	0,00%	0	0,00%	0,00%
Cultura	104	0,90%	0,06%	199	0,58%	0,11%
Saúde e saneamento	0	0,00%	0,00%	0	0,00%	0,00%
Esporte	18	0,16%	0,01%	30	0,09%	0,02%
Combate à fome e segurança alimentar	0	0,00%	0,00%	0	0,00%	0,00%
Outros	84	0,73%	0,05%	38	0,11%	0,02%
Total das contribuições para a sociedade	206	1,78%	0,12%	267	0,78%	0,14%
Tributos (excluídos encargos sociais)	62.148	536,50%	36,29%	64.015	187,98%	34,34%
Total - Indicadores sociais externos	62.354	538,28%	36,41%	64.282	188,76%	34,49%
4 - Indicadores Ambientais	**Valor (mil)**	**% sobre RO**	**% sobre RL**	**Valor (mil)**	**% sobre RO**	**% sobre RL**
Investimentos relacionados com a produção/ operação da empresa	8	0,07%	0,00%	6	0,02%	0,00%
Investimentos em programas e/ou projetos externos	0	0,00%	0,00%	0	0,00%	0,00%
Total dos investimentos em meio ambiente	8	0,07%	0,00%	6	0,02%	0,00%
Quanto ao estabelecimento de "metas anuais" para minimizar resíduos, o consumo em geral na produção/ operação e aumentar a eficácia na utilização de recursos naturais, a empresa	(X) não possui metas ( ) cumpre de 51 a 75% ( ) cumpre de 0 a 50% ( ) cumpre de 76 a 100%			(X) não possui metas ( ) cumpre de 51 a 75% ( ) cumpre de 0 a 50% ( ) cumpre de 76 a 100%		
5 - Indicadores do Corpo Funcional	**2013**			**2012**		
Nº de empregados(as) ao final do período	251			278		
Nº de admissões durante o período	20			34		
Nº de empregados(as) terceirizados(as)	104			89		
Nº de estagiários(as)	2			1		
Nº de empregados(as) acima de 45 anos	58			65		
Nº de mulheres que trabalham na empresa	37			42		
% de cargos de chefia ocupados por mulheres	0,00%			18,18%		
Nº de negros(as) que trabalham na empresa	88			88		
% de cargos de chefia ocupados por negros(as)	0,00%			0,00%		
Nº de portadores(as) de deficiência ou necessidades especiais	9			9		
6 - Informações relevantes quanto ao exercício da cidadania empresarial	**2013**			**Metas 2014**		
Relação entre a maior e a menor remuneração na empresa	15,85			15,85		
Número total de acidentes de trabalho	10			9		
Os projetos sociais e ambientais desenvolvidos pela empresa foram definidos por:	( ) direção	(X) direção e gerências	( ) todos(as) empregados(as)	( ) direção	(x) direção e gerências	( ) todos(as) empregados(as)
Os padrões de segurança e salubridade no ambiente de trabalho foram definidos por:	( ) direção e gerências	( ) todos(as) empregados(as)	(X) todos(as) + Cipa	( ) direção e gerências	( ) todos(as) empregados(as)	(x) todos(as) + Cipa
Quanto à liberdade sindical, ao direito de negociação coletiva e à representação interna dos(as) trabalhadores(as), a empresa:	( ) não se envolve	( ) segue as normas da OIT	(X) incentiva e segue a OIT	( ) não se envolverá	( ) seguirá as normas da OIT	(x) incentivará e seguirá a OIT
A previdência privada contempla:	( ) direção	( ) direção e gerências	(X) todos(as) empregados(as)	( ) direção	( ) direção e gerências	(x) todos(as) empregados(as)
A participação dos lucros ou resultados contempla:	( ) direção	( ) direção e gerências	(X) todos(as) empregados(as)	( ) direção	( ) direção e gerências	(x) todos(as) empregados(as)
Na seleção dos fornecedores, os mesmos padrões éticos e de responsabilidade social e ambiental adotados pela empresa:	( ) não são considerados	(x) são sugeridos	( ) são exigidos	( ) não serão considerados	(x) serão sugeridos	( ) serão exigidos
Quanto à participação de empregados(as) em programas de trabalho voluntário, a empresa:	( ) não se envolve	( ) apóia	(X) organiza e incentiva	( ) não se envolverá	( ) apoiará	(x) organizará e incentivará
Número total de reclamações e críticas de consumidores(as):	na empresa 5.421	no Procon 45	na Justiça 132	na empresa 4.284	no Procon 51	na Justiça 132
% de reclamações e críticas atendidas ou solucionadas:	na empresa 98,87%	no Procon 42,22%	na Justiça 37,12%	na empresa 100%	no Procon 52%	na Justiça 42%
Valor adicionado total a distribuir (em mil R$):	Em 2013: 99.094			Em 2012: 122.142		
Distribuição do Valor Adicionado (DVA):	69% governo 13% colaboradores(as) 7% acionistas 9 % terceiros 2 % retido			63% governo 10% colaboradores(as) 18% acionistas 3% terceiros 6% retido		
7 - Outras Informações	**2013**			**2012**		
7) Investimentos sociais						
7.1 - Programa Luz para Todos						
7.1.1 - Investimento da União	0			0		
7.1.2 - Investimento do Estado	0			0		
7.1.3 - Investimento do Município	0			0		
7.1.4 - Investimento da Concessionária	0			0		
Total - Programa Luz para Todos (7.1.1 a 7.1.4)	**0**			**0**		
7.2 - Programa de eficiência Energética	806			466		
7.3 - Programa de Pesquisa e Desenvolvimento	248			1.063		
Total dos investimentos sociais (7.1 a 7.3)	**1.054**			**1.529**		

Energisa Borborema - Distribuidora de Energia S/A
Notes to the financial statements for the
year ended December 31, 2013
(In thousands of reais, unless stated otherwise)

1. Operations

A part of **ENERGISA GROUP**, Energisa Borborema – Distribuidora de Energia S/A ("Company or Energisa BO") is an electricity distribution company, operating in the municipalities of Campina Grande, Lagoa Seca, Queimadas, Fagundes, Massaranduba and Boa Vista in the state of Paraíba, serving 187,571 consumers (information not audited by the independent auditors). The Company is headquartered in the city of Campina Grande, Paraíba state.

On January 11, 2013 the Federal government issued Law 12783 resulting from Provisional Law 579, which addressed the matters:

Concession renewal:
Electricity generation, transmission and distribution concessions expiring between 2015 and 2017 can be extended for the term of 30 years in order to ensure the continuity, efficiency of service and minimum price increases.

The extension terms will only be known when the concession authority discloses the draft amendment to the concession agreement.

Reduction/elimination of sector charges:
The following regulatory charges have been eliminated from electricity rates. The RGR (Global Reversal Reserve); CCC – Fuel consumption cost and reduction of the CDE – Energy Development Account and minimum price increases.

The eliminations and reductions in sector charges payable on electricity did not directly impact earnings, as the revenue drop was offset by lower charges and taxes.

The Company's concession expires in February 2030.

See below some of the concession operator's obligations stipulated in the concession arrangement:

I - to supply electricity to consumers located in their concession area, at the levels of quality and continuity established in specific legislation

II - to carry out the work necessary to provide the concession services, replace assets and operate the infrastructure so as to ensure the regular, continuous, efficient and safe provision of services and charging of rates, in accordance with the specific technical and legal standards

III – to organize and maintain a record and inventory of the concession assets and strive for the integrity thereof, where concession operator may not sell or submit as collateral such assets without the prior explicit consent of the regulatory agency

IV - to meet all tax, labor, social security and regulatory obligations, including the provision of information to consumers

V - to implement measures to combat energy waste, through energy consumption reduction programs and innovations

VI – to submit to the prior approval of the National Electricity Regulatory Agency (ANEEL) any changes in equity positions that could result in control changing hands. In the event share control is transferred, the new controlling shareholders should sign an agreement accepting the terms of the concession arrangement and the concession legislation and regulations;

VII - the concession may be discontinued by terminating the agreement, expropriation of the service, cessation, rescission, irregularities or bankruptcy of the concession operator, and may be extended by way of an application from the concession operator and at the sole discretion of the concession authority.

The information regarding rate reviews and adjustments, accounts receivable of the concession, concession assets, construction revenue and concession term can be seen in notes 9, 14, 15, 21 and 30 respectively.

2. Presentation of the financial statements

The financial statements have been prepared in accordance with the accounting practices adopted in Brazil, which embrace corporate legislation, the Pronouncements, Guidance and Interpretations issued by the Accounting Pronouncements Committee – CPC, approved by the standards and regulations of the Brazilian Securities Commission – CVM and specific legislation applying to the Public Energy concession operators established by the National Electricity Regulatory Agency – ANEEL and the International Financial Reporting Standards (IFRS) issued in accordance with the International Accounting Standards Board - IASB.

Authorization for the issuance of these financial statements was given by the Board of Directors on March 14, 2014.

Functional currency

The individual and consolidated financial statements are being presented in Brazilian reais, which is the Company's functional currency. All financial statements are presented in thousands of reais, except where specified otherwise.

The financial statements have been prepared based on historic cost, except for the following items:

- Derivative financial instruments measured at fair value, and
- Nonderivative financial instruments stated at fair value through profit or loss

Judgments and estimates

Accounting estimates - Preparing the financial statements in accordance with the accounting practices adopted in Brazil requires management to use estimates to carry certain transactions affecting the assets and liabilities, revenues and expenses, and to disclose information concerning the figures in its financial statements. The final results of such transactions and information when actually realized in subsequent years may differ from these estimates. The main estimates related to the financial statements refer to recording the effects deriving from the purchase and sale of electricity at the Electricity Sale Chamber – CCEE, provision for possible loan losses, provision for labor, civil and tax claims, provision for supplementary retirement and pensions plan and tax credits. Estimates and assumptions are continually reviewed. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

Purchase and sale of electricity at the Electricity Trading Chamber - CCEE - the recording of electric power purchase and sale transactions through the CCEE are recognized on the accrual basis based on calculations prepared and disclosed by the entity or by Management estimate, when this information is not available in time.

Allowance for doubtful accounts - (i) trade accounts receivable, consumers and concession operators is created based on receivables from residential consumers more than 90 days overdue, commercial consumers more than 180 days overdue and industrial, rural, government, public lighting and public service sector consumers more than 360 days overdue; (ii) credits receivables composed at 100% of the debt after 3 (three) contractual payments have fallen overdue.

Provision for labor, civil and tax claims - The Company made provisions, which involves management judgment, for labor, civil and tax claims when it is probable that an outflow of economic benefits will be required to settle the obligation, which has arisen as a result of past events and which can be reliably estimated.

The Company is also subject to several legal, civil and labor claims arising out of the normal course of business. The Company's judgment relies on the opinion of its legal advisers. Provisions are revised and adjusted to reflect changes in circumstances, such as the applicable statute of limitations, the completion of tax inspections or exposure identified as a result of new issues or court decisions.

Retirement and pension supplementation plan - The Company has a benefits plan for employees which includes retirement and pension supplementation plans and health plans.

The actuarial commitments with respect to the supplementary pension and retirement plans are provisioned for based on actuarial calculations prepared by independent actuaries. Their calculations are based on the projected unit of credit method, net of the assets guaranteeing the plan, when applicable. The costs are recognized in the employees' vesting period, in according with CVM Resolution 695 issued December 13, 2012 and the accounting rules established by CPC Technical Pronouncement 33 R1 (IAS 19) issued by the Accounting Pronouncements Committee. Any surpluses on employee benefit plans are not recorded.

The projected unit of credit method considers each term of employment to be an event that generates an additional unit of benefit, which are accrued to calculate the final obligation. Other actuary premises are also used, such as biometric and economic hypotheses and historical data on expenses incurred and on employees contributions.

The actuarial gains and losses generated by adjustments and alterations to the actuarial premises of the pension and retirement benefit plans and the actuarial commitments related to the health coverage plan are recognized in the income statement for the year.

Tax credits - the tax credits are recognized in relation to temporary differences between the book values of assets and liabilities for accounting purposes and the corresponding amounts used for tax purposes. If they are recognized to the extent it is probable that the taxable income in coming years will be able to be used to offset tax credits, based on projected future earnings relying on internal assumptions and future economic scenarios, which are therefore subject to change. The recorded amounts are periodically revised and any effects of realization or settlement are recorded in accordance with the legislation.

Derivative financial instruments - The judgments and estimates for derivative financial instruments can be seen in note 27.

3. Adoption of international accounting standards

3.1 New accounting procedures issued by IASB - International Accounting Standards Board

Application of new and revised standards that did not have an effect or material effect on the financial statements.

See below the new and revised standards that are applicable as from the date of these financial statements. The application of these standards did not have a material impact on the amount disclosed in the current year or prior years.

- IFRS 13 (CPC 46) - Fair Value Measurement.
- Modifications to IAS 01 revised in 2011 - Presentation of Items of Other Comprehensive Income.
- IAS 19 revised in 2011 (CPC 33 (R1)) - Employee Benefits.
- IAS 27 revised in 2011 CPC 35 (R2) - Separate Financial Statements.
- Amendments to IFRS 7 – Offsetting of Financial Assets and Liabilities.

New revised standards and interpretations issued but not yet adopted.

The Company has not adopted the new revised IFRS below, which though already published are as yet non-mandatory:

- IFRS 9 – Financial Instruments (b).
- Amendments to IFRS 9 and IFRS 7 – Date of mandatory application of IFRS 9 and Transition Disclosures (b).
- Amendments to IAS 19 (CPC 33 (R1)) - Employee Benefits (b).
- Amendments to IAS 32 (CPC 39) – Offsetting of Financial Assets and Liabilities (a).
- Amendments to IAS 36 (CPC 01 (R1)) - Disclosure of recoverable amounts to non-financial assets (a).

In force for annual periods beginning on or after:
(a) January 01, 2014.
(b) January 01, 2015.

The CPC has not yet issued equivalent pronouncements for certain IFRS, but is expected to do so before the adoption deadline. The early adoption of the IFRS is subject to prior approval by a normative ruling of the CFC.

The Company did not really adopt these amendments for its financial statements as of December 31, 2013. None of these new standards is expected to have a material effect on the financial statements, except for IFRS 9, which could change the classification and measurement of the financial assets.

3.2 Main accounting practices

The accounting policies set out below have been applied consistently to all the years reported in these financial statements.

a. Cash and cash equivalents - includes balances of cash and short-term investments that can be redeemed within up to 90 days from acquisition at the contracted rates and are subject to an insignificant risk of impairment, which are used to manage short-term obligations

b. Financial instruments – All financial instruments (assets and liabilities) are recognized in the Company's balance sheets, and are measured at fair value when applicable and after the initial recognition according to classification. The Company's financial instruments have been classified into: (i) marketable securities – stated at fair value through profit or loss. This classification includes derivative transactions. (ii) held to maturity – valued at the effective interest rate and recorded in profit and loss, and (iii) loans and receivables – measured at amortized cost, using the effective interest rate method and recorded in the income statement.

There are three classification levels of fair value for financial instruments, as shown below:

Level 1 - Inputs from an active market (quoted price not adjusted), which can be accessed on a daily basis, including at the fair value measurement date.

Level 2 - Inputs other than those from an active market (quoted price not adjusted), included in level 1, taken from a pricing model based on observable market inputs.

Level 3 - Inputs taken from a pricing model not based on observable market inputs.

The fair values of the financial instruments are classified in note 27.

The main financial assets recognized by the Company are: cash and cash equivalents; money market; secured funds; clients, consumers, and concession operators; accounts receivable from the concession; credit receivables and derivative financial instruments.

The main financial liabilities recognized by the Company are: suppliers payable; loans and financing, debt charges and derivative financial instruments.

A financial asset is derecognized when the contractual rights to the asset's cash flows expire or when the Company transfers the rights to receive the contractual cash flows of a financial asset in a transaction where essentially all the risks and rewards of ownership of financial assets are transferred to the buyer. Financial liabilities are measured at amortized cost, using the effective interest rate method and recorded in net income.

c. Consumers and concessionaires - embrace the provision of billed and unbilled electricity (unbilled electricity is an estimate, recognized on the accrual basis of accounting), up to closure of the balance sheet

d. The allowance for doubtful accounts was made to an amount deemed sufficient to cover any losses incurred on the collection of loans in accordance with ANEEL criteria

e. Inventory - inventories are valued at the average acquisition cost not in excess of market value or acquisition cost

f. Accounts receivable from the concession - denotes the portion of the capital invested in the assets, not amortized during the concession period, to be indemnified at the end of the arrangement.

Following the publication of Provisional Law 579/2012, enacted as Law 12783/2013, the company confirmed it would use the VNR – New Replacement Value published by the Concession Authority to pay for the indemnification of assets not amortized when the concession expires. For this reason the difference between the VNR and historic book cost was recorded as financial revenue in FY 2012. These assets are classified as available-for-sale, the effects of which are explained in detail in note 14.

g. Regulatory assets and liabilities - for the purpose of rates, costs not yet recognized in the rates and/or costs recognized in the rates at amounts in excess of the effective amounts are deferred and only recognized by ANEEL when included in the electricity rates. As international accounting standards (IFRS) and the CPCs do not provide for recording these assets and liabilities, they are recognized in the income statement of the year they are effectively occurred in.

h. Investments - recorded at acquisition cost less a provision for devaluation, when applicable.

i. Intangible assets - concession arrangement: the assets operated by the Company to provide electricity distribution services. The amortization is based on the consumption pattern of the benefits expected during the arrangement term.

j. The interest and financial charges are capitalized to works in progress at the average effective capitalization rate.

k. Decrease in recoverable value - the Company evaluates its intangible assets with defined useful lives if there are signs of impairment. Recoverable taxes and tax credits are tested for impairment annually, regardless of whether there are any signs.

A financial asset not measured at fair value through profit and loss is valued at each reporting date to test for impairment. An asset has incurred impairment if objective evidence indicates impairment has occurred after the initial recognition of the asset and this impairment has had a negative effect on the future projected cash flows that can be estimated reliably.

Objective evidence that the financial assets (including securities) have incurred impairment can include: (i) nonpayment or late payment by the debtor; (ii) restructuring of the amount owed to the Company on terms that it would not accept in other transactions of the same nature (iii) signs that the debtor or issuer is going to enter bankruptcy proceedings and (iv) the disappearance of an active market for a security. Furthermore, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment.

The Company takes into account evidence of impairment for receivables and securities kept to maturity, both individually and collectively. All receivables and securities kept to an individually significant maturity are specifically tested for impairment. All receivables and securities kept to an individually significant maturity found not to have incurred impairment are then tested collectively for any impairment that may have occurred, but not yet been identified. Receivables and securities kept to maturity that are not individually material are tested collectively for impairment by grouping securities posing similar risks.

When testing for impairment collectively the Company uses historic patterns of default probability, recovery terms and the size of losses incurred, adjusted to reflect management's judgment as to whether the current economic credit conditions mean that the actual losses will probably be greater or less than those suggested by historic patterns.

Impairment of a financial asset measured at amortized cost is calculated as the difference between the book value and the present value of future estimated cash flows, discounted at the asset's effective original interest rate. The losses and interest on financial assets are recognized in profit or loss and reflected in a provision against receivables, when losses, and reversal of discount, when interest. When a subsequent event indicates a reversal of the impairment, the decrease in the impairment is reversed and credited to the income statement.

Impairment of financial assets available for sale is recognized by reclassifying the cumulative loss that was recognized in other comprehensive income in the shareholders' equity to the net income. The cumulative loss that is reclassified from other comprehensive income to the net income is the difference between the acquisition cost, net of any reimbursement and principal amortization, and the current fair value, minus any impairment previously charged to the income statement. Changes in the provisions for impairment, attributable to the effective interest rate, are recognized in financial revenue.

At the end of each year the company reviews the book value of its tangible and intangible assets to check for signs of impairment. If there are signs of impairment, the asset's recoverable value is estimated in order to measure the impairment. When an asset's recoverable value cannot be estimated individually, the company calculates the recoverable value of the cash generating unit the asset belongs to. When a reasonable and consistent allocation basis can be identified, the corporate assets are also allocated to the individual cash generating units or the smallest group of cash generating units for which a reasonable and consistent allocation basis can be identified.

Company management did not identify any evidence of impairment, other than the provisions already made.

l. Loans and financing - stated net of transaction costs incurred, and subsequently stated at the amortized cost using the effective interest rate method.

m. Derivatives - The derivatives are initially recognized at fair value; attributable transaction costs are expensed as and when they are incurred. After their initial recognition, the derivatives are appraised at fair value and any changes are recorded in the income statement. Details can be seen in note 27.

n. Income and social contribution taxes - These expenses consist of current and deferred income tax. The deferred tax is recorded in the income statement unless it is related to items recorded in comprehensive income in the shareholders' equity. The Company opted to use the Transitional Taxation Scheme (RTT) to calculate its income and social contribution taxes from FY 2008. The deferred tax is recognized in relation to temporary differences between the values of assets and liabilities for accounting purposes and the corresponding amounts used for tax purposes.

Although current tax assets and liabilities are recognized and measured separately, the offsetting thereof in the balance sheet is subject to similar criteria to those established the financial instruments. The entity is normally legally entitled to offset the current tax asset against a current tax liability when they are related to income taxes charged by the same tax authority and the tax legislation permits the entity to make or receive a single net payment.

Deferred income and social contribution tax assets are reviewed at each closing date and are reduced to the extent that realization is no longer probable.

Provisional Law 627/13 was published on November 12, 2013, which changed the country's Federal Tax Legislation. The main changes are: (i) revoking of the transitional taxation arrangement (RTT) from 2015, but with early adoption for January 01, 2014. If the Provisional Law is adopted early, the RTT will be automatically eliminated and the new provision shall be effective from 2014 on an irrevocable basis. (ii) taxation of companies domiciled in Brazil, in relation to the equity increase resulting from participating in overseas profits made by associated companies and associates; and (iii) special financing of the PIS/PASEP and COFINS taxes. The early option of the provision will eliminate taxation and any excess distribution of company profits regarding to the profits distributed, calculated in accordance with the accounting criteria in force as of December 31, 2007.
The Company is awaiting the enactment of the Provisional Law as a law to conduct a more in-depth and conclusive analysis of the effects of the new tax regulations.

o. SUDENE tax incentives - as the terms established will almost certainly be met, these incentives received have been recognized in the income statement for the year and allocated to a specific profit reserve, where they are held until capitalization.

p. Provisions - a provision is recognized in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recorded considering the best estimates of the risk involved. Liabilities related to court cases are provisioned for to amounts deemed adequate by the legal advisors and directors to cover unfavorable outcomes

q. Restatement - certain receivables have been restated based on specific interest rates, which reflect the nature of these assets in terms of term, risk, currency and receipt terms at the dates of the respective transactions

r. Dividends - Dividends declared in excess of the minimum mandatory dividend after the accounting period reported on by the financial statements are recorded separately in the shareholders' equity, as they do not constitute a present obligation, and the respective liability is not recorded until it has been approved

s. Income statement - revenue and expenses are recognized in the income statement for the year on the accrual basis of accounting. Revenue is not recognized if there are significant uncertainties as to its realization. The Company records revenue and cost during the construction of the assets used to provide the electricity distribution service. The Company outsources its works and Management accordingly believes that this activity generates a very small margin and does not justify additional expenditure to measure and control it; it accordingly attributes a margin of zero to this activity.

t. Employee benefits - defined benefit - The net obligation of the Company under defined-benefit pension plans is calculated individually for each plan by estimating the future benefit the employees are entitled to in return for their work in the current period and previous periods, discounted to present value. Any unrecognized past service costs and the fair values of any of the plan's assets are deducted. The discount rate is the yield at the reporting date for first-rate securities which mature on dates near the obligations of the Company denominated in the same currency in which the benefits are expected to be paid. The calculation is made annually by a qualified actuary using the projected units credit method. When the calculation produces a benefit, the asset to be recognized is limited to the total of any past service costs not recognized and the present value of economic benefits available in the form of future reimbursements under the plan or decrease to the plan's future contributions. To calculate the present value of the economic benefits, any minimum costing requirements applying to any plan are taken into account. An economic benefit is available if it can be realized within the plan's life or upon settlement of the plan's liabilities.

u. Other (current and non-current) assets and liabilities - other assets and liabilities are stated at known or calculable values, plus the corresponding earnings/charges incurred up to the reporting date, when applicable.

v. Statement of added value - prepared relying on information obtained from the accounting records, in accordance with CPC 09 – Statement of Added Value. This shows the wealth created by the Company and the distribution thereof in a given period, and is being presented in accordance with Brazilian corporate legislation, as part of its financial statements.

4. Segment reporting

An operational segment is a component that develops business activities from which revenue streams can be derived and expenses incurred, including revenue and expenses related to transactions with other Company components. All operational income from segments is reviewed frequently by Management to support decisions about new resources to be allocated to the segment and to evaluate its performance, for which individual financial information is made available.

Segment results reported to Management include items directly attributable to the segment and items that can be reasonably allocated. Items not allocated primarily consist of corporate assets.

The Company only operates in the energy distribution segment in six municipalities in Paraíba state, which is its only reportable segment, and its income statement denotes this activity.

5. Cash and cash equivalents, short-term investments in the money market and secured funds

a) Cash and cash equivalents

Financial institution	Type	Maturity (1)	Compensation	2013	2012
CEF	CDB	12/30/2015	100,5% of CDI	7,599	3,887
Santander	Debentures (2)	12/18/2015	103,2% of CDI	2,305	69
Mercantil	CDB	12/15/2014	105,0% of CDI	-	19
				9,904	**3,975**
Cash and banks				**3,481**	**3,993**
Total cash and cash equivalents				**13,385**	**7,968**

b) Money market and secured funds

Financial institution	Type	Maturity	Compensation	2013	2012
BES	CDB	3/19/2015	103,0% of CDI	2	2
BMG	CDB	12/16/2013	112,0% of CDI	-	380
Bradesco	CDB	7/25/2013 to 12/2/2013	99.0% to 100.0% of CDI	-	33
Bradesco	Investment Fund	-	CDI	-	1,215
CEF	Investment Fund	-	CDI	-	361
CEF (4)	Financial Treasury Bill, Securities subject to repurchase commitments, Debentures (2), DPGE, Financial Bill	4/9/2015 to 3/1/2018	102.7% to 122.11% of CDI/IPCA+5.7% / SELIC	3,338	-
CEF	Savings	-	Savings	15	15
HSBC	CDB	1/19/2015	103,3% of CDI	4	4
Itaú	CDB	3/7/2014 to 9/28/2015	90.0% to 100.0% of CDI	9	13
Itaú	Debentures (2)	3/2/2015 to 11/27/2015	100.0% to 102.0% of CDI	114	122
Itaú	Investment Fund	-	CDI	31	1
North-east	CDB	7/31/2017 to 2/15/2023	90.0% to 99.0% of CDI	3,571	2,884
Safra	Debentures (2)	7/15/2013	102,0% of CDI	-	21
				7,084	**5,051**

Held-to-maturity securities					
Itaú	Credit Receivables Investment Funds	12/29/2020	100,0% of CDI	303	964
				303	**964**
Total balance of money market and secured funds (3)				**7,387**	**6,015**
Current				3,837	2,353
Noncurrent				3,550	3,662

(1) The dates presented denote the maturity of the security underlying the financial investments. These short-term investments can be redeemed within 90 days of the procurement date at the contracted rates, under a contractual clause.
(2) Debentures held under repurchase agreements - Sales of securities subject to a repurchase agreement undertaken by the seller, alongside the resale commitment undertaken by the buyer. These operations have immediately liquidity, yield the CDI rate and underlie the debentures issued by the bank.
(3) Includes R$ 4,049 referring to funds linked to loans, energy auctions and funds blocked by court.
(4) Exclusive investment funds include investments in CDB, Debentures, DPGE, Fixed-Income Funds, LFT, LF, LTN, NTN-B and Multimarket Funds.

6. Consumers and concessionaires

Consumer Sectors	Outstanding balances (*)	Overdue					2013	2012
		up to 30 days	31 to 90 days	91 to 180 days	181 to 360 days	Over 360 days		
Residential	2,228	2,216	557	184	13	-	5,198	5,623
Industrial	4,393	75	12	13	-	1,187	5,680	6,395
Commerce, services and other activities	2,700	515	103	96	163	-	3,577	4,200
Rural	135	115	50	31	-	-	331	372
Government:								
Federal	455	31	7	1	-	-	494	555
State	401	27	6	1	-	-	435	489
Municipal	108	7	2	-	-	-	117	132
Public lighting	490	53	-	-	-	-	543	566
Public utility	183	-	-	2	-	-	185	214
Subtotal - consumers	**11,093**	**3,039**	**737**	**328**	**176**	**1,187**	**16,560**	**18,546**
Concession operators **(**)**	641	-	-	-	-	-	641	8,467
Unbilled sales	5,037	-	-	-	-	-	5,037	5,599
Other	-	-	-	-	-	2,758	2,758	2,511
(-) Allowance for doubtful accounts	-	-	-	(184)	(176)	(1,434)	(1,794)	(1,479)
Total - Current	**16,771**	**3,039**	**737**	**144**	**-**	**2,511**	**23,202**	**33,644**

(*) Maturities are scheduled for the 5th working day after the bills are delivered, except for government consumers who have 10 working days to pay.

(**) Includes energy sold at the Electricity Commercialization Chamber - CCEE.

The balance of the consumers and concessionaires account as of December 31, 2013 consists of amounts referring to the sale of energy at the Electricity Commercialization Chamber – CCEE to the amount of R$ 641 (R$ 8,467 in 2012), net of the partial payments made up to December 31, 2013. These balances were determined based on calculations prepared and published by the CCEE.

The breakdown of these amounts, including the balances recorded under "suppliers payable" in the current liabilities of R$ 2,313 referring to the acquisition of electricity and system service charges of R$ 177 (R$ 1,664 in 2012), are shown below:

Breakdown of CCEE credits	2013	2012
Outstanding balances	641	8,467
(-) Energy acquisitions at CCEE	(2,313)	-
(-) System service charges	(177)	(1,664)
	(1,849)	**6,803**

Transactions at the CCEE are being settled 45 days after the accrual month.

7. Credit receivables

Refers to overdue electricity bills, renegotiated with consumers through the Debt Acknowledgement Instruments, restated according to the variation of the IGPM price index. The receivables under certain operations that have been negotiated at rates other than those practiced for this set of accounts receivable have been restated to present value based on the change in the CPI rate.

The balances as of December 31, 2013 and 2012 are shown below:

	2013	2012
Credit receivables	9,144	8,552
Adjustment to present value	(2,077)	(915)
(-) Allowance for doubtful accounts (*)	(742)	(650)
	6,325	**6,987**
Current	2,246	2,828
Noncurrent	4,079	4,159

(*) Included in the total presented as a reduction to the current assets.

As of December 31, 2013, the maturities of receivables are scheduled as follows:

Overdue	742
2014	2,246
2015	733
2016	700
2017	664
2018	639
2019 onwards	1,343
Total	**7,067**

8. Allowance for doubtful accounts

Changes in provisions	2013	2012
Balance - opening 2012 and 1/1/2012	2,129	2,236
Provisions recorded in the year	2,454	1,561
Reversal of provisions in the year	(2,047)	(1,668)
Closing balance - current - 2013 and 2012	2,536	2,129
Consumers and concessionaires	1,794	1,479
Credit receivables	742	650

The allowance for doubtful accounts was made to an amount deemed sufficient to cover any losses incurred on the realization of loans and in accordance with ANEEL instructions, which have been summarized below:

Customers with material debts:

- Individual analysis of the trade accounts receivable by consumption sector, with little prospect of realization.

For the other cases:

- Residential consumers more than 90 days overdue
- Commercial consumers more than 180 days overdue
- Industrial, rural and government consumers, street lighting, public services and others more than 360 days overdue.
- A provision is made for outstanding and overdue receivables more than 90 days overdue.

9. Periodical rate adjustment and review

Rate review:

The periodical rate review occurs every 4 years, with the next review scheduled for January 2017. In this process ANEEL recalculated the rates according to the changes in the structure of the concession operator's costs and sales, in order to foster the efficiency and affordability of the rates. The adjustments and reviews are rate restatement mechanisms, both stipulated in the concession agreement. The concession operator may also request an extraordinary review whenever an event causes a significant economic and financial imbalance in the concession.

On January 29, 2013 ANEEL Resolution 1,483 ratified the rate review to come into force since February 2013. The effective rate impact felt by consumers was an increase of 6.18%.

Rate adjustments:

As consideration for services rendered the concession operator is entitled to charge consumers the rates determined and ratified by the concession authority. The rates are adjusted annually and the concession operator's revenue is divided into two portions: A Portion (consisting of uncontrollable costs) and B Portion (efficient operating costs and capital costs). The annual rate adjustment aims to pass through uncontrollable costs and to monetarily restate controllable costs.

On January 30, 2014 ANEEL Resolution 1,678 ratified the rate review to come into force on February 04, 2014. The effective rate impact felt by consumers was an increase of 3.15%.

10. Recoverable taxes

	2013	2012
Value Added Tax on Sales and Services - ICMS	2,863	3,166
Corporate Income Tax – IRPJ	67	-
Income Tax Withheld at Source - IRRF	292	32
Social Contribution on Net Income – CSSL	333	55
PIS and COFINS	4,396	4,571
Other	31	31
	7,982	**7,855**
Current assets	4,575	4,037
Noncurrent assets	3,407	3,818

11. Low income and other receivables

	2013	2012
Low income	1,505	1,580
Service orders in progress - PEE and R&D	1,956	1,964
Service orders in progress - ODS other	493	246
Deactivation of orders in progress - ODD	177	(253)
Advances	339	307
CDE subsidy - rate discount	863	-
Third-party credits - Sale of rights assets and receivables	67	50
Credits receivable - Reimbursement of sector charges	114	-
Other	621	359
Total current	**6,135**	**4,253**

See below the change in low income and CDE subsidy - rate discount:

- Low income

	2013	2012
Balance - 2012 and 2011	1,580	954
Low-income subsidy	9,009	8,094
Eletrobrás Reimbursement	(8,925)	(7,627)
Accounts receivable Eletrobrás - CDE	(159)	159
Balance - 2013 and 2012 - current	**1,505**	**1,580**

These credits consist of the subsidy for the low-income residential sector with monthly consumption of under 220 kWh, subject to certain requirements being met. This revenue is paid for with funds from the RGR – Global Reversal Reserve and the CDE – Energy Development Account, both administrated by Eletrobrás. Management does not expect to record any losses in the realization of the balance.

- **CDE subsidy - rate discount**

	2013
Rate discount due to Irrigation and Rural subsidy	2,799
Advance of pass-through ANEEL Order 1711/2013	(1,936)
Total	**863**

By way of ANEEL Order 1711 issued May 29, 2013, the Federal Government provided CDE funds of R$ 1,210, which were received on June 03, 2013 and appropriated to profit or loss for the year in proportion to the number of months in the period May to December 2013, in addition to the R$ 726 relating to the months of March, April and May to cover the CDE subsidy for discounts on the rates applying to users of the public electricity distribution service, pursuant to article 13 (VII) of Law 10438 of April 26, 2002.

12. Related-party transactions

The Company is controlled by ENERGISA S/A, (100% of the voting stock), which also holds the share control of Energisa Minas Gerais – Distribuidora de Energia S/A (EMG), Energisa Sergipe - Distribuidora de Energia S/A (ESE), Energisa Borborema - Distribuidora de Energia S/A (EBO), Energisa Nova Friburgo – Distribuidora de Energia S/A (ENF), Energisa Soluções S/A (ESO), Energisa Comercializadora Ltda (ECOM), Energisa Serviços Aéreos S/A (ESER), Energisa Planejamento e Corretagem de Seguros Ltda (EPLA), Energisa Geração Rio Grande S/A (EGR), Pequena Central Hidrelétrica Zé Tunin S/A, Energisa Geração Usina Mauricio, SPE Cristina Energia S/A, Energisa Geração Centrais Eólicas RN S/A (Holding company that holds the share control of the companies Energisa Geração Central Eólica Renascenças I, II, III, IV and Energisa Geração Central Eólica Ventos de São Miguel S/A), Energisa Bioeletricidade (Holding company that holds an 85% interest in the companies Energisa Bioeletricidade Santa Cândida I and Energisa Bioeletricidade Vista Alegre I and the entire capital of the companies Energisa Bioeletricidade Santa Cândida II and Energisa Bioeletricidade Vista Alegre II) (related parties of the Company).

Transactions conducted in the year by the Company:

	Services engaged (1)	Electricity purchased for resale/ Provision of the transmission and distribution system (2)	Endorsement commission (Financial expense) (3)	Balance receivable (Consumers and concession operators)	Balance of trade payables
ENERGISA S/A	5,747	-	305	-	456
EPB	-	4,210	-	12	331
Energisa Geração Centrais Eólicas Renascença I,II,III, IV and Ventos de São Miguel	-	(76)	-	-	19
2013	5,747	4,134	305	12	806
2012	5,376	4,716	-	-	881

(1) The administrative services procured from the parent company are supported by contracts that were submitted to the approval of ANEEL The costs are benchmarked to the benchmark company model used by the ANEEL regulated department for regulatory purposes.

(2) The energy sale and use and cost amounts are supported by contracts that were submitted to the approval of ANEEL and were conducted on an arm's length basis.

(3) Refers to endorsement commission cost, initiated in February 2013, for the parent company's guarantees of the Company's contracts at the rate of 1.5% p.a.

D&O compensation

In the year ended December 31, 2013 the members of the Board of Directors received compensation of R$ 335 (R$ 402 in 2012) and the Executive Board R$ 1,076 (R$ 1,292 in 2012). In addition to this compensation, the Company provides private pension, health insurance and life insurance benefits to its directors, generating an expense of R$ 74 (R$ 62 in 2012). The social charges on the compensation amounted to R$ 262 (R$ 259 in 2012).

In the year ended December 31, 2013 the highest and lowest remuneration attributed to directors for the month of December was R$ 28 and R$ 1 (R$ 27 and R$ 1 in 2012) respectively. The average remuneration in FY 2013 was R$ 8 (R$ 8 in 2012).

The EGM held April 24, 2013 ratified the overall annual compensation limit of the directors and officers for FY 2013 at R$ 3,014.

13. Tax credits and current income and social contribution tax expenses

Deferred taxes derives from temporary differences recorded in accordance with CPC 32 and presented in accordance with CPC 26.

The estimate for the realization of deferred taxes can be seen below, and the earnings projections used in the recoverability study of these assets were approved by the Boards of Directors.

Deferred taxes recognized in the balance sheet:

	2013	2012
Assets		
Temporary differences:		
Income tax	15,493	17,087
Social contribution	5,577	6,079
Total noncurrent	**21,070**	**23,166**

Temporary differences are as follows:

	2013		2012	
	calculation basis	IRPJ + CSSL	calculation basis	IRPJ + CSSL
Assets				
Tax credits - goodwill (1)	50,126	17,043	53,179	18,081
Provisions for labor and tax risks	3,777	1,284	3,143	1,069
Allowance for doubtful accounts - PCLD	845	287	438	149
Other provisions (PEE; R&D; fees and other)	5,663	1,925	5,483	1,864
Exchange variance losses	4,021	1,367	1,132	385
Mark-to-market - derivatives	(3,407)	(1,158)	(1,621)	(551)
Adjustments to present value	2,077	706	848	288
Regulatory assets (CVAs)	(603)	(205)	1,156	393
Other temporary additions (exclusions)	(160)	(54)	5,591	1,901
IRPJ and CSSL on the portion of the VNR of the concession accounts receivable and restatement:	(367)	(125)	(1,214)	(413)
Total - noncurrent assets	**61,972**	**21,070**	**68,135**	**23,166**

(1) The goodwill tax credit is being amortized over the remaining term of the concession, and according to the annual projected income, as determined by ANEEL Resolution 759 of December 12, 2006.

Tax credits were realized as follows:

Period	Realization of tax credits
2014	1,083
2015	723
2016	732
2017	740
2018 to 2023	17,792
Total	**21,070**

The income and social contribution amounts which affected the income for the year, in addition to the offsetting of the tax credits recorded, are shown below:

	2013	2012
Income before tax	11,584	34,054
Combined tax bracket	34%	34%
Income and social contribution taxes expense, calculated at the total tax bracket	(3,939)	(11,578)
Adjustments:		
Decrease in income tax and surcharges (*)	1,825	5,735
Other	63	750
Income tax and social contribution expense	(2,051)	(5,093)
Effective rate	17.70%	15.00%

(*) The decreases to income tax and surcharges resulting from the SUDENE Incentive in the years ended December 31, 2013 and 2012 have been directly recorded in the income statement for the year under "current income and social contribution taxes", in accordance with Law 11638/07 and Provisional Law 449/08.

The Company has a decrease in income tax and surcharges. Approval was obtained from the Ministry of Social Integration in December 2012 for the new applications for a tax incentive of 75% for the period 1/1/2012 to 12/31/2021 and the application was accepted by the federal tax authorities by way of Executive Declaration 13 of 6/3/2013, and consists of a reduction of up to 75% of the Income Tax calculated on operating profits.

14. Accounts receivable from the concession

Preliminary Law 579/2012, enacted as Law 12783/2013, confirmed the concession authority's intention to use the VNR – New replacement value to determine the value of credits receivable at the end of the concession as compensation for investments made and not recovered when providing the concession services.

Company Management believes that this fact changed the contractual terms of the concession regarding the means of compensating the Company for investments made in concession assets, which was recognized at historic cost until FY 2011. On December 31, 2012 the Company began recognizing the VNR – New replacement value, ratified by ANEEL, for assets comprising the concession, restated by the variance of the IGP-M price index, recognizing R$ 847 (R$ 1,214 in 2012) in the net income for the year in financial revenue restatement of concession accounts receivable - VNR.

The concession's accounts receivable are classified as available-for-sale in the non-current assets.

See below the changes occurred:

	2013	2012
Financial asset - historic cost - 2012 and 1/1/2012	19,468	5,556
Additions in the year (*)	4,163	12,702
Write-offs in the year	(75)	(4)
Financial asset - historic cost - 2013 and 2012	23,556	18,254
Financial restatement of accounts receivable from the concession - VNR	(847)	1,214
Financial asset restated cost - 2013 and 2012	**22,709**	**19,468**

(*) Transfer from intangible assets to accounts receivable of the concession.

15. Intangible assets and PPE

	2013	2012
Intangible assets - Concession agreement	67,911	65,165
Property, plant and equipment	930	868
Total	**68,841**	**66,033**

Intangible assets - Concession agreement

Portion of the assets used in the electricity distribution concession to be recovered through electricity rates during the arrangement term.

	Balance 2012	Addition	Transfers	Write-offs (*)	Amortization	Balance 2013
INTANGIBLE ASSETS						
Intangible assets in service						
Cost	121,283	-	7,159	(634)	-	127,808
Accumulated amortization	(51,639)	-	-	478	(5,709)	(56,870)
Subtotal	69,644	-	7,159	(156)	(5,709)	70,938
In Progress	4,833	15,544	(7,417)	(2,699)	-	10,261
Total	**74,477**	**15,544**	**(258)**	**(2,855)**	**(5,709)**	**81,199**
(-) Obligations linked to the concession						
In Service						
Cost	11,732	-	2,618	-	-	14,350
Accumulated amortization	(2,611)	-	-	-	(607)	(3,218)
Subtotal	9,121	-	2,618	-	(607)	11,132
In Progress	191	4,583	(2,618)	-	-	2,156
Total	**9,312**	**4,583**	**-**	**-**	**(607)**	**13,288**
Total intangible assets	**65,165**	**10,961**	**(258)**	**(2,855)**	**(5,102)**	**67,911**
PROPERTY, PLANT AND EQUIPMENT						
Property, plant and equipment In service						
Software	4	-	-	-	-	4
Machinery and equipment	705	-	433	(2)	-	1,136
Vehicles	67	-	-	-	-	67
Furniture and fixtures	1,376	-	(175)	(209)	-	992
Cumulative depreciation	(1,284)	-	-	161	(146)	(1,269)
Total property, plant and equipment	**868**	**-**	258	**(50)**	**(146)**	**930**
Grand Total	**66,033**	**10,961**	**-**	**(2,905)**	**(5,248)**	**68,841**

(*) R$ 2,699 of the R$ 2,905 written off was transferred to the concession's accounts receivable and R$ 206 to write-offs in the year.

Around R$ 1,464 of additional special obligations were transferred from the concession accounts receivable.

	Balance 1/1/2012	Addition	Transfers	Write-offs (*)	Amortization	Balance 2012
INTANGIBLE ASSETS						
Intangible assets in service						
Cost	114,878	-	14,761	(8,356)	-	121,283
Accumulated amortization	(49,277)	-	1,605	1,204	(5,171)	(51,639)
Subtotal	65,601	-	16,366	(7,152)	(5,171)	69,644
In Progress	10,747	21,872	(19,028)	(8,758)	-	4,833
Total	**76,348**	**21,872**	**(2,662)**	**(15,910)**	**(5,171)**	**74,477**
(-) Obligations linked to the concession						
In Service						
Cost	13,775	-	86	(2,129)	-	11,732
Accumulated amortization	(2,038)	-	-	-	(573)	(2,611)
Subtotal	11,737	-	86	(2,129)	(573)	9,121
In Progress	119	203	(86)	(45)	-	191
Total	**11,856**	**203**	**-**	**(2,174)**	**(573)**	**9,312**
Total intangible assets	**64,492**	**21,669**	**(2,662)**	**(13,736)**	**(4,598)**	**65,165**
PROPERTY, PLANT AND EQUIPMENT						
Property, plant and equipment In service						
Software	-	-	4	-	-	4
Machinery and equipment	-	-	2,820	(2,115)	-	705
Vehicles	-	-	67	-	-	67
Furniture and fixtures	-	-	1,376	-	-	1,376
Cumulative depreciation	-	-	(1,605)	414	(93)	(1,284)
Total property, plant and equipment	**-**	**-**	**2,662**	**(1,701)**	**(93)**	**868**
Grand Total	**64,492**	**21,669**	**-**	**(15,437)**	**(4,691)**	**66,033**

(*) R$ 8,713 of the R$ 15,437 written off was transferred to the concession's accounts receivable and R$ 6,724 to write-offs in the year. Around R$ 3,989 refers to the application of Normative Resolution 474 - new depreciation rates in the concession's accounts receivable.

The assets used by the Company in its operations are tied to public energy distribution services, and may not be removed, sold, transferred or pledged under mortgage guarantee without the prior, express consent of the Regulatory Authority. ANEEL Resolution 20/99 regulates the freeing up of the public electricity service concessions' infrastructure, awarding preliminary authorization for the release for the purpose of disposal. It also determines the proceedings of the disposal be deposited into a specific bank account and the funds reinvested into the concession's assets.

The amortization is being conducted over the arrangement term based on the economic benefits generated annually. The average weighted amortization rate used is 4.00% (3.92% in 2012) .

The balance of intangible assets and accounts receivable from the concession is reduced by obligations linked to the concession, consisting of:

Obligations linked to the concession:	2013	2012
Consumer contributions	12,970	10,643
Government Subsidy – CDE funds	-	3,775
State Government Subsidy	3,774	-
Reversal reserve	12	12
Excess Demand Revenue and Surplus Reactive Energy	1,781	-
(-) Accumulated amortization	(3,218)	(2,611)
Total	**14,319**	**11,819**
Allocation:		
Accounts receivable from the concession	1,031	2,507
Infrastructure - Intangible assets in service	11,716	9,121
Infrastructure - Intangible assets in progress	791	191
Excess Demand Revenue and Surplus Reactive Energy	781	-
Total	**14,319**	**11,819**

Consumer contributions represent third-party participation in construction work to supply electricity to areas not embraced by the electricity concessionaires' expansion projects.

Government subsidies – CDE funds and Government subsidies derive from the Energy Development Account - CDE and are allocated to the Light for All program.

The Company began amortizing its special obligations in February 2009.As from the second periodical rate review the obligations linked to the concession (special obligations) are now amortized at the average depreciation rate for property, plant and equipment of the respective activity in which the special obligation funds were used.

Excess Demand Revenue and Surplus Reactive Energy

By way of Normative Resolution 463 (REN) issued November 22, 2011, ANEEL determined that the amounts deriving from fines for exceeding demand and surplus reactive energy consumption will be recorded as special obligations, as from the 3rd cycle of rate reviews. Before the 3rd cycle, these amounts used to be recorded as operating revenue. The Company underwent the 3rd rate review cycle in August 2013, and thereafter the invoicing of excess demand has been recorded as Special obligations. As of December 31, 2013 the amount recorded stood at R$ 781.

As the representative of electricity distribution companies, ABRADEE (Brazilian Association of Electricity Distributors) filed suit contesting the treatment afforded to this revenue.

Financial Charges

During the financial year ended December 31, 2013 and 2012 the Company transferred financial charges to the intangible assets in progress, as shown below:

	2013	2012
Financial charges - debt charges - interest	3,164	2,721
(-) transfer to intangible assets in progress	(275)	(674)
Net effect on income	**2,889**	**2,047**

(*) Pursuant to CPC-20, the Company used the average weighted rate to appropriate the costs of loans for assets not directly related and the effective rate for the specific assets (see note 24).

Property, plant and equipment

The depreciation rate practiced by the Company for property, plant and equipment were:

Depreciation rates of property, plant and equipment	2013
Buildings and improvements	3.33%
Machinery and equipment	6.25%
Vehicles	14.29%
Furniture and fixtures	6.25%

16. Suppliers payable

	2013	2012
Supplies:		
CCEE (1)	2,313	-
Bilateral Contracts (1)	8,484	8,362
Use of the high-voltage national grid (1)	177	1,664
Connection to the grid (1)	109	114
Use of the distribution system (1)	738	2,132
Materials, services and other (2)	3,446	2,219
Total	**15,267**	**14,491**
Current	14,864	14,100
Noncurrent	403	391

1. The acquisition of electricity from generators, use of the high-voltage grid and use of the distribution system, with an average settlement of 25 days.

2. Acquisitions of materials, services and other items required to implement, conserve and maintain the electricity sale and distribution services, with an average settlement of 40 days.

17. Loans, financing and debt charges

Operations	Debt charges	Principal		Total		Re.
		Current	Noncurrent	2013	2012	
Local currency						
Credit Receivables Investment Fund - Energisa Group III (*)	47	-	5,000	5,047	5,035	
Eletrobrás - Light for All – 1st tranche	2	59	109	170	228	
Eletrobrás – Rural Electrification Program	-	-	-	-	1	
BNB financing – BNDES Pass-through I	51	-	2,000	2,051	-	
BNB financing – BNDES Pass-through II	-	-	7,886	7,886	-	
Banco do Nordeste - Investment Financing 2007-2008 (FNE)	194	1,744	5,420	7,358	8,721	
Banco do Nordeste - Investment Financing 2009-2010 (FNE)	-	390	6,801	7,191	7,863	
Banco Itaú BBA – FINAME	4	202	1,443	1,649	954	
Total local currency	**298**	**2,395**	**28,659**	**31,352**	**22,802**	
(-) Borrowing costs incurred	(26)	-	(93)	(119)	(147)	
Foreign currency						
Bank of America Merrill Lynch	135	9,371	-	9,506	8,344	(1)
Banco Itaú BBA	201	-	14,056	14,257	12,457	(1)
Total foreign currency	**336**	**9,371**	**14,056**	**23,763**	**20,801**	
Total	**608**	**11,766**	**42,622**	**54,996**	**43,456**	

(*) To guarantee payment of the short-term portions, the Company maintains interest-earning bank deposits to the amount of R$ 3,875 (R$ 3,848 in 2012), recorded under "secured funds" in the current and noncurrent assets.

(1) These contracts are subject to a currency swap and a financial derivative instrument.

The financing obtained from Finame is secured by the actual equipment financed.

The Company usually allocates the payment of interest on financing to the cash flow statement.

Contractual covenants of the loans and financing as of December 31, 2013:

Operation	Details of the Operation			Average Term months	Cost of the Debt				Ref
	Maturity	Amortization Frequency	Collateral		Index		Interest rate p.a.	TIR (Effective interest rate)	
Credit Receivables Investment Fund - Energisa Group III	Dec-20	monthly, after Dec 2017	Receivables	66	CDI	+	0.70%	8.82%	
Eletrobrás - Light for All – 1st tranche	Nov-16	monthly	Receivables	18	RGR 5.0%			5.00%	
BNB financing – BNDES Pass-through I	Mar-23	monthly, after Apr-2017	Endorsement of Energisa S.A	74	UMBND	+	3.90%	18.59%	
BNB financing – BNDES Pass-through II	Mar-23	monthly, after Apr-2017	Endorsement of Energisa S.A	76	TJLP	+	3.90%	9.1%	
Banco do Nordeste - Investment Financing 2007-2008 (FNE)	Jun-17	monthly	Receivables + Reserve Fund	22	fixed			7.50%	(2)
Banco do Nordeste - Investment Financing 2009-2010 (FNE)	Aug-19	monthly	Receivables + Reserve Fund	39	fixed			7.50%	(2)
Banco Itaú BBA - FINAME	until Feb-2021	monthly	Endorsement of Energisa S.A	52	fixed			4.5% to 5.5%	
Bank of America Merryl Lynch	Jan-14	final	Endorsement of Energisa S.A	1	Libor	+	2.15%	17.67%	(1)
Banco Itaú BBA	Aug-15	final	Endorsement of Energisa S.A	20	US dollar	+	3.25%	18.36%	(1)

(1) - Includes a 25% and 15% bonus on interest for investments in return for performance in and out of the semi-arid region respectively.

(2) – With Swap.

The main indicators used to restate the loans and financing presented the following percentage variations in the year:

Currency/indicators	2013	2012
USD x R$	14.64%	8.94%
TJLP	5.00%	5.50%
SELIC	8.22%	8.49%
CDI	8.06%	8.40%
IPCA	5.91%	5.84%
IGP-M	5.53%	7.81%

As of December 31, 2013, the maturities of the long-term financing are scheduled as follows:

	2013
2015	17,912
2016	3,862
2017	3,971
2018	4,960
2019	4,474
2019 onwards	7,443
	42,622

See the changes in the financial years ended 2013 and 2012:

Description	2013	2012
Balances in 2012 and 1/1/2012	**43,456**	**30,471**
New loans and financing obtained	10,857	19,638
Debt charges - interest, monetary and exchange variance	6,101	3,852
Principal payment	(2,389)	(8,197)
Interest payments	(3,029)	(2,308)
Balances in 2013 and 2012	**54,996**	**43,456**
Current	12,374	4,006
Noncurrent	42,622	39,450

18. Taxes and Payroll Contributions

	2013	2012
ICMS	3,959	3,901
Social Charges	306	257
IRPJ	1,995	2,761
CSSL	868	1,733
PIS / COFINS	2,785	2,515
IRRF	183	50
Other	177	112
Total	**10,273**	**11,329**
Current	7.550	9.475
Noncurrent	2,723	1,854

19. Provisions for labor, civil and tax risks.

Based on the opinion of its legal advisors, Company Management made a provision for labor, civil and tax contingencies, as shown below:

	Opening balance 2012	Provisions made	Reversal of provisions	Restatement	Closing balance 2013
Labor claims	469	324	(417)	30	406
Civil	1,857	1,184	(498)	99	2,642
Tax	817	-	(133)	45	729
Total	**3,143**	**1,508**	**(1,048)**	**174**	**3,777**
Restricted and escrow deposits (*)	(603)	-	-	-	(645)

	Opening balance 1/1/2012	Provisions made	Reversal of provisions	Restatement	Closing balance 2012
Labor claims	236	298	(83)	18	469
Civil	1,831	574	(652)	104	1,857
Tax	843	-	(74)	48	817
Total	**2,910**	**872**	**(809)**	**170**	**3,143**
Restricted and escrow deposits (*)	(1,197)	-	-	-	(603)

(*) The Company has restricted and escrow deposits in its noncurrent assets of R$ 5,252 (R$ 5,313 in 2012). Provisions for contingencies have not been made for R$ 4,607 (R$ 4,710 in 2012) as the chances of success are rated as possible or probable.

The amount of R$ 677 (R$ 577 in 2012) was paid in the financial year, consisting of labor claim settlements of R$ 153 (R$ 362 in 2012) and civil claim compensation of R$ 524 (R$ 215 in 2012).

Provisions for success fees were made in the year for proceedings rated as possible and remote defeats of R$ 204 (R$ 120 in 2012) in the statements, recorded under trade payables.

<u>Probable losses:</u>

Labor claims

Most of these lawsuits involve claims for overtime, salary parity, FGTS (Government Severance Indemnity Fund for Employees) and contractual/legal fees.

Civil

The civil proceedings are mainly disputing indemnification for moral and material damages and consumer complaints involving energy debits. Lawsuits have also been filed by consumers claiming reimbursement of amounts paid to the Company resulting from rate increases introduced under DNAEE Ordinances 38 and 45 applied during the term of the Cruzado Plan in 1986. A provision has been made for the amount of the rate increase of R$ 39.

Tax

Refers to disputes related to INSS and ISS. The requirement to pay the liabilities has been stayed under the proceedings, either because the administrative proceedings are in progress or because the tax enforcements in progress have been duly guaranteed.

Company management holds all the other provisions made are sufficient to cover any losses arising from the proceedings in progress. Based on the opinion of said legal advisors, provisions have been made for all legal proceedings for which the likelihood of a future disbursement has been rated as probable.

<u>Possible losses:</u>

The Company is party to labor, civil and tax claims in progress amounting to R$ 15,001 (R$ 15,633 in 2012), where the chance of success has been estimated by the legal advisors as possible, meaning no provision was required.

See below the comments of our legal advisers regarding cases rated as a possible risk:

Labor claims

Labor claims amounting to R$ 528 (R$ 191 in 2012) consist of the following: overtime, danger hazard allowances, "on call" hours, indemnity for work-related accidents, in addition to claims from former employees of service providers hired by the Company, claiming joint liability for severance pay and salaries and charging union fees.

Civil

Civil labor claims amounting to R$ 1,921 (R$ 7,187 in 2012) primarily consist of the following: (i) revision or cancellation of electricity invoices due to the uncertainty of the amount; (ii) indemnification due to the suspension of the electricity supply due to non-payment, irregularities in meters, surges in voltages or temporary blackouts; and (iii) regulatory fines originating from inspections conducted by the concession authority which are undergoing administrative defense.

Tax

The tax and labor claims amounting to R$ 12,552 (R$ 8,255 in 2012) basically consist of disputes about: (i) ICMS on energy sales; (ii) offsetting and appropriation of ICMS credits; (iii) rate differential; and (iv) income and social contribution taxes, amongst others.

20. Shareholders’ equity

20.1. Capital

The Company’s paid-in and subscribed capital of R$ 62,752 (R$ 57,017 in 2012) is comprised of 292,919 registered common shares with no par value.

The Extraordinary General Meeting held April 24, 2013 approved: (i) to increase the Company's capital by R$ 5,735 without new shares being issued, via capitalization of the balance of the profits reserve - Tax Incentive - Income Tax Decrease, resulting in a share capital of R$ 62,752; (ii) cancellation of 21 common shares and 207 preferred shares held in the treasury for R$ 50, to be absorbed by the capital reserve - remuneration reserve for property, plant and equipment in progress; and (iii) conversion of all preferred nominative shares of the Company into common nominative shares, at the rate of one to one, with the aforesaid capital now consisting of 292,919 common nominative shares with no par value.

Irrespective of amendments to the bylaws, the Company may increase its share capital through subscription to the limit of 540,000 shares, where the Board of Directors shall resolve the means, subscription terms and payment terms of the shares and the features of the shares to be issued and the issue price.

20.2. Capital reserve - special goodwill reserve

Made as a result of the takeover of the parent company. As mentioned in note 13, this represents the tax benefit of the goodwill which will be incorporated to the Company’s share capital, as and when it obtains the tax benefit as a result of amortizing the portion corresponding to the goodwill which originated it.

20.3. Profit reserve - legal reserve

Allocated 5% of the net income for the year prior to any other allocations, limited to 20% of the share capital.

20.4. Profit reserve - income tax reduction reserve

As it operates in the infrastructure sector of the North-East region, the Company obtained a reduction to the income tax payable for the purposes of investments in projects expanding its installed capacity, as determined by article 551 (3) of Decree 3000, dated March 26, 1999.

This reduction was approved by Constitutive Report 206/2012 – SUDENE, which imposes a number of obligations and restrictions:

(i) The amount obtained as a benefit cannot be distributed to the shareholders

(ii) The amount should be recorded as a capital reserve and capitalized by December 31 of the successive year and/or used to offset losses, and

(iii) The amount should be invested in activities directly related to production in the region embraced by the tax incentive.

Following the enactment of Law 11638/07 and Law 11941/09, the tax incentives are now recorded in the income statement for the year and subsequently transferred to the profits reserve and income tax reduction reserve. The Company obtained an income tax and surcharge reduction of R$ 1,825 (R$ 5,735 in 2012) in the year ended December 31, 2013.

20.5. Dividends

The Companies' corporate bylaws determine the distribution of a mandatory dividend of 25% of the net income for the year, adjusted as stipulated by article 202 of Law 6404/76, and allows dividends to be paid out in interim results.

Management is proposing to pay out the following dividends:

	2013	2012
Net income for the year	9,533	28,961
Expired dividends	-	72
Legal reserve (5%)	(477)	(1,448)
Profit reserve - income tax reduction reserve	(1,825)	(5,735)
Adjusted net income	**7,231**	**21,850**
Mandatory dividends (25%)	1,808	5,463
Prepaid dividends paid (*):		
. Paid in December 2012 - R$ 5.1943 per share	-	1,522
. Paid in January 2013 - R$ 13.6557 per share	-	4,000
. Paid in June 2013 - R$ 13.1708 per share	3,858	-
. Paid in August 2013 - R$ 11.4706 per share (August 2012 - R$ 37.8400 per share)	3,360	11,084
	7,218	**16,606**
Additional dividends proposed: R$ 0.04 (R$ 17.9028 in 2012) per share (**):	13	5,244
Total dividends	**7,231**	**21,850**
% over adjusted net income	100	100

(*) The prepaid dividends approved by the Board of Directors meetings held June 13 and August 08, 2013 (August 09 and December 20, 2012) were calculated on the net income based on the balance sheet as of March 31 and June 30, 2013 (June 30 and September 30, 2012).

(**) The additional dividends proposed were recorded in the specific item dividends payable in shareholders' equity, in accordance with ICPC-08 (R1) standards and will be paid on a date to be defined at the Board of Directors meeting.

21. Operating revenue

	2013			2012		
	Not audited by the independent auditors			Not audited by the independent auditors		
	No. of consumers	MWh	R$	No. of consumers	MWh	R$
Residential	156,916	220,371	84,701	149,385	201,292	84,229
Industrial	606	214,794	57,530	620	214,781	66,397
Commercial	14,400	142,199	51,599	14,120	131,470	54,065
Rural	14,142	24,377	6,470	13,616	22,921	4,393
Government:						
Federal	112	19,121	6,790	107	17,482	7,211
State	274	7,448	2,636	261	6,810	2,799
Municipal	999	5,840	2,077	952	5,339	2,206
Public Lighting	52	27,636	6,036	51	23,986	5,775
Public Utility	59	11,220	2,616	58	11,124	2,588
Internal Use	10	270	-	6	257	-
Subtotal	**187,570**	**673,276**	**220,455**	**179,176**	**635,462**	**229,663**
Revenue from Remuneration of Concession Assets	-	-	1,459	-	-	1,054
Electricity sales to distributors	1	2,545	6,517	1	18,432	9,150
Sales not invoiced (net)	-	993	(562)	-	6,989	1,503
Provision of the transmission and distribution system	-	-	461	-	-	150
Construction Revenue	-	-	14,072	-	-	21,452
Other operating revenue	-	-	1,702	-	-	1,582
Total - gross operating revenue	**187,571**	**676,814**	**244,104**	**179,177**	**660,883**	**264,554**
Deductions from operating revenue						
ICMS	-	-	48,721	-	-	46,614
PIS	-	-	3,731	-	-	3,921
COFINS	-	-	17,187	-	-	18,060
ISS	-	-	63	-	-	59
Quota for RGR	-	-	(460)	-	-	1,474
Energy Efficiency Program - PEE	-	-	778	-	-	811
Energy Development Account - CDE	-	-	414	-	-	1,452
Energy Development Account - CCC	-	-	257	-	-	4,477
Research and Development Program – P&D	-	-	1,365	-	-	1,297
Excess demand revenue and surplus reactive energy	-	-	781	-	-	-
Total	-	-	72,837	-	-	78,165
Total - net operating revenue	**187,571**	**676,814**	**171,267**	**179,177**	**660,883**	**186,389**

22. Operating costs and expenses

The operating costs and expenses specified in the income statement for the year are broken down into the following types of expenses:

TYPE OF EXPENSE	COST OF SERVICE			OPERATING EXPENSES		TOTAL	
	ELECTRICITY	OPERATION	PROVIDED TO THIRD PARTIES	SALES	GENERAL AND ADMIN.	2013	2012
Electricity purchased for resale (*)	94,104	-	-	-	-	94,104	75,994
Charge for using transmission and distribution system (*)	12,632	-	-	-	-	12,632	19,047
Personnel and management	-	7,013	11	2,591	5,417	15,032	15,456
Private pension fund	-	-	-	6	60	66	60
Material	-	312	21	800	225	1,358	1,524
Outsourced services	-	643	45	2,536	8,555	11,779	12,518
Depreciation and amortization	-	4,620	-	4	624	5,248	4,691
Allowance for doubtful accounts	-	-	-	189	-	189	66
Provisions for labor, civil and tax risks	-	-	-	-	460	460	63
Construction cost	-	-	14,072	-	-	14,072	21,452
Other	-	883	2	118	1,921	2,924	1,786
	106,736	**13,471**	**14,151**	**6,244**	**17,262**	**157,864**	**152,657**

(*) R$ 7,381 and R$ 13,558 deducted referring to CDE funds to be passed through by Eletrobrás to the Electricity Trading Chamber to cover the electricity acquisition and system service charges - ESS as a result of energy security, the hydrological risk and involuntary exposure in the spot market.

The Company recorded the amounts as a reduction to the purchased energy costs and system service charges, in accordance with Aneel Notice 1135 issued April 17, 2013.

23. Other income

	2013	2012
Gains on the deactivation/sale of assets and rights	1,337	1,793
Losses on the deactivation/sale of assets and rights	(924)	(4,374)
Total	**413**	**(2,581)**

24. Finance income and finance costs

	2013	2012
Revenue on short-term investments	1,354	1,130
Monetary variation and arrears surcharge on energy sold	2,680	2,527
Restatement of accounts receivable from the concession - VNR	(847)	1,214
Other financial revenue	2,136	856
Total financial revenue	**5,323**	**5,727**
Debt charges - interest	(3,164)	(2,721)
Exchange and monetary variance	(2,937)	(1,131)
(-) Transfer to orders in progress	275	674
Mark-to-market of derivatives	(1,081)	758
Derivative financial instruments	2,300	608
Present value adjustment of assets	(1,161)	354
Bank expenses	(521)	(548)
Endorsement commission	(305)	-
Other financial expenses	(961)	(818)
Total financial expense	**(7,555)**	**(2,824)**
Net financial income (expenses)	**(2,232)**	**2,903**

25. Earnings per share

The Company did not change the number of shares in its share capital. The basic and diluted net income per share is therefore being calculated according to the number of shares in circulation at the end of the year, i.e. 292,919 common shares.

26. Insurance coverage

The civil liability and named risk policies are taken out in conjunction with the other Energisa Group companies and the maximum indemnification amounts are stated in the insurance coverage.

The main items covered are:

Lines	Date of Maturity	Amount Insured	Annual Premium 2013	Annual Premium 2012
Operating Risks	10/23/2014	35,320	29	36
General Civil Liability	10/23/2014	50,600	46	40
Automobiles – Third party material and personal damages	10/23/2014	Up to R$ 360,000 /Vehicle	31	26
Collective life insurance – Personal Death and Accidents	12/31/2014	10,936	48	44
			154	**146**

Nominated Risks

The insurance policy specified the substations, buildings and equipment and the respective insured values and the indemnification limits. It has basic coverage including fire, lightning strike and explosions of any nature, electrical damages, hurricanes, aircraft crash, collision by air or ground vehicle, commotion, flooding/water damage, minor engineering work, extraordinary expenses inclusion / exclusion of assets and sites, mistakes and omissions.

Civil Liability

The insurance policy covers moral hazard, material and personal damages to third parties resulting from the Company's operations.

Vehicles

The Company has insurance coverage for RCF/V – Optional/Vehicle Civil Liability, guaranteeing coverage of personal and/or material damages incurred by third parties involved in accidents.

Collective Life Insurance and Personal Accidents

Guarantees insurance coverage for its employees in the event of death by any cause, full or partial permanent disability due to accidents and permanent and/or total disability due to illness.

27. Financial instruments and risk management

The book and fair values of financial instrument assets and liabilities have been compared below:

	2013		2012	
ASSETS	**Book**	**Fair value**	**Book**	**Fair value**
Cash and cash equivalents	13,385	13,385	7,968	7,968
Money market and secured funds	7,387	7,387	6,015	6,015
Consumers and concessionaires	23,202	23,202	33,644	33,644
Credit receivables	6,325	6,325	6,987	6,987
Accounts receivable from the concession	22,709	22,709	19,468	19,468
Derivative financial instruments	3,407	3,407	1,621	1,621
LIABILITIES				
Suppliers payable	15,267	15,267	14,491	14,491
Loans, financing and debt charges	54,996	54,996	43,456	44,611

In compliance with CVM Instruction 475/2008 and Resolution 604/2009, the description of the book balances and the fair values of the financial instruments included in the balance sheet at December 31, 2013 and 2012 are shown below:

Nonderivatives - classification and measurement

Loans and receivables

Includes trade accounts receivable, consumers and concession operators, outstanding receivables, other receivables and accounts receivable of the concession. They are initially measured at amortized cost using the effective interest rate, and their balances are approximated to fair value.

Money market and secured funds

The balances of short-term investments in Bank Deposit Certificates and investment funds are valued at fair value through profit and loss, except when held to maturity, when the Company has the intention and financial ability to hold them to maturity. Subsequent to initial valuation, these assets are recorded at amortized cost at the effective interest rate method, less any impairment.

Available-for-sale financial assets

Available-for-sale financial assets are nonderivative instruments not classified as: (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

After initial measurement, available-for-sale financial assets are measured at fair value, with unrealized gains and losses directly recognized as other comprehensive income until the investment is derecognized, with the exception of impairment losses, interest calculated by the effective interest method and exchange variance gains and losses on monetary assets, which are recognized directly in profit or loss for the year.

Financial liabilities measured at amortized cost:

Suppliers payable - stated at the known amounts or estimated, plus, when applicable, the corresponding charges and/or monetary and exchange variations incurred up to the balance sheet date, where the book value approximates fair value.

Loans, financing, debt charges and debentures - These financial instruments are classified as financial liabilities at amortized cost. The book values of the local-currency loans and financing obtained from Eletrobrás, BNB and BNDES and loans from commercial banks compatible with the fair value of the transactions, as similar transactions are not available on the financial market, with comparable maturities and interest rates. The fair value of the financial liabilities traded in active markets is determined based on the prices observed in said markets (source: CETIP). For financial instruments with no active market, i.e. FIDC, the Company determined the fair value as the equivalent of the instrument's carrying amount.

Derivatives
The estimated fair values of the financial assets and liabilities were determined through information available in the market and appropriate valuation methodologies.

The Company has the policy of managing market risks, thereby avoiding assuming material positions exposed to fair value fluctuations. They therefore only seek to use instruments which provide greater risk control. The derivative contracts involve swap operations and options with interest and exchange rates, in order to counter the exposure to changes in US dollar exchange rate and to bring the debt cost in line with market trends.

The hedge transactions against adverse exchange variance require constant monitoring in order to preserve the efficiency of their structures. The transactions in force are subject to restructuring at any time and can be reversed or subject to additional transactions in order to reduce potential material losses.

- **Uncertainty**

The amounts were estimated at the reporting date based on information available in the market and appropriate appraisal techniques. However, considerable judgment was required in the interpretation of the market data to estimate the most adequate fair value. Consequently, the estimates used and presented below do not necessarily indicate the values that could be realized in the current exchange market.

- **Financial risk management**

The Board of Directors is generally responsible for establishing and supervising the Company's risk management model. The Company has therefore implemented operating limits with pre-established amounts and indicators in the "Financial Risk Management policy" (reviewed annually and available on the Company's site, reviewed last on 12/20/2012) and in the internal regulations of the Executive Board of the Company.

The Company's risk management aims to detect, analyze and monitor risks encountered, in order to establish limits and check compliance with them. Risk management policies and systems are reviewed regularly in order to evaluate changes in market conditions and the Company's activities. The Executive Board issues a monthly report on budgetary performance and risk factors involving the Company.

The Company has been using the services of a specialized, independent company in cash and debt risk management, which means that the main macroeconomic indicators and their impact on results are monitored on a daily basis, in particular derivative transactions. This allows contracting and repositioning strategies to be devised, pursuing low risk and higher financial income.

Capital Risk

The debt index at the end of the year is the following:

	2013	2012
Debt (a)	54,996	43,456
Cash and cash equivalents	(13,385)	(7,968)
Net debt	41,611	35,488
Net equity (b)	95,261	98,190
Net debt index	0.44	0.36

(a) The debt is defined as short and long-term loans, financing and debentures (excluding derivatives and financial surety contracts), as detailed in notes 17.
(b) The shareholders' equity includes the entire capital and reserves of the Company, managed as capital.

a) Liquidity risk

By way of the projected cash flow, Management schedules its obligations to generate financial liabilities to the flow of receipts or sources of financing in order to ensure the greatest possible liquidity so as to honor its obligations, thereby avoiding default which hinders the operational progress of the Company.

The financial liabilities, including estimated interest payments, are as follows. Significant changes in the analyzed cash flows are not expected.

	Up to 6 months	6 to 12 months	1 to 3 years	3 to 5 years	Over 5 years	Total
Suppliers payable	14,864	-	-	-	403	15,267
Loans, financing and debt charges	13,056	3,211	26,915	12,005	14,252	69,439

b) Credit risk

Management believes the risks posed by its interest-earning bank deposits are minimal, as there is no concentration and transactions are conducted with banks which assess risk in accordance with the “Financial Risk Management policy”. The Board of Directors' Audit Committee was convened in the first quarter of 2010 to oversee the group's management, according to the rules and principles established in the policy.

The credit risk is posed by accounts receivable, which however is mitigated by sales to a broad consumer base and legal prerogatives which allow the provision of services to defaulting clients to be suspended. Part of the receivables referring to sales, energy acquisition and system service charges, incurred at CCEE, are also subject to change depending on the outcome of legal proceedings in progress, filed by a number of companies in the sector. These proceedings have resulted from the interpretation of market rules in force between June 2001 and February 2002, during which the Emergency Electricity Rationing Program was in force.

Exposure to credit risks

The book value of the financial assets denotes the maximum credit exposure. The maximum exposure to the credit risk at the reporting date was:

ASSETS	2013	2012
Cash and cash equivalents	13,385	7,968
Money market and secured funds	7,387	6,015
Consumers and concessionaires	23,202	33,644
Credit receivables and other	6,325	6,987
Accounts receivable from the concession	22,709	19,468
Derivative financial instruments	3,407	1,621

Further information about these credits can be seen in notes 5, 6, 7, 14 and 27.

c) Interest and exchange rate risk

Part of the local-currency loans and financing presented in note 17 consist of financing from several national development agencies (Eletrobrás and BNDES) and other financial institutions in the capital market. The interest rate is defined by these Agents, taking into account the underlying interest rate, the risk premium compatible with the financed companies, their guarantees and the sector they are engaged in. In the event it is not possible to acquire other alternatives or different market hypotheses and/or methods for their estimates, in view of the subsidiaries' business and sector specifics, these are measured by the amortized cost method at the contractual rates.

The Company is always looking for opportunities to renew these hedge instruments, in order to structure instruments which will ensure the continuity of these existing hedge mechanisms, and may adopt other mechanisms which prudently balance risk and cost.

The Company's earnings are is susceptible to variations due to the volatility of the exchange rate on the sale of options underlying swaps of liabilities denominated in foreign currencies, mainly the US dollar. The US dollar exchange rate closed the year ended December 31, 2013 up by 15% over December 31, 2012, quoted at R$ 2.3420 / USD. The annual volatility of the US dollar as of December 31, 2013 was 13.38%, compared with 6.00% as of December 31, 2012.

R$ 23,763 of the Company's bank debt as of December 31, 2013 totaling R$ 55,115 (R$ 43,603 in 2012), R$ 23,763 consists of US dollars is denominated in US dollars deriving from loans from Bank of America Merrill Lynch and Itaú BBA of USD 10.1 million (principal of USD 10 million). The loans have a long term maturity (in Jan/14 and Aug/15 respectively) and costs of up to USD plus 4.33% per annum.

The balance sheet as of December 31, 2013 presents R$ 3,407 in the noncurrent assets (R$ 1,621 in 2012) referring to the mark-to-market of the financial derivatives related to the foreign exchange rate and interest, resulting from a combination of factors usually adopted for the mark-to-market of these instruments, such as volatility, currency coupon, interest rates and the US dollar exchange rate. This is not a material liability, because the reversal value of derivatives at the calculation date is estimated, which does not correspond to the hedge objective. The mark-to-market entries made in the financial statements are reversed when the caps established for the existing operations are not exceeded, as shown below. Moreover, further deterioration of the volatility, the currency coupon and the f/x rate could result in the amounts recorded increasing.

The Company has hedged the aforementioned US dollar positions against adverse exchange variance. These hedges are split into the following instruments:

Debt	Notional (USD)	Financial Cost	Maturity	Cap
Loan 4131	4.000		1/17/2014	2.8006(Jan -14)
Receivable Position		Libor + 2.15%		
Liability Position		98.0% CDI		
Loan 4131				
Itaú BBA	6,000		8/17/2015	2.85(Aug -15)
Receivable Position		VC + 4.33%		
Liability Position		100% CDI		

Company Management monitors changes in the market, so that these hedge transactions may be restructured and their terms even extended depending on the performance of the exchange rate (R$/USD), in terms of volatility and stabilization level. Company management sought to replace complex derivatives with simpler structures and greater liquidity, with a view to lower risk exposure. On September 13, 2013 Energisa Management accordingly raised the caps maturing in 2014 of the swaps associated with loans 4131, in order to mitigate the risk of losses due to an increase in the dollar exchange rate, in the event the market was agitated by the presidential elections and other events taking place both domestically and overseas. The new swap caps are shown in the table below:

Distributor	Maturity	Notional (USD thousand)	Previous Strike	Current Strike (post adjustment)
BORBOREMA	1/17/2014	4,000	2,650	2,806

In accordance with CPC 40, the values of the Company ' derivative financial instruments as of December 31, 2013 and 2012 are summarized below:

			2013	2012
Swap with options – Itaú BBA and Merrill Lynch	Notional (BRL)	Receivable Position		
		Foreign Currency - USD and LIBOR	31,837	29,370
	26,600	Liability Position		
		CDI Interest Rate	(27,631)	(27,471)
		Foreign Currency Options (USD)	(799)	(278)
		Total Swap Position with Options	3,407	1,621

The Company calculated the Fair Value of the derivatives as of December 31, 2013 and 2012 based on the market price quotes for similar contracts. Their variance is directly associated with the variance of the debt balances listed in the note 17 and the positive performance of the hedge mechanisms used, as described above.

The Company does not intend to settle these contracts before maturity. It also has different expectations for the results presented as Fair Value – as shown below. To ensure perfect management, daily monitoring is conducted in order to keep risk to a minimum and obtain better financial results.

The mark-to-market (MtM) of the Company's operation was calculated by an accepted method generally used by the market. The method basically consists of calculating the future value of the operations agreed in each contract, discounting the present value at market rates. A variant of the Black & Scholes formula is used to calculate the MtM of options. This formula is normally used to calculate the premium on currency options. The data used in these calculations was obtained from reliable sources. The market rates, such as the fixed rate and dollar coupon, were obtained directly from the BM&F site (Market Rates for Swaps). These rates are shown below with monthly frequency and embrace the period October 01, 2013 through maturity of all derivative operations. The Ptax exchange rate was obtained from the Central Bank's site. The implicit dollar volatility for options were obtained from BMF.

Sensitivity Analysis

In accordance with CVM Resolution 603/09, the values of the Company's financial derivatives as of December 31, 2013 and 2012 have been summarized as follows:

(1) Exchange variance

If the exchange exposure as of December 31, 2013 were maintained, and the effects on the future financial statements simulated by type of financial instrument and for three different scenarios, the following results would be obtained (restated as for the reporting date):

Operation	Exposure	Risk	Scenario I (Probable) (*)	Scenario II (Deterioration of 25%)	Scenario III (Deterioration of 50%)
Financial instruments - Loans	23,763		1,401	(4,313)	(10,027)
Swap with Options					
Receivable position - Foreign Currency - USD and LIBOR	31,837		22,855	28,569	34,283
Payable Position - CDI Interest Rate	(27,631)	Higher f/x rate	(20,049)	(20,049)	(20,049)
Foreign Currency Options - USD	(799)		-	(1,417)	(6,805)
Total			**4,207**	**2,790**	**(2,598)**

(*) Considers the macroeconomic scenario presented by the Focus Survey as of December 31, 2013 for the future dates until the final settlement of the operations.

In the "Probable Scenario", calculated based on the net analysis of the above operations until the maturity thereof, adjusted to present value by the fixed rate in Brazilian reais as of December 31, 2013, the derivatives are effective, which is reflected in the positive present value of R$ 4,207, that shows how the adverse exchange variance in existing debts was mitigated. The higher the exchange devaluation (risk variable considered), the higher the gain of the swaps will be, providing the derivative caps are not exceeded, which would leave the Company with no hedge protection. However, there would be a positive present value of R$ 2,790 and negative value of R$ 2,598 in the scenarios where the Brazilian real lost 25% and 50% against the US dollar, a scenario in which some of the current caps would be exceeded.

(2) Interest rate variance

Considering the exposure of financial instruments indexed to interest rates in 2013 is maintained and the respective accumulated annual indexes are (CDI 10.47%, LTIR 5% and North-East Constitutional Fund – FNE 8% p.a.) and if the indexes vary in accordance with the three scenarios defined, the net financial result would be affected by:

Instruments	Exposure (R$ thousand)	Risk	Scenario I (Probable)(1)	Scenario II (Deterioration of 25%)	Scenario III (Deterioration of 50%)
Receivable financial instruments:					
Money market and secured funds	17,291	Increase in CDI	1,796	2,244	2,693
Payable financial instruments:					
Loans and financing (2)	(5,047)	Increase in CDI	(532)	(665)	(798)
	-	Increase in LTIR	-	-	-
	(14,549)	Increase in FNE	(938)	(1,173)	(1,408)
Subtotal (**)	(19,596)		(1,470)	(1,838)	(2,206)
Total	**(2,305)**		**326**	**406**	**487**

(1) Considers the CDI at December 31, 2014 (10.47% p.a.), quote of the estimates presented by the recent BACEN survey, dated December 31, 2013, TJLP of 5% p.a. and FNE of 8.0% p.a. (Loans contracted from Banco do Nordeste already reflecting the performance bonus).

(2) Does not include dollar transactions worth R$ 23,763.

Fair value hierarchy

The table below presents the financial instruments recorded at fair value by a valuation method.

The different levels were defined as follows:

- Level 1 - Prices quoted (in adjusted) in active markets for identical assets and liabilities
- Level 2 - Inputs, except for quoted prices, included in Level 1 that are observable for the assets and liabilities, directly (prices) or indirectly (derived from prices)
- Level 3 - Premises, for the asset or liability, that are not based on observable market data (unobservable inputs).

Financial instruments	Level	2013	2012
Assets			
Money market and secured funds	2	7,387	6,015
Derivative financial instruments	2	3,407	1,621
Accounts receivable from the concession	3	22,709	19,468

28. Employee benefits

a) Retirement and pension supplementation plan

The Company sponsors fixed-benefit pension plans for its employees. The defined-benefit plan undergoes an actuarial assessment at the end of each financial year, in order to ascertain whether the contribution rates are sufficient to establish the reserves required to meet the current and future payment commitments.

Beneficiary Plan	Annual contribution		% over payroll	Actuarial surplus	
	2013	2012		2013	2012
BD Previdência	95	93	1.19	3,782	4,321

The Surplus referring to the plan has not been recorded.

The technical reserves required by the regulations laid down by SPC – Supplementary Pensions Office are determined by an actuary of BD Previdência.

The actuarial position of the liabilities related to the retirement plan as of December 31, 2013 and 2012 are shown below, in accordance with the rules established by CVM Resolution 695. The Projected Credit Unit Method was used to determine the actuarial deficit:

	2013	2012
Present value of actuarial obligations	(3,493)	(4,081)
Fair value of the plan's assets	7,275	8,402
Present value of the obligations in excess of the fair value of the assets	3,782	4,321
Net asset	**3,782**	**4,321**

Statement of the expenses for the 2014 financial year according to the criteria of CVM Resolution 695:

Current service cost	124
Interest cost	375
Expected return on the plan's assets	(805)
Remeasurement of financial cost	46
Employee contributions	(63)
Revenue projected for 2014	**(323)**

Statement of the change in the sponsor's net deficit in the year:

	2013	2012
Net actuarial asset at the start of the year	4,321	2,633
Current revenue	271	236
Company Contributions	59	61
Other comprehensive income	(869)	1,391
Net actuarial asset at year-end	**3,782**	**4,321**

As of December 31, 2013 and 2012 the statement of the fair value of the assets is presented as follows:

	2013	2012
Fair value of assets at start of year	8,402	7,239
Benefits paid	(273)	(448)
Participant contributions in the year	69	73
Sponsor contributions invested in the year	59	61
Effective return on assets	692	706
Actuarial gains (losses) of the assets	(1,674)	771
Fair value of the assets	**7,275**	**8,402**

As of December 31, 2013 and 2012 the statement of the present value of the obligations is presented as follows:

	2013	2012
Balance at beginning of year	4,081	3,695
Benefits paid in the year	(273)	(448)
Interest on actuarial obligation	322	398
Current service cost (including interest)	205	183
Gains (losses) on actuarial obligations	(842)	253
Balance at end of year	**3,493**	**4,081**

A description follows of the assumptions made in the actuarial appraisal:

Economic hypotheses

Actuarial discount rate	6.41% p.a. (does not include inflation)
Expected rate of return on assets	7.12% p.a. (includes inflation).
Benefit readjustment	Inflation only
Wage growth	0.5% p.a. above inflation
Projected inflation	6% p.a.

Demographic Hypotheses

Mortality table	AT-83
Mortality table of disabled people	IAPB-57
Disability rate table	IAPC

A summary follows of the data used to actuarially appraise the benefit plans offered by Energisa BO to its employees:

Description	
Active Participants	
Number	55
Average Age	42.98
Participation time (years)	16.80
Participant's Average Salary	R$ 2.811
Assisted Participants	
Number	7
Average Age	65.99
Average Monthly Benefit	R$ 2.384
Pensioners	
Number of Pensioners	3
Average Benefit per Family Group	R$ 0.336

b) Healthcare plan

The Company sponsors its employees' health insurance plans, which are managed by operators regulated by the National Health Agency (ANS). Upon termination of employment or retirement, employees may retain their health insurance plans provided they assume all the costs; the Company has no post-employment ties with or obligations to employees.

Expenses were incurred on this benefit of R$ 752 in FY 2013 (R$ 650 in 2012).

29. Commitments

The Company has the following commitments under long-term energy acquisition contracts:

Energy purchase contract - reais thousand						
Term	2014	2015	2016	2017	2018	2018 onwards
2014 to 2046	82,005	75,159	76,542	71,839	72,043	1,060,046

The amounts referring to energy acquisition contracts lasting between 8 and 30 years represent the volume contracted at the current price at the end of FY 2013, which have been ratified by ANEEL.

- This does not include the Proinfa and Itaipu quotas.

30. Electricity distribution concession arrangement

ANEEL Concession Contract 08/2000 was executed on February 04, 2000 by which the concession authority awarded the electricity distribution concession in the municipalities of Campina Grande, Lagoa Seca, Queimadas, Fagundes, Massaranduba and Boa Vista, in the state of Paraíba, for the term of 30 years, as from execution of this contract.

31. Environment

The Company handles the social and environmental impacts caused by its services and facilities through programs and practices that evidence its concern about and responsibility for the environment, including:

1. Insulated grids: insulated cables are used in grids where trees could be more affected by contact with the low-voltage cables and the dimensions of paths try to preserve the ecological balance as far as possible. Protected cables are also used in medium-voltage grids close to trees, in order to avoid undesirable pruning.

2. Grids and lines: the company conducts environmental impact studies on grids and lines that cross areas of forest or other types of permanent preservation areas and presents any mitigating and/or compensatory measures to be implemented during installation, as stipulated in the Brazilian Distribution Regulations and those adopted by the Company.

3. In addition to the simplified environmental reports - RAS, for the construction of substations Environmental Feasibility Study - EVA, Environmental Control Plan - PCA and Environmental Inspections are conducted.

4. Fostering of environmental education, in order to raise awareness of employees and the community as to how to use natural resources more rationally and sustainably and to optimize the living standards of employees, suppliers and the community.

5. Operation of the Integrated Health, Safety and Environment Management System compliant with OHSAS 18001 – Health and Safety and ISO 14001 – the Environment, a tool for mitigating risks in our daily operations and preventing occupational injuries and health issues.

6. The systematic and permanent analysis of samples of insulating oil, ensuring there are no signs of askarel and/or impurities, in order to eliminate them from the company's equipment, thereby ensuring performance with legal requirements.

7. Waste disposal and treatment: in addition to ascertaining the nature and amount of waste generated during the production process, there are procedures for handling, transporting and disposing of products. The Company is aware of its environmental responsibilities, and is therefore regenerating insulating oil used in its equipment and recovering industrial lubricating oil, ensuring

the recycling of this material and avoiding environmental pollution. We provide recycling bins for bulbs, batteries and cartridges for employees to deposit their waste in and adequately dispose of it through duly licensed companies.

8. Implementation of water and energy consumption reduction campaigns, education based on the 3Rs (Reduce, Reuse and Recycle) and education for conscious consumption by distributing leaflets and presenting lectures at schools (Water Day, Environmental Week) and internal disclosure (intranet, stickers and notices put up by the company and screensavers).

9. Retain suppliers that are proven to have good environmental conduct and inform partners and clients about the good practices implemented by the company to preserve and protect the environment and life.

10. Proceed in conjunction with the municipal authority to include tree compatibility in the planning of works and provide training for people in the correct procedures for pruning trees.

11. Proceed in conjunction with the municipal authority to include tree compatibility in the planning of works and in conjunction with universities and environmental authorities to provide support for training people in the correct procedures for pruning trees.

12. Energy Efficiency, which has helped educate the population about the rational and efficient use of electricity, cutting electricity consumption, by replacing bulbs, donating efficient equipment and adapting internal electric facilities, and in specific cases installing electricity meters in impoverished communities.

13. Conta Cidadã project: whereby recyclable waste is exchanged for credits on the electricity bills of consumers, the materials collected in the process going to supply the recycling industry.

14. The preventive and corrective maintenance program plays an important role in the reduction of the levels of atmospheric pollution.

15. Sponsorship of the CONTRAMAERE Cooperative organized by UFCG - the Federal University of Campina Grande, that operates in the central plateau region of Borborema, in Campina Grande. It has the mission of conducting research and recycling solid waste.

16. The Operation of the Substations uses the Background Noise report and the Electromagnetic Conformity Report.

In FY 2013 the investment in the aforesaid projects amounted to R$ 814 (R$ 467 in 2012), R$ 806 (R$ 461 in 2012) of which was allocated to property, plant and equipment and R$ 8 (R$ 6 in 2012) to operating expenses.

The nonfinancial information was not examined by our independent auditors.

32. Additional information to the cash flows

In the financial year ended December 31, 2013 and 2012 equity changes not affecting the Company's cash flows are as follows:

	2013	2012
Operating activities		
Accounts receivable from the concession	4,021	12,761
Restatement of accounts receivable from the concession - VNR	(847)	1,214
Suppliers payable	1,533	761
Investment activities		
Intangible assets and PPE	1,201	1,713
Financing activities		
Loans and financing	857	278
Capitalization of reserves	5,735	4,778

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