Eólica Paraíso S.A.

Financial statements

December 31, 2017

Contents

Independent Auditor's Report in the Financial Statements

To the Board Members and Directors of

Eólica Paraíso S.A.

São Paulo - SP

Opinion

We have audited the financial statements of Eólica Paraíso S.A. ("Company"), which comprise the statement of financial position as at December 31, 2017, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Eólica Paraíso S.A. as at December 31, 2017, and of its financial performance and its cash flows for the year then ended in accordance with Accounting Practices Adopted in Brazil.

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the relevant ethical requirements included in the Accountant Professional Code of Ethics ("Código de Ética Profissional do Contador") and in the professional standards issued by the Brazilian Federal Accounting Council ("Conselho Federal de Contabilidade"), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recognition of income from electric power and accounts receivable - Electric Power Reserve Agreement ("CER")

See Notes 3e, 5 and 13 of the financial statements

Key audit matters	How our audit conducted this matter
The Company's income from electric power and accounts receivable originates exclusively from the Electric Power Reserve Agreement (CER) entered into with the Board of Electric Power Trading (CCEE) and is recognized considering the amounts of electric power actually generated and the prices established in said agreement. This agreement has rules and mechanisms, which require the Company's own criteria to establish the estimated income from electric power and accounts receivable to be recognized, such as: (i) Billing of income from electric power is fixed, according to volumes and prices established in the agreement; (ii) Regardless of the Electric Power volume generated and delivered by the Company, it shall be entitled to receive a fixed income per month; (iii) The amount of electric power effectively generated by the Company is compared to the limits established in the agreement: lower limit (10% in relation to the contracted electric power) and upper limit (30% in relation to the electric power contracted); (iv) If the Company's generation of electric power exceeds the lower and/or upper limit, the settlement of this difference will be made in the following year. If the generation of electric power does not exceed these limits, remaining within the tolerance range, the settlement will be made only at the end of the four-year period. Due to the relevance of the amounts involved, the Company's criteria to establish these estimates that may impact the amount of income recognized in financial statements, this matter significant was considered significant for our audit.	We have read and analyzed the Electric Power Reserve Agreement (CER) and obtained an understanding of the rules and mechanisms that could impact the estimated income from electric power and accounts receivable. We also carried out the mathematical recalculation of the estimated income from electric power and accounts receivable recorded by the Company on December 31, 2017, in which the main data used were validated, such as: (i) Monthly amount of electric power generated through reports from the Board of Electric Power Trading - CCEE; (ii) Contracted prices and volumes of electric power obtained in the Electric Power Reserve Agreement (CER). We have also compared the balances obtained with the book balances in the financial statements and analyzed the compliance with the statements made. Based on the evidence obtained through the procedures summarized above, we have considered that the recognition of the income from electric power and accounts receivable, as well as related statements, are acceptable under the financial statements taken as a whole, for the year ended on December 31, 2017.

Other matters - Audit of amounts corresponding to the previous year

The financial statements of the Company as at December 31, 2016, presented as corresponding figures in the financial statements for the current year, were audited by another auditor who expressed an unmodified opinion on those statements on April 28, 2017.

Responsibility of management for the financial statements

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

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

Responsibilities of the auditors regarding the audit of financial statements

Our objectives are to obtain reasonable assurance that the financial statements, taken as a whole, are free from material misstatements, regardless of whether any such misstatement is caused by fraud or error, and issue an audit report containing our opinion. Reasonable assurance means a high level of security, but not a guarantee that an audit conducted in accordance with Brazilian and international auditing standards always detects any existing material misstatements. Misstatements may be due to fraud or error and are considered material when, individually or taken as a whole, can influence, within a reasonable perspective, the economic decisions of users taken based on these financial statements.

As part of the audit conducted in accordance with Brazilian and international auditing standards, we exercise professional judgment and maintain our professional skepticism throughout the audit. In addition:

- We identified and assessed the risks of material misstatement in the financial statements (regardless of whether any such misstatement is caused by fraud or error), we planned and performed audit procedures in response to such risks, and we obtained audit evidence that is appropriate and sufficient to underpin our opinion. The risk of not detecting a material misstatement due to fraud is higher than due to error, since a fraud can involve the act of circumventing internal controls, collusion, falsification, omission or intentional misrepresentations.
- We obtained an understanding of the internal controls relevant to the audit to design auditing procedures suitable to the circumstances, but not with the aim of expressing an opinion on the effectiveness of the Company's internal controls.
- We evaluated the adequacy of the accounting policies used and the reasonableness of the accounting estimates and the respective disclosures made by the management.
- We reached a conclusion as to the suitability of Management's use of the accounting basis for going concern and, based on the audit evidence obtained, as to whether there is a material uncertainty regarding events or conditions that could raise a significant doubt regarding the

Company's capacity for going concern. If we conclude that there is material uncertainty, we will call attention in our audit report to the respective disclosures in the financial statements or include any change in our opinion, if the disclosures are inappropriate. Our conclusions are based on audit evidence obtained up to the date of our report. However, future events or conditions may cause the Company to no longer continue as a going concern.

- We evaluated the overall presentation, structure and content of the financial statements, including the disclosures and whether the financial statements represent the corresponding transactions and events in a way compatible with the fair presentation objective.

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

We also provide those charged with management with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with management, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Florianópolis, March 31, 2018

KPMG Auditores Independentes

CRC SC-000071/F-8

Claudio Henrique Damasceno Reis

Accountant CRC SC-024494/O-1

Eólica Paraíso S.A.

Balance sheets at December 31, 2017 and 2016

(In thousands of reais)

Assets	**Note**	**2017**	**2016**
Cash and cash equivalents	4	4.761	3.363
Trade accounts receivable	5	4.120	1.204
Taxes to be offset		655	471
Related parties	16	908	-
Prepaid expenses		102	31
Total current assets		**10.546**	**5.069**
Interest earning bank deposits	4	-	2.333
Trade accounts receivable	5	4.038	3.980
Property, plant and equipment	6	86.467	89.622
Total non-current assets		**90.505**	**95.935**
Total assets		**101.051**	**101.004**

Liabilities	**Note**	**2017**	**2016**
Suppliers	9	1.304	994
Financings	7	3.586	3.749
Debentures	8	2.643	2.652
Taxes payable	10	1.403	3.406
Dividends		814	379
Related parties	16	1.112	144
Total current liabilities		**10.862**	**11.324**
Provision for demobilization		55	55
Deferred taxes		-	1.124
Taxes payable	10	2.282	-
Financings	7	48.614	51.373
Total non-current liabilities		**50.951**	**52.552**
Shareholders' equity	11		
Capital		32.199	31.485
Profit reserve		7.039	5.643
Total shareholders' equity		**39.238**	**37.128**
Total liabilities and shareholders' equity		**101.051**	**101.004**

See the accompanying notes to the financial statements.

Eólica Paraíso S.A.

Statements of income

Years ended December 31, 2017 and 2016

(In thousands of reais)

	Notes	2017	2016
Net operating income	13	**14.198**	**13.385**
Generation costs	14	(4.186)	(1.016)
Gross income		**10.012**	**12.369**
General and administrative expenses		(868)	(3.038)
Other expenses/income		408	-
Income (loss) before net financial income (expenses)		**9.552**	**9.331**
Financial income		210	906
Financial expenses		(8.066)	(6.840)
Net financial income (loss)	15	(7.856)	(5.934)
Income (loss) before income and social contribution taxes		**1.696**	**3.397**
Income and social contribution taxes	12	135	(1.802)
Net income for the year		**1.831**	**1.595**

See the accompanying notes to the financial statements.

Eólica Paraíso S.A.

Statements of comprehensive income

Years ended December 31, 2017 and 2016

(In thousands of reais)

	2017	2016
Net income for the year	**1.831**	**1.595**
Comprehensive income	-	-
Comprehensive income for the year	**1.831**	**1.595**

See the accompanying notes to the financial statements.

Eólica Paraíso S.A.

Statements of changes in shareholders' equity

Years ended December 31, 2017 and 2016

(In thousands of reais)

		Profit reserve			
	Capital	Legal reserve	Profit retention reserve	Retained earnings	Overall total
Balances at December 31, 2015	31.359	224	4.203	-	35.786
Paid-in capital	126	-	-	-	126
Net income for the year	-	-	-	1.595	1.595
Formation of legal reserve	-	80	-	(80)	-
Minimum compulsory dividends	-	-	-	(379)	(379)
Income available to Shareholders' Meeting	-	-	1.136	(1.136)	-
Balances at December 31, 2016	31.485	304	5.339	-	37.128
Subscribed and paid-in capital	714	-	-	-	714
Net income for the year	-	-	-	1.831	1.831
Formation of legal reserve	-	92	-	(92)	-
Minimum compulsory dividends	-	-	-	(435)	(435)
Income available to Shareholders' Meeting	-	-	1.304	(1.304)	-
Balances at December 31, 2017	32.199	396	6.643	-	39.238

See the accompanying notes to the financial statements.

Eólica Paraíso S.A.

Statements of cash flows - Indirect method

Years ended December 31, 2017 and 2016

(In thousands of reais)

	2017	2016
Cash flows from operating activities		
Net income for the year	1.831	1.595
Depreciation	3.155	1.599
Interest on loan	5.178	3.809
Deferred taxes	(1.124)	(496)
Provision for demobilization	-	55
Changes in assets and liabilities		
Increase in recoverable taxes	(184)	(131)
Increase in trade accounts receivable	(2.974)	(3.608)
Increase in other credits	-	(27)
Related parties	60	-
Increase in prepaid expenses	(71)	-
Increase in suppliers	310	336
Increase in tax liabilities	279	2.601
Net cash from operating activities	6.461	5.733
Cash flow from financing activities		
Amortization of principal and interests of debentures	(9)	(7.463)
Amortization of principal and interests of loans and financing	(8.100)	(4.131)
Fundraising of financing	-	2.633
Net cash invested in financing activities	(8.109)	(8.961)
Cash flow from investment activities		
Interest earning bank deposits	2.333	(2.333)
Paid-up capital	714	126
Acquisition of property, plant and equipment	-	(16.391)
Net cash from by (used in) investment activities	3.047	(18.598)
Increase (decrease) in cash and cash equivalents	**1.398**	**(21.826)**
Statement of increase in cash and cash equivalents		
At the beginning of the year	3.363	25.189
At the end of the year	4.761	3.363
Increase (decrease) in cash and cash equivalents	**1.398**	**(21.826)**

See the accompanying notes to the financial statements.

Notes to the financial statements

(In thousands of reais)

1 Operations

a) Formation and productive capacity

Eólica Paraíso S.A. ("Company") is a privately-held corporation, established on September 22, 2011, headquartered in the city of Lagoa Nova, state of Rio Grande do Norte. The Company is mainly engaged in the generation of electric power through wind generators from the EOL Pelado joint venture, including the implementation and assembly, as well as the trade of electric power.

The Company has one (1) wind power plant in the municipality of Bodó, in the State of Rio Grande do Norte, including ten generating units of 2MW*, totaling 20MW* of installed capacity.

The Company started its commercial and power generation operations in January 2016.

b) Authorization

The authorization to operate as an independent producer of electric power has a term of thirty (30) years from the publication of the Resolution and may be extended at the discretion of ANEEL (Brazilian Electricity Regulatory Agency) and at the request of the authorized party. The resolution, as well as the date of its issuance, is:

Wind power plant	**ANEEL Ordinance**	**Publication Date**
Pelado	263	04/30/2012

c) Current Capital, Net

On December 31, 2017, the Company disclosed in the financial statements that it has current liabilities exceeding the current assets in the amount of R$316. According to management's estimates, this indebtedness will normally be settled with the future generation of cash by the Company or, if necessary, through financial contributions to be made by the controlling shareholders.

2 Preparation basis

2.1 Declaration of conformity

The financial statements were prepared as the accounting practices adopted in Brazil, including the pronouncements issued by Accounting Pronouncement Committee (CPC).

The issue of financial statements was authorized by the Executive Board on March 31, 2018.

* The MW information has not been audited by our independent auditors.

2.2 Functional and presentation currency

These financial statements are being presented in Brazilian reais, functional currency of the Company. All balances have been rounded to the nearest value, except otherwise indicated.

2.3 Use of estimates and judgments

The preparation of financial statements requires Management to make judgments, estimates and adopts assumptions that affect the application of accounting policies and the reported values of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and assumptions are reviewed on a continuous basis. Reviews of accounting estimates are recognized on a prospective basis.

There are no critical judgments and uncertainties referring to adopted accounting policies that have effects on amounts recognized in financial statements.

Information about critical judgment and uncertainties referring to the accounting policies adopted which impact the amounts recognized in the financial statements are included in the notes.

2.4 Measuring basis

The financial statements were prepared based on the historical cost.

3 Significant accounting practices

a. Financial instruments

(i) Non-derivative financial assets

The Company initially recognizes the loans and receivables and deposits on the date that they are originated. All other financial assets are initially recognized on the date of the negotiation under which the Company becomes a party to the contractual provisions of the instrument.

The Company fails to recognize a financial asset when the contractual rights to the cash flows of the asset expire, or when the Company transfers the rights to reception of the contractual cash flows on a financial asset in a transaction in which essentially all the risks and benefits of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets or liabilities are offset and the net amount reported in the balance sheet only when the Company has a legally enforceable right to set off and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial assets: loans and receivables.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments, but not quoted on any active market. They are included in current assets, except those maturing at least 12 months after balance sheet date (these are classified as noncurrent assets). The loans and receivables of the Company and its subsidiaries include cash and cash equivalents, accounts receivables and other accounts receivable.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and financial investments with the original maturity of three months or less as from the contracting date. Which are subject to an insignificant risk of change in value and are used to manage short-term obligations.

(ii) Non-derivative financial liabilities
The Company initially recognizes subordinated liabilities on the date that they are originated. All other financial liabilities are recognized initially on the negotiation date on which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged or canceled or paid.

The Company has the following non-derivative financial liabilities: suppliers.

Such financial liabilities are initially recognized at fair value plus any attributable transaction costs. After their initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

b. Property, plant and equipment

(i) Recognition and measurement
Fixed assets are measured at their historical cost of purchase, formation or construction.

The cost includes expenditures that are directly attributable to the acquisition of assets. The cost of assets built by the Company includes materials and direct labor, as well as any other costs attributable to bringing the assets to the location and condition requires for them to operate in the manner intended by Management, costs for dismantling and restoration of the site where they are located, and Loan costs on qualifiable assets.

When parts of a property, plant and equipment item have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Depreciation
Depreciation is calculated on the depreciable values, which is the cost of an asset, or other amount that substitutes cost, less residual values.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment, as this method is that more closely reflects the pattern of consumption of future economic benefits embodied in the asset. Land is not depreciated. The following is the estimated useful life of the property, plant and equipment:

Wind Power Generation Towers	25 years

c. Impairment

(i) Financial assets (including receivables)

A financial asset not measured at fair value through profit or loss is assessed at each reporting date for objective evidence of impairment loss. An asset is impaired when there is objective evidence that a loss event has occurred after the initial recognition of the asset, and that such loss event had a negative effect on the projected future cash flows of that asset that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of the amount due to the Company on terms that it would not consider otherwise, indication that the debtor or issuer will file for bankruptcy, or disappearance of an active market for a security.

For loans and receivables, the Company considers as evidence of impairment. All significant loans and receivables are evaluated regarding an specific amount. Receivables that are not individually significant are assessed on an aggregate basis in relation to impairment by grouping the notes with similar risk characteristics.

(ii) Non-financial assets

The book values of non-financial assets of the Company are reviewed at each reporting date to determine whether there is evidence of impairment. If such indication exists, the asset's recoverable value is estimated.

d. Current income and social contribution taxes

The current income and social contribution taxes are calculated based on annual rates of 15% plus a surcharge of 10% on taxable income in excess of R$ 240 (annual basis) for income tax and 9% on taxable income for social contribution on net income, and consider the offsetting of tax loss carryforward and negative basis of social contribution limited to 30% of taxable income.

The income tax and social contribution expense comprises current taxes on income.

Current taxes are the taxes payable or receivable on the taxable income or loss for the year, at tax rates enacted or substantively enacted at the reporting date of the financial statements, and any adjustments to taxes payable in relation to prior years.

e. Operating income

Operating income is recognized when (i) the most significant risks and benefits inherent to the ownership of the assets have been transferred to the purchaser, (ii) it is probable that the financial economic benefits will flow to the Group, (iii) the costs related and potential return of goods can be reliably estimated, (iv) there is no continued involvement with the goods sold, and (v) the amount of income can be reliably measured. Income is measured net of returns, trade discounts and bonus. The Company has a sole agreement, as a Reserve Energy, entered into with CCEE, which has the following characteristics:

- Accounting and settlements exclusively in CCEE’s short-term market;
- Agreements entered into between the selling agents at the auctions and the CCEE;
- Receipt of fixed income based on the contractor, regardless of its generation;

- Settlement of the surplus of the upper limit (30% of the contracted electric power) or lower limit (10% of the contracted electric power) in the next year.

The recognition of income occurs through the transfer (generation) of electric power to Electric Power Trade Chamber (CCCE).

f. Standards effective as of January 1, 2018

The Company is required to adopt CPC 47 Revenues from Contracts with Customers and CPC 48 Financial Instruments as of January 1, 2018. The Company has already made a preliminary study of the estimated impacts on its financial statements and, based on its evaluation, it considers that there are no significant impacts. The estimated impact of adopting these new standards is based on evaluations carried out up to the issue date of these financial statements, and the actual impacts of adopting the new accounting policies are subject to change until the Company presents its first financial statements that include date of initial adoption.

CPC 47 - Revenue from Contracts with Customers
CPC 47 introduces a comprehensive framework to establish if and when an income is recognized, and how the income is measured, replacing the current standards of income recognition, including CPC 30 (IAS 18) Income. The new CPC establishes the following five steps to recognize an income:

1. Identify the contract with the client
2. Identify the performance obligations in the contract
3. Establish the price of the transactions
4. Allocate the price of the transaction to the performance obligations
5. Recognize the income when the performance obligations are met

Any electric power produced by the Company is sold through Trading Agreements in the Regulated Contracting Environment. All the Company’s agreements have similar characteristics, described below: (i) Monthly amounts of electric power per MWh, i.e., the Company has the obligation to deliver the contracted energy CCEE; (ii) Fixed prices for the electric power per MWh for the term of the agreement; (iii) The performance obligations are met monthly, since this is how the agreements are signed and controlled; (iv) The Company has no history of non-payment, i.e., the receipt of the consideration for the performance obligation is not affected due to credit risk.

Accordingly, based on the characteristics of the agreements described above, the Company understands that its performance obligations can be monthly identified, priced and fulfilled, which leads the Company to understand that there will be no significant impacts on the recognition of income as of the effective date of the new CPC.

CPC 48 - Financial instruments
CPC 48 Financial Instruments establish requirements to recognize and measure financial assets, financial liabilities and some contracts for the purchase or sale of non-financial items. This standard replaces CPC 38 / IAS 39 – Financial instruments: Recognition and measurement.

The Company has the following financial instruments:

- <u>Non-derivative financial instruments:</u> Loans and receivables; and

- Non-derivative financial liabilities: Other financial liabilities.

The credit risk is assessed by the Company as low, due to the payment history of its clients.

Accordingly, based on its evaluation, the Company understands that the new classification and measurement requirements will not have a significant impact on its financial statements.

(ii) Standards effective as of January 1, 2019

IFRS 16 Leases
IFRS 16 replaces the current lease standards, including CPC 06 (IAS 17) Commercial Lease Operations and ICPC 03 (IFRIC 4, SIC 15 and SIC 27) Complementary Aspects of Commercial Lease Operations.

The standard is effective in years starting on or after January 1, 2019. Early adoption is permitted only for financial statements in accordance with IFRSs and only for entities that apply IFRS 15 Income from Contracts with Clients on or before the date of initial application of IFRS 16.

4 Cash and cash equivalents

	2017	2016
Banks	2025	1,355
Interest earning bank deposits (a)	2736	4,341
	4,761	5,696
Current	4,761	3,363
Non-current	-	2,333

(a) Refer to investments in Bank Deposit Certificates and Third-Parties Committed, with BNB and Santander, with immediate liquidity and readily convertible into cash and subject to an insignificant risk of change in the amount, with 99% CDI rate referring to Santander's investments and 96% CDI rate referring to BNB investments. The 2016 amount of R$2,333 recorded in non-current assets refers to the reserve account, connected to BNDES financing.

5 Trade accounts receivable

	2017	2016
Electric Power Trade Chamber (CCEE)	8,158	5,184
Current	4,120	1,204
Non-current	4,038	3,980

All outstanding securities as of 12/31/2017 are classified as falling due.
The amount of R$4,038 classified as non-current refers to provisions made, which will be settled at the end of the four-year period, as set forth in the rules established by the Agreement of sale of electric power entered into with CCEE.

6 Property, plant and equipment

Breakdown of property, plant and equipment

Changes in property, plant and equipment

	Balance at 01/01/2017	Depreciation	Balance at 12/31/2017
Buildings, civil works and improvements	89,622	(3,155)	86,467
Total	**89,622**	**(3,155)**	**86,467**

	Balance at 01/01/2016	Additions	Transfers	Depreciation	Balance at 12/31/2016
Buildings, civil works and improvements	30,877	16,702	43,642	(1,599)	89,622
Construction in progress (a)	41,422	2,220	(43,642)	-	-
Total	**72,299**	**18,922**	**-**	**(1,599)**	**89,622**

(a) The amounts recorded in this account refer to wind farm equipment.

7 Financings

	Interest rate	Maturities	2017	2016
Financing (a)	2.65% p.a. + TJLP	06/15/2032	52,200	55,112
Current			3,586	3,749
Non-current			48,614	51,373

(a) The company has a financing agreement with the BNDES and BNB, which is recognized by the contracting amounts, plus the agreed charges, which include interest and inflation adjustment in the agreement called as financing through opening a credit line.

Changes

Balance at December 31, 2016	55,122
Interest incurred in 2017	5,178
Payment of principal and interest	(8,100)
Balance at December 31, 2017	52,200

Covenants and guarantees

BNDES financing is backed by all the Company's shares and/or the fiduciary disposal of equipment and/or the fiduciary assignment of the credit receivables of the concession and/or surety letter, calculated on the debt balance of the financing.

These agreements have restrictive clauses, as follows:

- Receiving the income from the provision of generation services exclusively in a "Centralizer Account" opened for this purpose;
- Establishing, in favor of BNDES, and maintaining until the final settlement of all the obligations arising from the agreement, a "Reserve Account" according to the contractual conditions agreed upon, and the change of the "Reserve Account" can only be made through a written authorization from BNDES;
- Not establishing, without the prior authorization from the BNDES, a pledge or encumbrance on the credit receivables used as collateral;
- Not entering into loan agreements with its shareholders nor undertaking new debts without prior authorization from BNDES, except in the case of issuance of debentures provided for in the agreement (exclusively for BNDES);
- Not carrying out, without the prior and express authorization from BNDES, the distribution of dividends, payment of interest on own capital, whose individually or jointly amount shall be higher than the percentage established in §2 of art. 202 of Law 6404/76;
- Maintaining the consolidated Debt Service Coverage Ratio of Parent Company Serras Holding S.A., calculated annually, equal to or greater than 1.3 times, which were met on December 31, 2017.

8 Debentures

On July 1, 2014, the Executive Board authorized the public issue of debentures in a single series, totaling 78,500 simple debentures, not convertible into shares, with collateral and additional fidejussory collateral, in the total amount of R$78,500,000, with public distribution with restricted efforts, as set forth by CVM Instruction 476, of January 16, 2009, as amended, and other applicable provisions and regulations. The maturity was of 48 months, counted from their issuance and observing the hypotheses of early maturity, early redemption and optional extraordinary amortization.

The compensation interest will be paid by the issuer, in a single installment on the maturity, the rate on the Unit Nominal Value of the Debentures is CDI + 2.40% per year, based on 252 business days, calculated exponentially and cumulatively "pro rata temporis" per business days elapsed, from the issue date or the last date of payment of interest.
The Unit Nominal Value will be updated by the accumulated change in the average daily rates of the Interbank Deposits Rate of one day, calculated and published daily by CETIP, up to the full settlement. The amortization will be made in one installment on the maturity date.

The collaterals of the debentures are the pledge agreement of shares, represented by all the Company's capital held by the Shareholder Echoenergia Participações S.A., also guaranteed by a fidejussory assignment of any and all credit receivables arising from the Reserve Energy Agreements – CER 128/10.

The last installment of amortization of principal will be paid during the 2018 fiscal year, therefore it is classified in current liabilities.

	Debentures Current
Balance at December 31, 2016	2,652
Interest incurred in 2017	-
Payment of principal and interest	9
Balance at December 31, 2017	2,643

9 Suppliers

Trade accounts payable are obligations due for assets or services acquired from suppliers in the normal course of its operations, and are classified as current liabilities if payment is due within one year. Otherwise, trade accounts payable are presented as non-current liabilities.

10 Tax obligations

Tax obligations are balances payable at the federal, state and municipal levels.
The income and social contribution tax debits are calculated based on taxable income pursuant to current law, at the rates of 15% plus a surcharge of 10% on taxable income in excess of R$ 240 thousand for income tax and 9% on taxable income for social contribution.

	2017	**2016**
IRPJ and CSLL payable	3,098	2,778
PIS	10	22
COFINS	30	82
Other taxes payable	547	524
Total	**3,685**	**3,406**
Current	1,403	3,406
Non-current	2,282	-

11 Shareholders' equity

The subscribed and paid-in capital is of R$32,199 on December 31, 2017 (R$31,485 on December 31, 2016) and is represented by 32,199 nominative, common shares with no par value.

a. Dividends

Among the main provisions of the articles of association, it should be noted that a 25% distribution will be made annually, as mandatory minimum dividends, adjusted as set forth by Law, when applicable.

b. Legal reserve

It will be established at 5% of net income for each year, pursuant to the terms of art. 193 of Law no. 6.404/76, up to the limit of 20% of capital.

c. Profit retention reserve

The remaining balance of the income (loss) for the year will be available to the Meeting for future allocation.

12 Income and social contribution taxes

Reconciliation of the effective tax rate

	2017	2016
Income (loss) from continued operations before taxes	1,696	3,397
Nondeductible expenses/income	(2,100)	1,903
IRPJ and CSLL calculation basis	(404)	5,300
IRPJ and CSLL 34%	(135)	1,802

13 Net operating income

Income includes gross inflows of economic advantages received and receivable by the entity when originating from its own activities. Amounts collected on behalf of third parties - such as taxes on sales, taxes on goods and services and taxes on added value - are not economic benefits that flow to the entity and do not result in an increase in shareholders' equity. Therefore, they are excluded from the income.

	2017	2016
Gross income	**14,632**	**13,754**
Electric power - Own generation	14,632	13,754
Deductions from income	**(434)**	**(369)**
PIS on turnover	(76)	(65)
COFINS on turnover	(358)	(304)
Total	**14,198**	**13,385**

14 Generation costs

	2017	2016
Transmission and connection charges	(825)	(1,016)
Lease and rental	(197)	-
Depreciation	(3,163)	-
Total	(4,186)	(1,016)

15 Financial income (loss)

	2017	2016
Financial income		
Income from financial investments	210	906
	210	**906**
Financial expenses		
Sundry interest expenses	(5,169)	(6,301)
Guarantee commission	(2,740)	-
Other financial expenses	(157)	(539)
	(8,066)	**(6,840)**
Total	**(7,856)**	**(5,934)**

16 Related party transactions

As of December 31, 2017, the main balances of assets, liabilities as well as the transactions that influenced the income (loss) for the years, result from transactions of the Company, which are described below:

	2017	2016
Assets		
Echoenergia Participações S.A.	908	-
Total	**908**	**-**
Liabilities		
Gestamp Eólica S.L	-	64
Eólica Serras Holding S.A.	80	80
Eólica Lagoa S.A.	264	-
Echoenergia Participações S.A. (a)	768	-
Total	**1,112**	**144**

(a) These amounts refer to loans with related parties, which may be paid-in in the future and do not have any financial charges or maturity.

17 Risk management

Management is responsible for the establishment and supervision of the Company's risk management structure. The risk management policies are established to identify, analyze and establish appropriate limits and controls, and to monitor risks and adherence to the limits.

(i) Operating risk

Operating risk is related to the interruption of part or all of the expected supply related to the wind farm.

The Company’s Management has agreements with key suppliers in the market to mitigate possible operating risks.

(ii) Credit risk

Balance credit risk in banks and financial institutions is administered by the Company's Treasury Department in accordance with the policy established. Surplus funds are only invested in financial institutions which were authorized and approved by the controllership, co-signed by the Executive Board, pursuant to credit limits established, which are established in order to mitigate financial losses in case of possible bankruptcy of a counterparty.

(iii) Liquidity risk

Liquidity risk is the risk of the Company encountering difficulties in performing the obligations associated with its financial liabilities that are settled with cash payments or with another financial asset.

The Company's approach in liquidity management is to guarantee, as much as possible, that it always has sufficient liquidity to perform its obligations upon maturity, under normal and stress conditions, without causing unacceptable losses or with a risk of sullying the Company's reputation.

The Company has financial assets represented by cash that result directly from the payments made by the shareholders. The Company does not make any speculative investments in derivatives or any other risk assets.

As of December 31, 2017, the Company does not have financial exposures linked to foreign currency.

(iv) Market risk

Market risk is the risk that alterations in market prices, such as exchange, interest rates, and prices of shares, have in the Company's earnings, or in the value of its holdings of financial instruments. The objective of market risk management is to manage and control exposures to market risks according to acceptable parameters and optimize the return at the same. The Company's Management does not invest in financial assets that may generate significant fluctuations in its market prices.

18 Financial instruments

The main financial instruments hired with third parties are detailed below:

a. Fair value of financial instruments

	2017		2016	
	Book value	**Market value**	**Book value**	**Market value**
Cash and cash equivalents	4,761	4,761	3,363	3,363
Accounts receivable	8,158	8,158	5,184	5,184
Suppliers	1,304	1,304	994	994
Financing and debentures	54,843	54,843	57,774	57,774
Total	**69,066**	**69,066**	**70,150**	**70,150**

b. Financial instruments by category

	2017		2016	
	Loans and receivables	**Other financial liabilities**	**Loans and receivables**	**Other financial liabilities**
Financial assets:				
Cash and cash equivalents	4,761	-	3,363	-
Accounts receivable	8,158	-	5,184	-
Financial liabilities:				
Suppliers	-	1,304	-	994
Financing and debentures	-	54,843	-	57,774