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Company Information / Breakdown of Capital

Number of Shares (Thousand)	Current Quarter 9/30/2018
From Paid-in Capital	
Ordinary	109,168
Preferred	218,335
Total	327,503
In Treasury	
Ordinary	0
Preferred	0
Total	0

Company Information / Cash Proceeds

Event	Approval	Proceeds	Payment Start	Share Type	Share Class	Proceeds per Share (Reais/Share)
Ordinary General Meeting	4/24/2018	Dividend	6/30/2016	Ordinary		0.03805
Ordinary General Meeting	4/24/2018	Dividend	6/30/2016	Preferred	Preferred Class A	1.82454
Ordinary General Meeting	4/24/2018	Dividend	6/30/2016	Preferred	Preferred Class B	0.03805

Individual Financial Statements / Asset Balance Sheet (Thousand Reais)

(Thousand Reais) Account Code	Account description	Current Quarter 9/30/2018	Previous Fiscal Year 12/31/2017
1	Total Assets	10,489,015	11,131,537
1.01	Current Assets	924,042	677,261
1.01.01	Cash and Cash Equivalents	71	9,657
1.01.02	Financial Investments	473,496	300,879
1.01.02.01	Financial Investments Measured at Fair Value through Profit or Loss	473,496	300,879
1.01.02.01.01	Securities for Trading	473,496	300,879
1.01.03	Accounts Receivable	232,682	196,465
1.01.03.01	Clients	232,682	196,465
1.01.03.01.01	Consumers and Resellers / RTE and CCEE	232,682	196,465
1.01.07	Prepaid Expenses	15,847	15,763
1.01.08	Other Current Assets	201,946	154,497
1.01.08.03	Other	201,946	154,497
1.01.08.03.01	Offsetable Taxes and Contributions	94,663	60,995
1.01.08.03.02	Other	107,283	93,502
1.02	Non-Current Assets	9,564,973	10,454,276
1.02.01	Long-Term Assets	3,162,322	3,822,217
1.02.01.04	Accounts Receivable	1,362	1,478
1.02.01.04.01	Clients	1,362	1,478
1.02.01.05	Inventory	4,171	3,584
1.02.01.07	Deferred Taxes	657,737	583,165
1.02.01.07.01	Deferred Income Tax and Social Contribution	657,737	583,165
1.02.01.08	Prepaid Expenses	11,266	22,532
1.02.01.10	Other Non-Current Assets	2,487,786	3,211,458
1.02.01.10.03	Security Deposits and Binding Deposits	538,356	1,262,028
1.02.01.10.04	Assets Available for Reversal	6,337,256	6,337,256
1.02.01.10.05	Provision of Assets Available for Reversal	-4,387,826	-4,387,826
1.02.03	PP&E	6,364,844	6,592,199
1.02.03.01	PP&E in Operation	6,364,844	6,592,199
1.02.04	Intangible Assets	37,807	39,860
1.02.04.01	Intangible Assets	37,807	39,860
1.02.04.01.01	Concession Agreement	37,807	39,860

Individual Financial Statements / Liability Balance Sheet (Thousand Reais)

(Thousand Reais) Account Code	Account description	Current Quarter 9/30/2018	Previous Fiscal Year 12/31/2017
2	Total Liabilities	10,489,015	11,131,537
2.01	Current Liabilities	684,456	741,110
2.01.02	Vendors	7,200	14,421
2.01.02.01	Domestic Vendors	7,200	14,421
2.01.03	Tax Obligations	25,902	36,626
2.01.03.01	Federal Tax Obligations	25,902	36,626
2.01.03.01.02	Taxes and Social Contributions	25,902	36,626
2.01.04	Loans and Financing	263,094	204,532
2.01.04.01	Loans and Financing	263,094	204,532
2.01.04.01.01	In Domestic Currency	5,154	5,155
2.01.04.01.02	In Foreign Currency	257,940	199,377
2.01.05	Other Bonds	388,260	485,531
2.01.05.02	Other	388,260	485,531
2.01.05.02.01	Dividends and Interest on Net Equity Payable	1,450	27,023
2.01.05.02.05	Industry Charges	141,356	187,695
2.01.05.02.06	Estimated Bonds and Payroll	20,467	23,136
2.01.05.02.09	Other Bonds	11,908	47,560
2.01.05.02.10	Energy Purchased for Resale	213,079	200,117
2.02	Non-Current Liabilities	2,451,801	3,275,862
2.02.01	Loans and Financing	46,835	184,152
2.02.01.01	Loans and Financing	46,835	184,152
2.02.01.01.01	In Domestic Currency	889	4,752
2.02.01.01.02	In Foreign Currency	45,946	179,400
2.02.02	Other Bonds	2,404,966	3,091,710
2.02.02.02	Other	2,404,966	3,091,710
2.02.02.02.05	Industry Charges	17,365	1,466
2.02.02.02.06	Provision for Legal Risks	2,243,674	2,950,766
2.02.02.02.07	Social and Environmental Bonds	74,683	104,895
2.02.02.02.08	Other Bonds	69,244	34,583
2.03	Net Worth	7,352,758	7,114,565
2.03.01	Paid-in Share Capital	5,975,433	5,975,433
2.03.02	Capital Reserves	1,929,098	1,929,098
2.03.04	Profit Reserves	578,348	578,348
2.03.04.04	Unrealized Profit Reserve	578,348	578,348
2.03.05	Accrued Profit/Loss	219,636	0
2.03.06	Equity Valuation Adjustments	-982,101	-997,645
2.03.08	Other Comprehensive Income	-367,656	-370,669

(Thousand Reais)

Account Code	Account description	Current Quarter 7/1/2018 to 9/30/2018	YTD 7/1/2017 to 9/30/2017	Same Quarter of the Previous Fiscal Year 7/1/2017 to 9/30/2017	Last Year's YTD 1/1/2017 to 9/30/2017
3.01	Revenue from Sale of Goods and/or Services	440,617	1,226,012	362,503	1,082,349
3.02	Cost of Goods and/or Services Sold	-453,859	-878,439	-459,782	-808,351
3.02.01	Electric Power Cost	-357,532	-597,107	-368,278	-532,586
3.02.01	Operation Cost	-96,327	-281,332	-91,504	-275,765
3.03	Gross Profit or Loss	-13,242	347,573	-97,279	273,988
3.04	Operating Expenses/Revenues	-132,796	-144,600	-113,324	-316,329
3.04.02	General and Administrative Expenses	-105,587	-109,470	-103,289	-310,453
3.04.02.01	General and Administrative Expenses	-43,421	-122,655	-39,896	-136,211
3.04.02.02	Other Operating Expenses	-62,166	13,185	-63,393	-174,242
3.04.05	Other Operating Expenses	-27,209	-35,130	-10,035	-5,876
3.04.05.01	Other (Expenses) Net Revenues	-27,209	-35,130	-10,035	-5,876
3.05	Income Before Financial Result and Taxes	-146,038	202,973	-210,603	-42,331
3.06	Financial Result	-11,711	-42,365	26,097	65,679
3.06.01	Financial Revenue	34,028	88,066	53,785	156,349
3.06.02	Financial Expenses	-45,739	-130,431	-27,688	-90,670
3.07	Income Before Taxes on Profit	-157,749	160,608	-184,506	23,348
3.08	Income Tax and Social Contribution on Profit	55,669	74,572	8,659	-59,840
3.08.01	Current	0	0	16,028	-29,818
3.08.02	Deferred	55,669	74,572	-7,369	-30,022
3.09	Net Income from Continuing Operations	-102,080	235,180	-175,847	-36,492
3.11	Profit/Loss for the Period	-102,080	235,180	-175,847	-36,492
3.99	Earnings per Share - (Reais/Share)				

Individual Financial Statements/Statement of Comprehensive Income (Thousand Reais)

Account Code	Account description	Current Quarter 7/1/2018 to 9/30/2018	YTD 7/1/2017 to 9/30/2017	Same Quarter of the Previous Fiscal Year 7/1/2017 to 9/30/2017	Last Year's YTD 1/1/2017 to 9/30/2017
4.01	Net Earnings for the Period	102,080	235,180	-175,847	-36,492
4.02	Other Comprehensive Income	-1,068	3,013	-12,270	-37,511
4.02.01	CPC 33 (R1)/IAS 19 Adjustment	-1,068	3,013	-12,270	-37,511
4.03	Comprehensive Income for the Period	-103,148	238,193	-188,117	-74,003

Individual Financial Statements/Statement of Cash Flow - Indirect Method
(Thousand Reais)

Account Code	Account description	YTD 1/1/2018 to 9/30/2018	Last Year's YTD 1/1/2017 to 9/31/2017
6.01	Net Cash Operating Activities	343,007	333,082
6.01.01	Cash Generated in Operations	501,608	402,910
6.01.01.01	Profit Before Taxes On Income	160,608	23,348
6.01.01.02	Depreciation/Amortization	237,410	234,941
6.01.01.03	Interest, Currency and Exchange Rate Fluctuations	85,420	18,938
6.01.01.04	Provision for Estimated Credit Loss	1,046	2,165
6.01.01.05	Provision for Legal Risks	-2,075	163,393
6.01.01.06	PIS/COFINS provision for updating Court Deposits	-9,782	2,546
6.01.01.07	Hydrological Risk Renegotiation Premium	11,266	11,266
6.01.01.08	Write-off of PP&E	1,016	3,051
6.01.01.09	Employee Pension Plan Entity - CPC 33/IAS 19	7,748	3,191
6.01.01.11	Update of Court Balance Deposits	-21,795	-54,752
6.01.01.12	Provision for CCEE Energy Purchase	6,331	0
6.01.01.13	Provision for Social and Environmental Commitments	-27,585	0
6.01.01.14	Provision/(Reversal) Contingent Fees	0	-5,177
6.01.01.15	MP/MS and PM Bataguassu Out-of-Court Settlement	52,000	0
6.01.02	Changes in Assets and Liabilities	-141,657	-16,158
6.01.02.01	Amounts Receivable	-36,217	7,720
6.01.02.02	Offsetable Taxes and Social Contributions	-33,668	48,182
6.01.02.03	Warehouse	-587	-134
6.01.02.04	Prepaid Expenses	-84	-122
6.01.02.05	Security Deposits and Binding Deposits	162,220	-12,012
6.01.02.06	Other Credit	-14,711	-8,861
6.01.02.07	Vendors	-7,221	-4,094
6.01.02.08	Other Taxes and Social Contributions	-10,724	16,012
6.01.02.09	Payments to Private Pension Entities	-4,735	-40,702
6.01.02.10	Industry Charges	-32,286	-32,290
6.01.02.11	Payment of Legal Risks	-121,770	-130,675
6.01.02.12	Estimated Bonds and Payroll	-2,669	24
6.01.02.13	Other Bonds	-43,209	-112,683
6.01.02.14	Energy Purchased - CCEE	6,631	253,477
6.01.02.15	Payments of Social and Environmental Bonds	-2,627	0
6.01.03	Other	-16,944	-53,670
6.01.03.01	Paid Interest on Loans and Financing	-16,944	-23,852
6.01.03.02	Paid Income Tax and Social Contribution	0	-29,818
6.02	Net Cash for Investing Activities	9,018	-4,899
6.02.01	Acquisition of PP&E	-6,109	-1,716
6.02.02	Additions to Intangible Assets	-2,909	-3,183
6.03	Net Cash Financing Activities	-170,958	-358,302
6.03.01	Loans and Financing - Amortization	-145,385	-203,478
6.03.02	Paid Dividends and Interest on Net Equity	-25,573	-154,824
6.05	Increase (Decrease) in Cash and Cash Equivalents	163,031	-30,119
6.05.01	Initial Balance of Cash and Cash Equivalents	310,536	504,029
6.05.02	Final Balance of Cash and Cash Equivalents	473,567	473,910

Individual Financial Statements/Statement of Changes in Shareholders' Equity / "DMPL" - 1/1/2018 to 9/30/2018 (Thousand Reais)

Account Code	Account description	Paid-in Share Capital	Capital Reserves Granted Options and Treasury Shares	Profit Reserves	Accrued Profit or Loss	Other Comprehensive Income	Net Worth
5.01	Initial Balances	5,975,433	1,929,098	578,348	0	-1,368,314	7,144,565
5.03	Adjusted Initial Balances	5,975,433	1,929,098	578,348	0	-1,368,314	7,114,565
5.05	Total Comprehensive Income	0	0	0	219,636	18,557	238,193
5.05.01	Net Earnings for the Period	0	0	0	235,180	0	238,180
5.05.02	Other Comprehensive Income	0	0	0	-15,544	18,557	3,013
5.05.02.01	Adjustments to Financial Instruments	0	0	0	-15,544	15,544	0
5.05.02.06	CPC (R1) Adjustment on September 30, 2018	0	0	0	0	3,013	3,013
5.07	Final Balances	5,975,433	1,929,098	578,348	219,636	-1,349,757	7,352,758

Individual Financial Statements/Statement of Changes in Shareholders' Equity / "DMPL" - 1/1/2017 to 9/30/2017 (Thousand Reais)

Account Code	Account description	Paid-in Share Capital	Capital Reserves, Granted Options and Treasury Shares	Profit Reserves	Accrued Profit or Loss	Other Comprehensive Income	Net Worth
5.01	Initial Balances	5,975,433	1,929,098	612,941	0	-1,355,935	7,161,537
5.03	Adjusted Initial Balances	5,975,433	1,929,098	612,941	0	-1,355,935	7,161,537
5.05	Total Comprehensive Income	0	0		-52,264	-21,739	-74,003
5.05.01	Net Earnings for the Period	0	0		-36,492	0	-36,492
5.05.02	Other Comprehensive Income	0	0		-15,772	-21,739	-37,511
5.05.02.01	Adjustments to Financial Instruments	0	0		-15,772	15,772	0
5.05.02.06	CPC 33 (R1) Adjustment on September 30, 2017	0	0		0	-37,511	-37,511
5.07	Final Balances	5,975,433	1,929,098	612,941	-52,264	-1,377,674	7,087.534

Individual Financial Statements/Statement of Added Value (Thousand Reais)

Account Code	Account description	YTD 1/1/2018 to 9/30/2018	Last Year's YTD 1/1/2017 to 9/30/2017
7.01	Revenue	1,423,626	1,291,840
7.01.01	Sales of Goods, Products and Services	1,424,672	1,294,005
7.01.04	Provision/Reversal of Doubtful Debts	-1,046	-2,165
7.02	Inputs from Third Parties	-708,501	-615,314
7.02.02	Materials, Energy, Services from Third Parties and Others	-46,134	-44,123
7.02.04	Other	-662,367	-571,191
7.02.04.01	ONS/CCEE Charges	-722	-698
7.02.04.02	Purchased Energy and Industry Charges	-651,613	-554,303
7.02.04.03	Other Operating Costs	-10,032	-26,190
7.03	Gross Added Value	715,125	676,526
7.04	Withholdings	-237,410	-234,941
7.04.01	Depreciation, Amortization and Exhaustion	237,410	-234,941
7.05	Net Added Value Produced	477,715	441,585
7.06	Added Value Received in Transfer	35,678	-89,840
7.06.02	Financial Revenue	88,066	156,349
7.06.03	Other	-52,388	-246,189
7.06.03.01	Net Foreign Exchange Fluctuations	-101,175	-38,189
7.06.03.02	Employee Pension Plan Entity - CPC 33/IAS 19	-7,748	-3,191
7.06.03.03	Deferred Income Tax and Social Contribution	74,572	-30,022
7.06.03.04	Provision for Legal Risks	6,576	-167,172
7.06.03.05	Other Net (Expenses)/Revenues	-34,395	-5,069
7.06.03.07	PIS/COFINS Provision for Updating Court Deposits	9,982	-2,546
7.07	Total Added Value to Distribute	513,393	351,745
7.08	Distribution of Added Value	513,939	351,745
7.08.01	Personnel	82,044	78,433
7.08.01.01	Direct Compensation	82,044	78,433
7.08.02	Taxes, Fees and Contributions	91,194	159,607
7.08.02.01	Federal	91,097	159,471
7.08.02.03	Municipal	97	136
7.08.03	Compensation of Third-Party Capital	104,975	150,197
7.08.03.01	Interest	29,256	51,326
7.08.03.02	Rents	3,303	3,184
7.08.03.03	Other	72,416	95,687
7.08.03.03.01	Monetary Fluctuations	0	1,155
7.08.03.03.02	Financial Compensation for the Use of Water Resources	35,475	35,652
7.08.03.03.03	Global Reversal Reserve ("RGR")	22,453	44,012
7.08.03.03.04	Research & Development (R&D)	12,244	10,801
7.08.03.03.05	Electric Power Services Inspection Fee ("TFSEE")	2,244	4,067
7.08.04	Compensation of Shareholders' Equity	235,180	-36,492
7.08.04.03	Retained Profit/Loss for the Period	235,180	-36,492

Performance Review

ECONOMIC AND FINANCIAL PERFORMANCE

Gross operating revenue in the third quarter of 2018 reached BRL 503.8 million, a 14% increase over the same period in 2017, mainly due to the fluctuation in contract prices and the seasonal increase in energy supply to free consumers. In the year, revenue growth added up to 10%, reaching BRL 1,424.7 million up to September.

Operating income deductions decreased by 20.6% compared to the second quarter of 2017, mainly due to the moving of the Quota item to the Global Reversal Reserve, which had a positive impact of BRL 10.4 million related to the RGR adjustment for the fiscal year 2016, according to ANEEL order #1,791 of August 8, 2018. As a result, **Net Operating Revenue totaled BRL 440.6 million in the quarter (21.5% above 2017) and BRL 1,226.0 million in the first 9 months (13.5% above 2017).**

The quarter had an average General Scaling Factor (GSF) of only 0.585 (5.3 decimal points below 2017) and an average Difference Settlement Price ("PLD") of BRL 494.37 per MWh (13.3% above 2017), requiring the purchase of BRL 360.8 million in energy to meet the Company's contracts.

Despite the more adverse scenario than in 2017, purchases made by CESP through auctions (note 28.1) helped reduce the Cost of Electric Energy in the quarter by 2.9%. The Company recorded a Gross Operating Loss of BRL 13.2 million (86.4% lower than the loss obtained in the third quarter of the previous year).

General and Administrative Expenses increased by 8.8% to BRL 43.4 million and Other Operating Expenses totaled BRL 62.2 million (Note 28), mainly due to the increase in the provision for legal risks (Note 23).

Other Expenses and Net Revenues totaled minus BRL 27.2 million, mainly due to the registration of provisions for expropriation actions (spun-off companies) of BRL 22.2 million (Note 28.2).

In the quarter, Adjusted EBITDA totaled plus BRL 25.1 million (5.7% margin), compared the Adjusted EBITDA of minus BRL 66.3 million for the same period of 2017, as shown below.

Foreign exchange fluctuation was the main factor in the evolution of the Financial Result (Note 29) in the quarter compared to 2017, as it went from a positive net result of BRL 18.2 million last year (4.2% valuation of the Real) to a loss of BRL 13.0 million in the period due to a 3.8% devaluation of the Real.

As a conclusion, the Company recorded a loss of BRL 102.1 million in the quarter (42% less than 2017) and accrued until September 2018 an **accrued Net Profit of BRL 235.2 million** (compared to a loss of BRL 36,5 million in the same period of the previous year).

Performance Review

Economic and Financial Indicators

References	30.09.2018	30.09.2017	Change
Average Price - BRL per MWh	194.86	181.37	7.4%
Operating Margin (%)	-3.0%	-26.8%	-88.8%
Dollar Fluctuation (%).	3.8%	-4.2%	+8 pp

Liquidity/Indebtedness/VPA	30.09.2018	31.12.2017	Change
Asset Indebtedness	0.30	0.35	-14.6%
Third-Party Stake Held in Capital	0.43	0.54	-21.0%
Current Liquidity	1.35	0.91	47.7%
Equity Value of the Share (BRL)	22.45	22.15	1.36%

Statement of EBIT/EBITDA (CVM Instruction #527 of October 14, 2012)

	QUARTERS ENDED		
	30.09.2018	30.09.2017	Change
Net profit for the period	(102,080)	(175,847)	-41.9%
Income tax and social Contribution	(55,669)	(8,659)	542.9
Financial Result	11,711	(26,097)	-144.9%
= EBIT	(146,038)	210,603)	-30.7%
Depreciation/Amortization	79,174	78,010	1.5%
= EBITDA	**(66,864)**	**(132,593)**	**-49.6%**
Provision for legal risks	92,006	66,278	38.8%
= ADJUSTED EBITDA	**25,142**	**(66,315)**	**137.9%**
Adjusted EBITDA Net Margin	5.7%	-18.3%	-131.2%

Explanatory Notes

EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE PERIODS ENDED SEPTEMBER 30, 2018 AND 2017

1 OPERATIONAL CONTEXT

(Data related to power and energy volumes were not audited by the independent auditors)

1.1 Operational Context

CESP — Companhia Energética de São Paulo ("CESP" or "Company") is a publicly-held corporation controlled by the São Paulo State Government, with main place of business in the city of São Paulo, and has as its main activities the planning, construction and operation of electricity generation and marketing systems. It maintains other operational activities of a supplementary nature, such as afforestation, reforestation and fish farming, as a means of protecting environments, which were modified by the construction of its reservoirs and facilities.

The Company's shares are traded on B3 S.A. and, since July 28, 2006, have been traded at the Corporate Governance Level 1. As a consequence, the Company's Management has been continually improving the provision of information to the market.

The Company currently has three hydroelectric generation plants operating under a price system and has 1,654.6 MW of installed capacity and an average 1,002.6 MW of physical energy guarantee (Note 1.3).

As a public electric power generation utility, CESP has its activities regulated and supervised by the National Electric Power Agency ("ANEEL"), linked to the Ministry of Mines and Energy ("MME"), and operates its plants in a manner, which is integrated with the National Operator of the Electric System ("ONS"). Production per plant is based on an order made by the ONS and can be visualized in the gross production table below (quantitative information not reviewed by the independent auditors):

Gross production in MWh								
Plants	2018				2017			
	Q1	Q2	Q3	YTD	Q1	Q2	Q3	YTD
Porto Primavera	2.440680	2,047,779	2,041,567	6,530,026	2,520,910	2,125	2,116,175	6,762,881
Paraibuna	49,212	83,788	138,264	271,264	20,530	46,174	163,605	230,309
Jaguari	5,759	18,784	19,884	44,427	20,844	23,515	16,605	60,964
Total	**2,495,651**	**21,150,351**	**2,199,715**	**6,845,717**	**2,562,284**	**2,195,485**	**2,296,385**	**7,054,154**

From the Company's Gross Operating Revenue for the quarter ended September 30, 2018, approximately 51% (59% in 2017) came from the supply of electricity to Resellers (energy sales contracts/marketing agents and distributors contracted in energy auctions) and 44% (40% in 2017) from the supply of energy to free consumers, with the remaining 5% (1% in 2017) due to short-term energy within the scope of the Electric Power Trading Chamber ("CCEE") and other revenues (Note 27.2).

1.2 Energy Trading (Energy Auctions) - Not reviewed by independent auditors

CESP participated in 04 auctions for the supply of electricity to the distribution utilities operating in the Regulated Contracting Environment ("ACR"), and currently only 02 are in force, as follows:

Explanatory Notes

AUCTION OF NEW DEVELOPMENTS	Supply Period	Energy Sold by CESP (MWm)	CESP Price (BRL)	Base	Participants' Weighted Average Price
2009 Hydro Product	**2009 to 2038**	82.0	124.97	Jul/06	124.83
2010 Hydro Product	**2010 to 2039**	148.0	116.00	Jan/06	114.83
		230.0			

The prices obtained at the auctions are restated by the IPCA on the distributors' tariff readjustment date (Note 27.1).

1.3 Electric power concessions

CESP's generation concessions were granted by decrees relating to each plant at the time of the beginning of the studies and construction works, and were grouped in a concession agreement signed on November 12, 2004, covering the entire generating plant of the Company:

Hydroelectric Plant	Total Machines in Operation	Installed Power in MW (*)	Average Physical Guarantee (*) in MW	Entry Into Operation (a)	Concession Term
Engenheiro Sérgio Motta	14	1,540.0	**(c)** 941.8	23.01.99	11.07.28 **(b)**
Jaguari	2	27.6	13.3	05.05.72	20.05.20
Paraibuna	2	87.0	47.5	20.04.78	09.03.21
Total	**18**	**1,654.6**	**1,002.6**	**(a)**	

(a) On May 3, 2017, MME Ordinance #178 was published, which reduced the physical guarantee to an average of 1,002.6 MW, effective as of January 1, 2018. From CESP's physical guarantee, there must be a deduction of the plants' own consumption and the losses in the transmission to the system's center of gravity. These deductions vary each year, but can be estimated at up to 3%.

(b) Concession period after an increase of 53 days, resulting from the 2015 renegotiation of the hydrological risk, on the original date of 5.19.2028.

(c) On December 21, 2016, the SPE/MME Ordinance #258 was published, which amended the physical guarantee of the Engenheiro Sergio Motta HPP from 1,017 to 992.6 average MW. On March 17, 2017, the Company filed an ordinary lawsuit against the Federal Government, seeking the annulment of MME Ordinance #258/2016 and on August 1, 2017, the Federal Government filed a defense.

(*) Data related to power and energy not reviewed by independent auditors.

1.4 Hydrological Risk

The Porto Primavera hydroelectric power plant is concentrated in the area of influence of the Paraná river basin, west of the State of São Paulo, and is a run-of-the-river plant. The geographical location is considered favorable because the Paraná River is formed by the confluence of two large rivers, the Paranaíba River, which descends from the central-western region of the country, and the Grande River, on the border with the State of Minas Gerais. In addition, the Tietê River is a tributary of the Paraná River upstream from the Porto Primavera plant.

This plant is located downstream of other hydroelectric power plants, so that they benefit from being practically at the end of the waterfall, with only the Itaipu plant downstream.

The region is tropical, with high historical rates of rainfall. Risks of water scarcity due to rainfall conditions are cyclical and occasional. In critical situations, the Granting Authority must act aiming at the economic and financial balance of the agents. Unfavorable hydrological situations, usually regional and of short duration, are covered by the Energy Reallocation Mechanism ("MRE"), a financial instrument for sharing hydrological risk that the Brazilian Electricity Industry provides, and which allows ONS to seek optimization of hydroelectric resources through dispatch per plant, so that temporary insufficiencies of each generating agent of the system are covered by additional generation by other generators, to an Optimization Tariff ("TEO") of BRL 11.88 per MWh (ANEEL Approval Resolution #2,364 of December 21, 2017), valid for 2018, versus the TEO of BRL 11.58 per MWh (Approval Resolution #2,190 of 12/13/2016).

Details regarding the impacts on the Company's financial statements arising from the hydrological risk and the GSF renegotiation conditions may be obtained in Note 14 - Intangible Assets. With regard to risks, see note 31.7 - Hydrological Risk and GSF (Generation Scaling Factor).

Explanatory Notes

2 SUBMISSION OF INTERIM FINANCIAL STATEMENTS

The Company's Management authorized the completion of the preparation of the Interim Financial Statements on November 12, 2018.

The Company's Interim Financial Statements for the quarters ended September 30, 2018 and 2017 were prepared in accordance with accounting practices adopted in Brazil and in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

The accounting practices adopted in Brazil comprise the Pronouncements, Interpretations and Guidelines issued by the Accounting Pronouncements Committee ("CPC"), which were approved by the Brazilian Securities and Exchange Commission ("CVM") and by the Federal Accounting Council ("CFC"), further including supplementary standards issued by the CVM.

The Company adopted the pronouncements, interpretations and guidelines issued by the CPC and the IASB, as well as the supplementary standards issued by the CVM and regulatory bodies, which were in effect on September 30, 2018.

2.1 Basis for preparation

All amounts shown in these Interim Financial Statements are expressed in thousands of reais, unless otherwise specified.

Non-financial data, such as electric power generation capacities, volumes of generated electric power, volume of energy sold, insurance and the environment were not audited by the independent auditors.

2.1.1 Continuity of operation

Management has assessed the Company's ability to continue operating normally and is convinced that its operations have the ability to generate resources to continue its business in the future. In addition, Management is not aware of any material uncertainties that could generate significant doubt regarding its ability to continue operating. Accordingly, these financial statements were prepared based on an assumption of continuity.

The Company is included in the State Privatization Program ("PED") and based on Federal Decree #9,271/2018, in the event of success in the privatization auction scheduled for October 19, 2018, the new concession contract of the Porto Primavera Plant will have a term of 30 years after its signing, with a physical guarantee of 886.8 average MW, which will go from the public utility concession to an independent energy producer, thus ensuring the Company's operational continuity. (Note 33).

2.1.2 Empresas.Net System

In the "Statement of Changes in Shareholders' Equity" of the "Empresas.Net" System used to prepare and send documents to the CVM and B3 S.A., the equity valuation adjustment, although not corresponding to "Other Comprehensive Income", is shown in the column having such indication, since there is no option more appropriate for the showing it in said table.

2.2 Functional Currency and Conversion of Balances and Transactions into Foreign Currency

The items included in the Interim Financial Statements are measured using the currency of the economic environment in which the Company operates, and are shown in Reais (BRL), the Company's functional currency.

Transactions in foreign currency, i.e., all transactions that were not carried out in the Company's functional currency, are converted into the functional currency using the exchange rates prevailing on the dates the transactions were carried out.

Monetary assets and liabilities denominated in foreign currency are converted at the rate prevailing at the statement date. Earnings and losses arising from the settlement of transactions in foreign currency resulting from the conversion of monetary assets and liabilities denominated in foreign currency are recognized in the statement of income.

2.3 Changes in statements

In 2018, some accounts were reclassified/amended to better present the Company's economic and financial situation, the effects of which, for 2017, are restated below, in a summarized way:

- Statement of Income: appropriation of the updating of the balance of court deposits and respective application of taxes, depreciation of PP&E (property, plant and equipment) activations;
- PP&E Note: restatement of Court Deposits for Security Deposits and Binding Deposits, ongoing PP&E activation and respective depreciation;
- Statement of Cash Flow: Knock-on effects of the abovementioned adjustments;
- Statement of Added Value: Knock-on effects of the abovementioned adjustments;
- DRA: Knock-on effects on the result due to the depreciation and appropriation of the court deposit update and respective taxes.

Explanatory Notes

STATEMENT OF INCOME

	Quarter ended 9.30.2017		
	Originally disclosed	Adjustments	Restated
NET OPERATING REVENUE	**362,503**	**-**	**362,503**
ELECTRIC POWER SERVICE COST			**-**
Electric power cost	(368,278)		(368,278)
Operation cost	(90,298)	(1,206)	(91,504)
GROSS OPERATING PROFIT	**(96,073)**	**(1,206)**	**(97,279)**
Operating expenses			
General and administrative expenses	(39,896)	-	(39,896)
Other operating expenses	(62,544)	(849)	(63,393)
Other net (expenses) revenues	(10,035)	-	(10,035)
	(112,475)	(849)	(113,324)
OPERATING PROFIT BEFORE FINANCIAL RESULT	**(208,548)**	**(2,055)**	**(210,603)**
Financial revenues	35,534	18,251	53,785
Net financial expenses	(27,688)	-	(27,688)
FINANCIAL RESULT	**7,846**	**18,251**	**26,097**
PROFIT BEFORE INCOME TAX AND SOCIAL CONTRIBUTION	**(200,702)**	**16,196**	**(184,506)**
Income tax – current	12,415	-	12,415
Social contribution – current	3,613	-	3,613
Deferred income tax	(614)	(4,563)	(5,177)
Deferred social contribution	(549)	(1,643)	(2,177)
Total Income Tax and Social Contribution	14,865	(6,206)	8,659
NET PROFIT FOR THE PERIOD	**(185,837)**	**9,990**	**(175,847)**
Basic and diluted earnings per share	(0.57)	0.03	(0.54)

Explanatory Notes

STATEMENT OF INCOME

	Accrued up to 9.30.2017		
	Originally disclosed	Adjustments	Restated
NET OPERATING REVENUE	**1,082,349**		
ELECTRIC POWER SERVICE COST			-
Electric power cost	(532,586)		(532,586)
Operation cost	(272,146)	(3,619)	(275,765)
GROSS OPERATING PROFIT	**277,617**	**(3,619)**	**273,998**
Operational expenses			-
General and administrative expenses	(136,211)	-	(136,211)
Other operating expenses	(171,696)	(2,546)	(174,242)
Other net (expenses) revenues	(5,876)	-	(5,876)
	(313,783)	(2,546)	(316,329)
OPERATING PROFIT BEFORE FINANCIAL RESULT	**(36,166)**	**(6,165)**	**(42,331)**
Financial revenues	101,597	54,752	156,349
Net financial expenses	(90,670)	-	(90,670)
FINANCIAL RESULT	**10,927**	**54,752**	**65,679**
PROFIT BEFORE INCOME TAX AND SOCIAL CONTRIBUTION	**25,239**	**48,587**	**23,348**
Income tax – current	(20,051)	-	(20,051)
Social contribution – current	(9,767)	-	(9,767)
Deferred income tax	(8,046)	(13,688)	(21,734)
Deferred social contribution	(3,360)	(4,928)	(8,288)
Total Income Tax and Social Contribution	(41,224)	(18,616)	(59,840)
NET PROFIT FOR THE PERIOD	**(66,463)**	**29,971**	**(36,492)**
Basic and diluted earnings per share	(0.20)	0.09	(0.11)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

DESCRIPTION	Balance as of 9/30/2017
Balance originally disclosed	**7,057,563**
Adjustments to Accrued earnings	29,971
Restated balance	**7,087,534**

STATEMENT OF COMPREHENSIVE INCOME

	Quarter ended 9.30.2017		
	Originally disclosed	Adjustments	Restated
Losses for the period	(185,837)	9,990	(175,847)
CPC 33 (R1)/IAS 19 Adjustment	(12,270)	-	(12,270)
Total comprehensive income for the period, net of taxes	**(198,107)**	**9,990**	**(188,117)**

Explanatory Notes

STATEMENT OF COMPREHENSIVE INCOME

	Accrued up to 9.30.2017		
	Originally disclosed	Adjustments	Restated
Losses for the period	(66,463)	29,971	(36,492)
CPC 33 (R1)/IAS 19 Adjustment (Note 22.2.3.e)	(37,511)	-	(37,511)
Total comprehensive income for the fiscal year, net of taxes	**(103,974)**	**29,971**	**(74,003)**

PP&E

			Accrued up to 9.30.2017		
	Originally disclosed	Activations	Originally disclosed	Adjustments	Restated
In Service					
Land	296,604	-	-	-	296,604
Reservoirs, Dams and Channels	3,793,076	40,933	-	(12,865)	3,821,144
Buildings, Civil Construction Works and Improvements	989,597	14,187	-	(2,471)	1,001,313
Machines and Equipment	1,301,183	91,982	(57,865)	(15,266)	1,320,034
Vehicles	2,524	-	-	-	2,524
Furniture and Utensils	1,198	-	-	-	1,198
	6,384,182	147,102	(57,865)	(30,602)	6,442,817
R&D Asset Bonds	(749)	-	-	-	(749)
	6,383,433	147,102	(57,865)	(30,602)	6,442,068
Ongoing					-
Land	1,895	-	-	-	1,895
Reservoirs, Dams and Channels	137.00	(40,933)	-	-	96,067
Buildings, Civil Construction Works and Improvements	41,062	(14,187)	-	-	26,875
Machinery and Equipment in Maintenance	2,384	-	-	-	2,384
Machinery and Equipment in Assembly	34,601	(91,982)	58,263	-	882
Court Deposits	52,967		(52,967)	-	-
Other	6,005	-	-	-	6,005
	275,914	(147,102)	5,296	-	134,108
Total	**6,659,347**	**-**	**(52,569)**	**(30,602)**	**6,576,176**

Explanatory Notes

STATEMENT OF CASH FLOW

Indirect Method	Period ended 9.30.2017 Originally disclosed	Adjustments	Restated
OPERATING ACTIVITIES:			-
Profit before income taxes	(25,239)	48,587	23,348
Expenses (revenues) that do not affect cash:			-
Depreciation/Amortization	231,322	3,619	234,941
Update of court balance deposits	-	(54,752)	(54,752)
Interest, monetary and foreign exchange fluctuations	18,938		18,938
Estimated credit loss	2,165	-	2,165
Provision for legal risks	163,393	-	163,393
Provision/(Reversal) contingent fees	(5,177)	-	(5,177)
PIS/COFINS provision for updating court deposits	-	2,546	2,546
Hydrological risk renegotiation premium	11,266	-	11,226
Write-off of PP&E asset	3,057	(6)	3,051
Employee pension plan entity - CPC 33/IAS 19	3,191	-	3,191
Total adjustments to Profit before Income Tax and Social Contribution:	**402,916**	**(6)**	**402,910**
Amounts receivable	7,720	-	7,720
Offsetable taxes and social contributions	48,182	-	48,182
Warehouse	(134)	-	(134)
Prepaid expenses	(122)	-	(122)
Security deposits and binding deposits	(12,106)	94	(12,012)
Other credit	(8,861)	-	(8,861)
Vendors	(4,094)	-	(4,094)
Other taxes and social contributions	16,012	-	16,012
Payments to employee pension plan Entity	(40,702)	-	(40,702)
Purchased energy	253,477	-	253,477
Industry charges	(32,290)	-	(32,290)
Legal risk payments	(130,675)	-	(130,675)
Estimated bonds and payroll	24	-	24
Other bonds	(112,683)	-	(112,683)
CASH GENERATED BY OPERATING ACTIVITIES	**386,664**	**88**	**386,752**
Interest paid on loans and financing	(23,852)		(23,852)
Income tax and social contribution paid	(29,818)		(29,818)
NET CASH GENERATED BY OPERATING ACTIVITIES	**332,994**	**88**	**333,082**
INVESTMENT ACTIVITIES:			
PP&E Acquisitions	(1,628)	(88)	(1,716)
Additions to Intangible Assets	(3,183)		(3,183)
NET CASH USED IN INVESTMENT ACTIVITIES	**(4,811)**	**(88)**	**(4,899)**
FINANCING ACTIVITIES:			
Loans and financing – amortization	(203,478)		(203,478)
Paid dividends and Interest on net capital	(154,824)		(154,824)
NET CASH USED IN FINANCING ACTIVITIES	**(358,302)**		**(358,302)**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(30,119)**		**(30,119)**
(+) Initial Balance	504,029		504,029
(=) Final Balance	473,910		473,910
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(30,119)**		**(30,119)**

Explanatory Notes

STATEMENT OF ADDED VALUE

	Period ended 9.30.2017		
	Originally disclosed	Adjustments	Restated
GENERATION OF ADDED VALUE			
Operating income	1,294.05	-	1,294,005
Estimated credit loss	(2,165)	-	(2,165)
	1,291,840	-	1,291,840
Less:			
GROSS ADDED VALUE	676,517	-	676,517
Withholdings			
Depreciation/Amortization	231,322	3,619	234,941
NET ADDED VALUE GENERATED	445,195	(3,619)	441,576
TRANSFERS			
Financial revenues	101,597	54,752	156,349
Exchange rate fluctuations	(38,189)	-	(38,189)
Employee pension plan entity - CPC 33/IAS 19	(3,191)	-	(3,191)
Deferred Income tax and Social contribution	(11,406)	(18,616)	(30,022)
	48,811	36,136	84,947
OTHER			
Provision for legal risks	(167,172)		(167,172)
PIS/COFINS provision for updating court deposits	-	(2546)	(2546)
Other net (expenses)/revenues	(5,069)	-	(5,069)
	(172,241)	(2,546)	(174,787)
ADDED VALUE TO DISTRIBUTE	**321,765**	**29,971**	**351,736**
DISTRIBUTION OF ADDED VALUE			
Personnel	78,432	-	78,432
Financiers and rents:	55,656	-	55,656
Within the Industry - Regulatory charges:	94,532	-	94,532
Taxes and social contributions:	159,608	-	159,608
Shareholders:			
Net Profit / (Loss) for the period	(66,463)	29,971	(36,492)
TOTAL	**321,765**	**29,971**	**351,736**

3 MAIN ACCOUNTING POLICIES

The summary of the main accounting policies adopted by the Company is as follows:

3.1 Cash and cash equivalents

These comprise cash balances, bank deposits in cash and financial investments with original maturity of less than 90 days. These investments are stated at cost, plus income earned up to the fiscal year end dates, having immediate liquidity and subject to an insignificant risk of change in value.

3.2 Financial assets

IFRS 9/CPC 48 - Financial Instruments entered into force as of 1.1.2018, establishing three categories for classification and measurement of financial assets and liabilities: "measured at fair value through profit or loss"; "measured at amortized cost, based on the business model by which they are maintained and the characteristics of their contractual cash flows"; and "measured at fair value through other comprehensive income".

Explanatory Notes

The new requirements of CPC 48/IFRS 9 produced the following impacts on the classification of financial assets, as shown below:

Financial instrument	Classification according to CPC 38	New classification (CPC 48/IFRS 9)
Cash and cash equivalents	Measured at fair value through profit or loss	Measured at fair value through profit or loss
Amounts receivable - Consumers and resellers	Loans and receivables	Amortized cost
Amounts receivable - CCEE	Loans and receivables	Amortized cost
Assets available for reversal	Available-for-sale financial instruments	Measured at fair value through profit or loss

The new classification had no effect on the Company's balance sheet.

3.2.1 Effective interest method

The effective interest method is used to calculate the amortized cost of a debt instrument and allocate its interest income over the corresponding period. The effective interest rate is the rate that accurately deducts estimated future cash receipts (including all amounts paid or received that are an integral part of the effective interest rate, transaction costs, and other premiums or deductions) over the estimated life of the debt instrument or, where appropriate, over a shorter period, for the net book value on the date of initial recognition.

3.2.2 Impairment of financial assets

Financial assets, except those measured at fair value through profit or loss, are measured by impairment indicators at the end of each fiscal year. Impairment losses are recognized if, and only if, there is objective evidence of impairment of the financial asset because of one or more events that occurred after initial recognition thereof, having an impact on the estimated future cash flows of such asset.

Objective evidence may include:

- Significant financial difficulty of the issuer or counterpart;
- Breach of contract, such as a default or late payment of interest and principal amount;
- Likelihood of the debtor having its bankruptcy declared.

The book value of the financial asset is reduced directly by the impairment loss for all financial assets, except for accounts receivable, where the book value is reduced by the use of estimated credit losses. Subsequent recoveries of amounts previously written off are credited to the estimated losses account. Changes in the book value of the loss estimate are recognized in profit or loss.

The adjustment to the estimated credit losses is constituted, if necessary, based on the individual evaluation of the loss estimate, being considered sufficient to cover probable losses in the realization of credits receivable.

For financial assets recorded at amortized cost, if in a subsequent fiscal year the value of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment has been recognized, the previously-recognized loss is reversed through profit or loss, as long as the book value of the investment at the date of such reversal does not exceed any amortized cost if the impairment had not been recognized.

3.3 Security deposits and court deposits

These refer to guarantees provided, which are linked to legal proceedings. Pursuant to Item 14 (a) of CPC Technical Pronouncement #23 and good corporate governance practices, in 2017, the Company performed a voluntary change in the accounting policy on the updating of the balance of court deposits, with retrospective effects, duly stated in note 2.3.

Thus, security deposits and court deposits are stated at their historical value plus indexation.

Explanatory Notes

3.4 Warehouse

The materials in stock at warehouses, classified as non-current assets, are recorded at average acquisition cost, less an adjustment for reduction to market value, when applicable.

According to CPC 16 (R1) - Inventories, inventories must be stated in the balance sheet with the lowest amount between the cost and the net realizable value ("VLR"). Net realizable value is defined as the estimated selling price in the ordinary course of business, deducting the estimated costs of completion and the estimated costs required to make the sale.

When the net realizable value is determined and it is lower than cost, the amount in excess should be used for constituting an adjustment for losses in realizable value.

3.5 Taxation

3.5.1 Taxation on sales

Sales revenues are subject to the following taxes and contributions at the basic rates:

- Contribution to Social Financing ("COFINS"), at a rate of 7.60% (Non-Accrued Regime), except for Short-Term Energy Sales Revenues (CCEE), which has a rate of 3% (Accrued Regime).
- Contribution to the Social Integration Program ("PIS"), at a rate of 1.65% (Non-Accrued Regime), except for Short-Term Energy Sales Revenues (CCEE), which has a rate of 0.65% (Accrued Regime).
- In the calculation of the PIS/COFINS under the Non-Accrued Regime, there is a possibility of using credits arising from energy purchase expenses and transmission system charges, and these are stated as a reduction of the cost of sales in the statement of income for the fiscal year.

Sales are stated in the statement of income for the fiscal year by the amount net of the respective taxes and contributions (net operating revenue).

3.5.2 Taxation on profit

Current taxes

The provision for income tax is based on the taxable income for the fiscal year. Taxable income differs from income stated in the statement of income, since it excludes taxable income or deductible expenses from other fiscal years, and permanently excludes non-taxable or non-deductible items. The provision for income tax and social contribution is calculated at the rates of 25% and 9%, respectively.

Current income tax and social contribution expenses are calculated based on the laws and tax regulations in force as of the balance sheet dates, in accordance with Brazilian tax regulations. Management periodically evaluates the positions assumed in the income statement with respect to situations in which the applicable tax regulations are subject to interpretation that may be divergent, and constitutes provisions, when applicable, based on the amounts that it expects to pay to the Tax Authorities.

Deferred taxes

Deferred income tax ("deferred tax") is recognized on temporary differences as of the balance sheet dates between the balances of assets and liabilities recognized in the Interim Financial Statements and the corresponding tax bases used in determining the taxable income, including the balance of tax losses, where applicable. Deferred tax liabilities are generally recognized on all taxable temporary differences, and deferred tax assets are recognized on all deductible temporary differences only when it is likely that the Company will show future taxable income in an amount sufficient for such deductible temporary differences to be utilized.

Recovery of the balance of deferred tax assets is reviewed on the balance sheet dates, and, when it is no longer likely that future taxable income will be available to allow the recovery of all or part of the asset, the asset balance is adjusted by the amount that is expected to be recovered.

Deferred tax assets and liabilities are measured at the rates applicable in the period in which the liability is expected to be settled or the asset is expected to be realized, based on the rates established in the tax legislation in force as of the balance sheet dates, or when new legislation has been substantially approved. The measurement of deferred tax assets and liabilities reflects the tax consequences that would result from the manner in which the Company expects to recover or settle the book value of these assets and liabilities on the balance sheet dates.

Explanatory Notes

Deferred tax assets and liabilities are offset only when there is a legal right to offset current tax assets with current tax liabilities, and when they are related to taxes managed by the same tax authority and the Company intends to settle the net value of its current tax assets and liabilities.

Taxes on current and deferred income

These are recognized as an expense or income in the profit or loss for the year, except when related to items recorded directly in other comprehensive income or shareholders' equity, in which case the tax is also recognized directly in other comprehensive income or shareholders' equity

Details are disclosed in explanatory note #12.

3.6 Investments

Investments are recorded at acquisition cost, less an adjustment for reduction to market value, when required or applicable.

3.7 Intangible Assets

Intangible assets acquired separately are measured at cost at the time of their initial recognition. After initial recognition, intangible assets are stated at cost, less accrued depreciation/amortization and accrued impairment losses, where applicable. Expenses are reflected in the statement of income for the fiscal year in which they were incurred. The useful life of an intangible asset is evaluated as definite or indefinite, and in the case of CESP, there are only intangible assets having a definite useful life.

3.8 Property, Plant and Equipment (PP&E)

The Company adopted the fair value to determine the cost attributed to PP&E at the date of transition of the Interim Financial Statements to IFRS (1/1/2009). CPC 37/IFRS 1 refers to deemed cost as the amount used as a surrogate for cost (or cost depreciated or amortized) at a given date. As a result, certain items of PP&E which had a book value lower and/or higher than their fair value had their accounting costs replaced by the attributed amounts so that the Company's equity and financial position could be more reliably expressed. The counterpart of this surplus was recorded in the "Asset Valuation Adjustments" account under Shareholders' equity.

Costs directly attributed to the works, as well as interest and financial charges related to loans taken with third parties over the construction period are recorded under ongoing PP&E.

When significant components of PP&E asset are replaced, these components are recognized as an individual asset having a specific useful life and depreciation. Similarly, when a relevant maintenance is made, its cost is recognized in the book value of the PP&E asset, if the recognition criteria are met. All other costs with repairs and maintenance are recognized in the statement of income, when incurred.

Depreciation is calculated by the straight-line method, based on the annual rates established and periodically reviewed by ANEEL, which are practiced and accepted by the market as being representative of the economic useful life of the assets linked to the concession infrastructure. The residual values and the economic useful lives of the assets are reviewed at the end of each fiscal year and the effect of any changes in the estimates is accounted for prospectively.

Profits and losses on disposals are determined by comparing the results with the book value, adjusted by any adjustments for impairment, and are recognized in "Profit/Loss on Disposal of Assets and Rights" in the statement of income.

3.9 Asset Impairment

PP&E are valuated when there is evidence of unrecoverable losses, or whenever events or significant changes in circumstances indicate that the book value may not be recoverable. When there is loss arising from situations in which the book value of the asset exceeds its recoverable amount, such loss is recognized in the income for the fiscal year.

Explanatory Notes

The calculation methodology is as follows:

- Future cash flow from operations, deducted at present value, for each plant (Cash Generating Unit, "UGC"), considered to be the lowest level of cash generation. This flow covers the remaining period for each of the concessions held by the Company, not including any period of extension or renewal;
- Future cash flow of the indemnity amount at the end of the concessions, deducted at present value. Management has adopted as a premise, for accounting purposes only, that the minimum amount for indemnity to be received from the Federal Government in the process of reversal of the assets shall be the residual value of the assets ascertained by the deemed cost and depreciated up to the date of maturity of the concession.

3.10 Contingent Assets

CPC 25/IAS 37 defines a contingent asset as a possible asset that results from past events and whose existence may only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not totally under the Company's control.

Given the divergence between the Granting Authority and the Company's Management with respect to the amount for indemnity related to the Três Irmãos, Ilha Solteira and Jupiá HPPs, the Company believes that its right to receive the amount according to its calculations is being exercised by judicial measures. Accordingly, given the existence of a contingent asset, and in compliance with CPC 25, which covers Provisions, Contingent Liabilities and Contingent Assets, in 2013 and 2015 the Company adjusted the contingent assets by correcting the registered value for the respective HPPs (Note 15), without prejudice to continuing to discuss its rights in court.

3.11 Financial Liabilities

Financial liabilities are initially recognized on the trade date, when the Company becomes a party to the contractual provisions of the instrument. CESP writes off a financial liability when it has its contractual obligations either withdrawn, canceled or expired.

Financial assets and liabilities are offset and the net amount is presented in the balance sheet when, and only when, the Company has the legal right to offset the amounts and intends to settle them on a net basis or to simultaneously realize the asset and settle the liability.

These financial liabilities are initially recognized at fair value, plus any attributable transaction costs. After initial recognition, these financial liabilities are measured at amortized cost by using the effective interest method. The effective interest method is used to calculate the amortized cost of a financial liability and allocate its interest expenses for the respective period. The effective interest rate is the rate that accurately deducts the estimated future cash flows (including fees paid or received that are an integral part of the effective interest rate, transaction costs, and other premiums or deductions) over the estimated life of the financial liability or, where appropriate, over a shorter period, for the initial recognition of the net book value. The main financial liabilities classified in this category are:

a. Loans and financing (Note 18)
b. Debt charges (Note 18)

3.12 Post-employment benefit plans

The Company sponsors medical aid and retirement plans for its employees, under the definite benefit ("BD") plan modality, and also definite contribution ("CD"), managed by the CESP Foundation. A definite contribution plan is a pension plan under which the Company makes fixed contributions to the CESP Foundation, having no legal or constructive obligations to make contributions if the fund does not have sufficient assets to pay, for all employees, benefits related to the employee's service for the current and prior fiscal year. A definite benefit plan differs from a definite contribution plan. In general, definite benefit plans establish a retirement benefit amount that an employee will receive on his or her retirement, usually dependent on one or more factors, such as age, contribution time, and compensation.

The amounts of the actuarial commitments related to the BD plan (contributions, costs, liabilities and/or assets) are calculated annually by an independent actuary with a base date that coincides with the end of the fiscal year, and are recorded pursuant to CPC 33 (R1)/IAS 19.

Explanatory Notes

The liability recognized in the balance sheet related to the definite benefit pension plans is the present value of the definite benefit bond as of the balance sheet date, minus the fair value for the plan's assets.

Adoption of the projected unit credit method aggregates each year of service as a triggering event for an additional benefit unit, adding up to the calculation of the final bond. Other actuarial assumptions are used that take into account biometric and economic tables, as well as historical data of the benefit plans obtained from the CESP Foundation.

Actuarial profits and losses are recorded directly in Shareholders' equity under "Other Comprehensive Income". These actuarial profits and losses are determined at the end of each fiscal year based on the independent actuary report.

3.13 Research and Development Program (R&D)

Program for investing in research and development, wherein electric power utilities are required to allocate 1% of their net operating revenue to this program, according to Law #9,991/00 and ANEEL Regulations #300/08 and 316/08. This percentage is charged at the ratio of 40% to the National Fund for Scientific and Technological Development ("FNDCT") and 20% for Empresa de Pesquisa Energética ("EPE") and the Ministry of Mines and Energy. The remainder (40%) is allocated to the Company's R&D projects/programs.

3.14 Provision for legal risks

CPC 25 / IAS 37 defines a provision having an uncertain term or value, and contingent liability as a possible bond that results from past events, the existence of which may only be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not totally under the entity's control.

The risks, in their different legal aspects, were evaluated and classified based on the opinion of the Management of the Company and its internal and external attorneys, according to the likelihood of an economic and financial risk to the Company, and those that presented an expectation of likely loss were provisioned for, in an amount corresponding to the processes existing as of the dates of the Interim Financial Statements. Those that had expectations of possible or remote loss are disclosed in an explanatory note (Note 23).

3.15 Bonds and provisions for social and environmental commitments

Social and environmental bonds are recorded as the Company assumes formal obligations to regulators or becomes aware of potential risks related to social and environmental issues for which cash disbursements are considered to be likely, and the amounts are estimated. During the project implementation phase, the provisioned amounts are recorded as a contra entry to ongoing PP&E. After the commercial start-up of the project, all costs or expenses incurred with social and environmental programs related to the operating and maintenance licenses of the project are recorded directly in the income for the year.

3.16 Other assets and liabilities

Assets are stated at realizable values and liabilities at known or estimated amounts, deducted at present value and accrued, where applicable, of indexation and foreign exchange fluctuation.

3.17 Distribution of dividends and interest on net capital

At the end of the fiscal year and after deduction of the paid interim dividends and the suitable legal allocations of adjusted net income, the Company records, where applicable, in current liabilities, the amount equivalent to the minimum mandatory dividend not yet distributed over the fiscal year.

The Company's bylaws provide for the distribution of mandatory minimum dividends limited to 10% of the share capital. Additionally, in accordance with the bylaws, the Board of Directors is responsible for deciding on the payment of interest on net equity and of interim dividends.

In determining the adjusted net income for purposes of dividend distribution, the following are considered: i) the amount allocated to the Legal Reserve; ii) the realization of the appreciation of the assets ascertained on the date of transition to the international accounting standards, recorded under Asset Valuation Adjustment in Shareholders' Equity, and iii) the realization of the reserve for unrealized profits.

Explanatory Notes

The Company distributes interest as compensation on net capital, pursuant to Article 9 paragraph 7 of Law #9,249 of 12/26/1995, which is deductible for tax purposes.

Dividends and interest on net equity not claimed within three years are reverted to the Company's shareholders' equity.

3.18 Earnings per share

The Company calculates basic and diluted earnings per share using the weighted average number of outstanding ordinary and preferred shares over the period corresponding to the income in accordance with CPC Technical Pronouncement #41/IAS 33.

Basic earnings per share are calculated by dividing net income for the fiscal year by the weighted average number of issued shares. Basic earnings per share are equivalent to diluted earnings per share, since there are no financial instruments with dilutive potential. Earnings per share from prior fiscal years are adjusted retroactively, where applicable, to reflect any bonus capitalization, stock groupings or splits.

The Company's bylaws assign different rights to the Class A and B preferred shares and to the ordinary shares over the dividends. Consequently, basic and diluted earnings per share are calculated using the "two-class" method. The "two-class" method is a profit allocation formula that determines the earnings per preferred class A and class B and ordinary share according to dividends and rights to undistributed profit sharing.

3.19 Revenue recognition

The Electric Power Trading Process occurs in accordance with parameters established by Law #10,848/04, by Decrees #5,163/04 and #5,177/04 (which established the Electric Power Trading Chamber, "CCEE"), and ANEEL Normative Resolution #109/04, which established the Electric Power Trading Convention.

Commercial relations between the participating Agents of the CCEE are predominantly governed by contracts for the purchase and sale of medium and long-term energy, and all contracts executed between the Agents within the scope of the National Interconnected System must be registered at the CCEE.

In addition, as from 1.1.2011, CPC 47/IFRS 15 - Revenue from contracts with customers was enacted, which establishes that an entity must recognize revenue to represent the transfer (or promise) of goods or services to customers in order to reflect the consideration of the amount it expects to exchange for such goods or services.

The Company's Management has assessed the impacts that this standard has had on the various segments in which it operates and believes that its adoption has not resulted in significant profit or loss in its financial statements.

The Company operates in the following electric power segments:

3.19.1 Energy supply

Sale of energy at freely negotiated prices and conditions to free consumers - large end consumers who have opted not to purchase energy from local distributors and with whom the Company has supply contracts.

3.19.2 Energy supply - auction

In this segment, the Company sells its energy to distribution utilities through auctions organized by the Granting Authority through medium and long-term supply contracts.

3.19.3 Energy supply - contracts

Refers to the sale of energy to trading companies in contracts negotiated through a public offering.

3.19.4 Short-term energy

The CCEE accounts for the differences between the quantities of energy produced, consumed and contracted. Positive or negative differences are settled and valued at the Difference Settlement Price ("PLD").

Explanatory Notes

The Short-Term Market is composed of the quantities processed under the Energy Reallocation Mechanism, a mechanism for sharing the hydrological risks associated with optimizing the electric power of the National Interconnected System ("SIN"), so that the energy that an agent of the MRE fails to produce is performed by another agent, and the volumes are compensated by the energy optimization tariff, which is sufficient to cover variable costs.

3.19.5 Quota system

MME Ordinance #256 of June 11, 2015 appointed CESP as being responsible for the Provision of Electric Power Generation Services of the Ilha Solteira and Jupiá Hydroelectric Power Plants as of July 8, 2015. The Company earned revenues through the quota system, defined by ANEEL Resolution #1,924 of July 28, 2015 until June 30, 2016, when this system was terminated.

3.20 Calculation of profit or loss

Expenses are recognized in the statement of income when there is a decrease which can be reliably determined in the future economic benefits arising from a reduction in an asset or an increase in a liability.

3.21 Information by segment

The Company only operates in the energy generation and trading segments.

3.22 Statement of Cash Flow ("DFC")

The statement of cash flow was prepared by using the indirect method, and is shown in accordance with CVM Deliberation #547 of August 13, 2008, which approved accounting pronouncement CPC 03 (R2) - Statement of Cash Flows, issued by the CPC.

3.23 Statement of Added Value ("DVA")

This statement is intended to highlight the wealth created by the Company and its distribution over a given year, and is shown by CESP, as required by Brazilian corporate law, as part of its information, since, according to the IFRS, this statement is not expected nor required.

The DVA was prepared based on information obtained from the accounting records that serve as the basis for preparing the Interim Financial Statements and following the provisions contained in CPC 09 - Statement of Added Value. The first part shows the wealth created by the Company, represented by revenues (gross revenue from sales, including taxes levied on it, other revenues and the effects of estimated credit losses), inputs purchased from third parties (cost of sales and acquisitions of materials, energy and third-party services, including taxes levied at the time of acquisition, the effects of losses and recovery of assets, and depreciation and amortization) and the added value received from third parties (financial result and other revenues). The second part of the DVA shows the distribution of wealth among personnel, taxes, fees and contributions, compensation of third-party capital and compensation of net equity.

3.24 Main accounting judgments and sources of uncertainty in the estimates

The preparation of the Interim Financial Statements requires Management to make judgments and estimates and to adopt assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, as well as disclosures of contingent liabilities, as of the base date for the Interim Financial Statements. However, the uncertainty regarding these assumptions and estimates could lead to results that require a significant adjustment to the book value of the affected asset or liability in future years.

The main assumptions regarding sources of uncertainty in future estimates and other important sources of uncertainty in estimates as of the balance sheet date are as follows:

Income tax

A significant judgment is required to determine the provision for income taxes. In many operations, the final tax determination is uncertain. Recognition of a deferred income tax asset requires assessing whether it is likely that future taxable income will exist to realize such deferred income tax asset. The evaluation requires considering the history of taxable income, expectations of future taxable income as well as the moment of reversal of temporary differences. If CESP is unable to generate future taxable income or if there is a significant change in the tax structure or in the fiscal year in which temporary differences will be used, it is possible that the likelihood assessment may change and may require the write-off of part or the entire deferred income tax asset.

Explanatory Notes

Provision for legal risks

It is defined based on an evaluation and qualification of risks having a likelihood of loss considered likely. This evaluation is supported by Management's judgment and experience together with its legal advisors, considering case law, the decisions of lower and superior courts, the history of any agreements and decisions, as well as other applicable aspects.

Useful lives of PP&E assets

The useful lives of assets that make up the PP&E balance are established and periodically reviewed by ANEEL, which are practiced and accepted by the market as being representative of the economic useful life of the assets linked to the concession infrastructure. Management reviews the economic useful lives of assets on an annual basis at the end of each fiscal year in order to validate that these useful lives remain consistent for use in such business.

Impairment test for long-lived assets

There are specific rules for assessing the recovery of long-lived assets, especially PP&E assets. At the end of the fiscal year, CESP conducts an analysis to determine if there is evidence that the amount for long-lived assets will not be recoverable. If such evidence is identified, the recoverable amount of the assets is estimated by the Company.

The recoverable amount of an asset is determined by the greater of: (i) its fair value minus estimated sale costs; and (ii) its value in use. The value in use is measured based on the discounted cash flows derived from the continuous use of an asset until the end of its useful life or the end of the concession.

When the book value of an asset exceeds its recoverable amount, the Company recognizes a reduction in the book balance for that asset, where applicable.

The asset recovery review process is subjective and requires significant judgment through analysis.

Estimated credit loss

Management monitors its receivables individually and records the estimated loss of credit for probable losses.

Retirement plan and post-employment benefits

The Company recognizes its obligation with employee benefit plans and related costs, net of plan assets, based on actuarial studies prepared annually, wherein the last study was carried out on December 31, 2017, and by adopting the following practices: (i) the cost of post-employment benefit obligations is determined actuarially by using the projected unit credit method. The discount rate used to calculate the future benefit bond is an estimate of the interest rate as of the balance sheet date on high-quality fixed-income investments with maturities that coincide with the expected maturities of the bonds; and (ii) the assets of the pension plan are measured at fair value (mark-to-market).

In actuarial calculations, actuarial consultants additionally use subjective factors, such as mortality rates, wage growth forecast and turnover. There were no changes in the assumptions and other conditions of the Plan between the actuarial study prepared for these Interim Financial Statements and that drafted on the base date December 31, 2016, that would lead to changes in the adopted criteria.

The actuarial assumptions used by the Company may be materially different from actual results due to changes in economic and market conditions, regulatory events, court rulings or shorter or longer life spans of the participants. However, the Company and its actuaries used assumptions consistent with both internal and external analysis in order to define the estimates used.

Transactions involving the purchase and sale of energy under the CCEE

Records of the purchase and sale of energy within the CCEE are recognized on an accrual basis in accordance with the information disclosed by that entity or by an estimate prepared by the Company's Management when such information is not available in a timely manner.

Explanatory Notes

The amount recognized as a provision is the best estimate of the considerations required to settle the obligation at the end of each fiscal year, considering the risks and uncertainties related to the bond. When the provision is measured based on the estimated cash flows to settle the obligation, its book value corresponds to the present value of such cash flows.

4 PRONOUNCEMENT APPLICABLE TO THE COMPANY AS FROM 1.1.2019

4.1 CPC 06 (R2)/IFRS 16 — leasing operations

Applicable for periods beginning on or after 1.1.2019, CPC 06 (R2)/IFRS 16 establishes, in the view of the lessee, a new form of accounting record for the leases currently classified as operating leases, the accounting record of which is carried out in a manner similar to leases classified as financial.

The Company is evaluating the potential impacts of adopting this new pronouncement.

5 CASH AND CASH EQUIVALENTS

Financial investments summarized in the table below are readily convertible into a known amount of cash and are subject to insignificant risk of change in value. These investments relate to Bank Deposit Certificates ("CDBs"), which are characterized by the sale of securities with the financial institution's commitment to repurchase it, and the buyer's commitment to resell it in the future, and are compensated at between 95% and 100% (95% and 100% on 12.31.2017) of the fluctuation in the Interbank Deposit Certificate ("CDI"), and to the Integrated System of Financial Administration for States and Municipalities ("SIAFEM"), a fund 99% backed by National Treasury bonds and 1% by Bank Deposit Certificates ("CDB") and Bills issued by a State-controlled Financial Institution, compensated at between 95% and 100% of the fluctuation in the Interbank Deposit Certificate ("CDI").

	Investment Type	30.09.2018	31.12.207
Cash			
Bank deposits in cash...............................		71	9,657
Financial Investments			
SIAFEM(*)..	CDB/CDI Fund	470,410	300,877
Other institutions		3,086	2
		473,496	300,879
		473,567	**310,536**

(*) Refers to the balance of financial investments made at the SIAFEM system broker, as determined by Decree #60,244 of March 14, 2014.

Explanatory Notes

6 AMOUNTS RECEIVABLE

The following table summarizes the amounts receivable according to the revenue class, and the description of each class is shown in the following subtopics:

	30.09.2018				31.12.2017
	Amounts Due	**Overdue for more than 90 days (note 7)**	**(-) Provision (Note 7)**	**Total**	**Total**
Consumers					
Industrial	77,881	4,172	(4,172)	77,881	64,581
Resellers					
Trading agents	43,617	-	-	43,617	79,525
Energy auctions	51,845	-	-	51,845	52,359
Supply – quotas	-	2,036	(2,036)	-	
	95,462	2,036	(2,036)	95,462	131,884
	173,343	**6,208**	**(6,208)**	**173,343**	**196,465**
Free Energy /CCEE					
Free Energy (RTE)	-	13,712	(13,712)	-	-
Settlement – CCEE	59,339	-		59,339	-
	59,339	13,712	(13,712)	59,339	-
Total	**232,682**	**19,920**	**(19,920)**	**232,682**	**196,465**

Consumers and Resellers

The Company has a certain degree of concentration in its client portfolio. In the quarter ended September 30, 2018, the top ten clients accounted for 75.8% of the total portfolio (79.2% as of 9.30.2017).

Free Energy - Extraordinary Tariff Recomposition ("RTE")

On August 26, 2010, ANEEL's Superintendence of Economic and Financial Supervision - ("SFF") issued Order #2517, which established the final amounts of Free Energy to be transferred between Distributors and Generators signatories of the General Agreement of the Electric Power Industry, the balance of which, at historical value, as of September 30, 2018 is BRL 13,712 (BRL 13,712 on 12.31.2017) and is under judicial discussion (Note 7).

Short-Term Energy ("CCEE")

Represents the variation calculated on a monthly basis resulting from the balance sheet processed by the Electric Power Trading Chamber ("CCEE"), between commitments assumed by the Company with its market and other CCEE Agents versus the effective behavior of each member of the system.

In the quarter ended September 30, 2018, the Company sold BRL 28,292 (BRL 5,144 in the quarter ended September 30, 2017) related to non-contracted energy (income), available for sale within the scope of the CCEE (Note 27.2).

Explanatory Notes

7 ESTIMATED CREDIT LOSSES

Adjustments to estimated credit losses are presented as rectifiers of each receivable, such as Amounts receivable (Note 6) and Other Credit (Note 10). This note demonstrates the aggregation of the balances of estimated credit losses at the initial and final dates, as well as the movement (additions/write-offs) recorded as a contra entry to the YTD income:

Debtor	31.12.2017	(Additions) Write-offs	30.09.2018
Consumers	(4,172)	-	(4,172)
Supply – quotas	(2,036)	-	(2,036)
Free Energy (RTE)	(13,712)	-	(13,712)
Subtotal (Note 6)	(19,920)	-	(19,920)
Other credit (Note 10) (*)	(34,108)	(1,047)	(35,155)
Total	**(54,028)**	**(1,047)**	**(55,075)**

Debtor	31.12.2016	(additions) Write-offs	30.09.2017
Consumers	(4,172)	-	(4,172)
Energy auctions	(2,048)	1,536	(512)
Supply – quotas	(5,087)	456	(4,631)
Free Energy (RTE)	(13,712)	-	(13,712)
Subtotal (Note 6)	(25,019)	1,992	(23,027)
Other credit (Note 10) (*)	(31,567)	(4,157)	(35,724)
Total	**(56,586)**	**(2,165)**	**(58,751)**

(*) Refers to the estimated credit losses shown in Note 10, of which BRL 34,196 (BRL 33,149 as of 12.31.2017) are on Miscellaneous credit and BRL 959 (BRL 959 on 12.31.2017) are on Other.

8 OFFSETABLE TAXES AND SOCIAL CONTRIBUTIONS

	30.09.2018	30.09.2017
Current		
Income tax to be offset (a)	36,358	301
Social contribution on the profit to be offset (a)	14,754	167
Negative income tax balance at source (a)	39,571	41,575
Negative social contribution tax balance (a)	2,145	16,991
COFINS to be offset (b)	1,508	1,611
PIS to be offset (b)	327	350
	94,663	**60,995**

(a) Pursuant to RFB Normative Instruction #1,717 of 7.17.2017, as amended by RFB Normative Instruction #1,765 of 11.30.2017, effective as of 1.1.2018, credit of negative IRPJ and CSLL balances may only be offset after the delivery of the ECF (Tax Accounting Bookkeeping). The Company delivered the ECF on 6/30/2018.

(b) Pursuant to RFB Normative Instruction #1,765 of 11.30.2017, effective as of 1.1.2018, PIS and COFINS credits will be offset only after delivery of the EFD - Contributions (Digital Tax Bookkeeping) in which the credit right has been demonstrated. The Company delivered the EFD on 6/30/2018.

Explanatory Notes

9 PREPAID EXPENSES

	30.09.2018	31.12.2017
Current		
Insurance	826	742
Renegotiation of hydrological risk (Note 14)		
230 MWm Contract (*)	15,021	15,021
	15,847	15,763
Non-Current		
Renegotiation of hydrological risk (Note 14)	11,266	22,532
Total	**27,113**	**38,295**

(*) Premium from the renegotiation of the hydrological risk that will be transferred on a monthly basis to the result from January 2016 to June 2020 (Note 28.1);

Additional explanations on the hydrological risk Renegotiation may be obtained in Note 14. The transfer of this renegotiation is shown below:

	31.12.2017	Realizations (Note 28.1)	Transfer	30.09.2018
Current				
230 MWm Contract (a)	15,021	(11,266)	11,266	15,021
Non-Current				
230 MWm Contract (a)	22,532	-	(11,266)	11,266

	31.12.2016	Realizations (Note 28.1)	Transfer	30.09.2017
Current				
230 MWm Contract (a)	15,021	(11,266)	11,266	15,021
Non-Current				
230 MWm Contract (a)	37,554	-	(11,266)	26,288

10 OTHER CREDIT

	30.09.2018	31.12.2017
Current		
Credit for the disposal of goods and rights	1,854	2,138
Miscellaneous credit	35,915	34,664
(-) Estimated credit losses (Note 7a)	(34,196)	(33,149)
Project orders - R&D (*)	99,717	84,154
Other	4,952	6,654
(-) Estimated credit losses (Note 7a)	(959)	(959)
	107,283	93,502
Non-Current		
Credit for the disposal of goods and rights	-	117
Property for disposal	1,362	1,361
	1,362	1,478
Total	**108,645**	**94,980**

(*) R&D expenses are recorded as assets and, when the project is completed, offset against the liabilities (Note 22.d) recorded for this purpose.

Explanatory Notes

11 SECURITY DEPOSITS AND BINDING DEPOSITS

	30.09.2018	31.12.2017
Non-Current		
Court Deposits (a)		
Civil proceedings	326,306	347,373
Labor proceedings – appeals	94,347	110,020
Tax proceedings	40,894	38,406
Environmental proceedings	40,361	640,733
Expropriation proceedings - CESP Plants	31,775	55,123
Other court deposits	3,102	3,036
	536,839	**1,194,691**
Security Deposits		
Binding deposits - CCEE **(b)**	1,253	67,073
Binding deposits - ANEEL **(c)**	264	264
	1,517	67,337
Total	**538,356**	**1,262,028**

(a) Court deposits are recorded at historical amounts plus indexation and related to provisions for legal risks (Note 23), in the amount of BRL 536,839 as of September 30, 2018 (BRL 1,194,691 as of December 31, 2017). The balance of court deposits already reflects the effects of the out-of-court settlement with the Mato Grosso do Sul Public Prosecutor's Office ("MPMS"), corresponding to BRL 583,247 (Note 23.8).

(b) Collateralized credit related to the financial guarantee at the CCEE, in an account held at Banco Bradesco S/A;

(c) Guaranty deposit for preparing the hydroelectric inventory study of the Pardo River stretch in the state of São Paulo, between the Euclides da Cunha and Caconde HPPs.

11 DEFERRED INCOME TAX AND SOCIAL CONTRIBUTION

As of September 30, 2018, the Company had a total (nominal) tax credit in the amount of BRL 3,171,607, of which: BRL 2,377,677 relate to income tax (consisting of tax losses of BRL 742,688, temporarily non-deductible differences of BRL 1,313,087, PP&E adjustment - deemed cost of BRL 372,007 and an update of balance of court deposits of (BRL 50,105)); and BRL 793,930 relate to social contribution (formed by a negative basis of BRL 205,334, temporarily non-deductible differences of BRL 472,712, PP&E adjustment - deemed cost of BRL 133,922 and an update of balance of court deposits of (BRL 18,038)).

Under current tax legislation, tax loss and the negative basis for social contribution are offsetable against future taxable income, up to a limit of 30% of the taxable income for each fiscal year, and are not subject to any limitation period.

Balances recorded up to September 30, 2018, of tax loss credit - deferred income tax and social contribution negative basis are supported by financial projections prepared by the Company's Management for the next 10 years, which are reviewed on an annual basis, as recommended by the Granting Authority and as determined by the CVM, which consistently demonstrate the realization of the balances of tax losses, negative basis of social contribution and temporary differences.

The projections and the corresponding credit realizations consider the deadline of each concession, limited to 10 years, given the subjectivity and uncertainty tied to the concessions.

The projections adopt as basic billing assumptions the physical quantity of energy (MWh) and prices contracted with distributors through energy auctions (2009 Hydro Product e 2010 Hydro Product; Note 1.2); contracts to supply energy to free consumers with delivery/supply deadlines up to 2027; maintenance of the level of operating expenses, and consider the reduction of financial expenses, which prove the achievement of future taxable profits.

Explanatory Notes

Breakdown of balances:

	Assets (A)		Liabilities (B)		Net Assets (A-B)	
	30.09.2018	31.12.2017	30.09.2018	31.12.2017	30.09.2018	31.12.2017
Income tax						
Tax losses recorded **(a)**	159,885	159,885	-		159,885	159,885
Tax losses (not recorded)	582,803	459,586	-		582,803	459,586
Temporary differences (not recorded):						
Provisions for legal risks	463,575	646,366	-		463,575	646,366
Impairment Provision - CPC 01	744,127	744,127	-		744,127	744,127
Provision for Três Irmãos HPP (Regulatory Asset Installment)	136,880	136,880	-		136,880	136,880
Provision for CCEE energy purchase	23,321	21,739	-		23,321	21,739
Other Provisions	46,812	41,135	-		46,812	41,135
CPC 33 Employee pension plan entity	-	-	101,628	101,628	(101,628)	(101,628)
PP&E adjustment - deemed cost (ICPC 10) **(b)**	372,007	377,895	-		372,007	377,895
Net foreign exchange fluctuations w/o loans and financing **(c)**	-	-	-	8,128	-	(8,128)
Update of balance of court deposits	-	-	50,105	102,697	(50,105)	(102,697)
	2,529,410	2,587,613	151,733	212,453	2,337,677	2,375,160
Social contribution						
Recorded negative basis **(a)**	60,066	60,066			60,066	60,066
Negative basis (not recorded)	145,268	104,188			145,268	145,268
Temporary differences (not recorded):						
Provisions for legal risks	166,887	232,692			166,887	166,887
Impairment Provision - CPC 01	267,886	267,886			267,886	267,886
Provision for Três Irmãos HPP (Regulatory Asset Installment)	49,277	49,277			49,277	49,277
Provision for CCEE energy purchase	8,396	7,826			8,396	7,826
Other Provisions	16,852	14,808			16,852	14,808
CPC 33 Employee pension plan entity	-	-	36,586	36,586	(36,586)	(36,586)
PP&E adjustment - deemed cost (ICPC 10) **(b)**	133,922	136,042	-	-	133,922	136,042
Net foreign exchange fluctuations w/o loans and financing **(c)**	-	-	-	2,926	-	(2,926)
Update of balance of court deposits	-	-	18,038	36,972	(18,038)	(36,972)
	848,554	872,785	54,624	76,484	793,930	796,301
	(2,513,870)	(2,588,296)		-	(2,513,870)	(2588.296)
Provision for unrecorded tax credit	**864,094**	**872,102**	**206,357**	**288,937**	**657,737**	**583,165**

(a) Until September 30, 2018, the amount for deferred tax credits was not credited to income, as the Company recorded tax losses and a negative basis of CSLL.

(b) The realization of deferred assets that occurred in the period refers to the equity valuation Adjustment in the amount of BRL 8,008.

(c) Since 2003, the Company has adopted the cash system for taxation of the foreign exchange fluctuations assessed. As a consequence, deferred income tax and social contribution were recorded in liabilities at the rates of 25% and 9%, respectively, on taxable temporary differences, represented by the aforementioned unrealized foreign exchange fluctuations on unliquidated loans and financing.

The realization of deferred liabilities that occurred in the period refers to the realization of the foreign exchange fluctuation in the amount of BRL 11,054 and BRL 71,526 related to the updating of the balance of court deposits.

Deferred income tax of BRL 159,885 and social contribution of BRL 60,066, totaling BRL 219,951, must be realized within a period of up to 10 years.

Estimates of realization of tax credit arising from tax losses, negative basis of social contribution and temporarily non-deductible provisions (from the table above) are supported by the Company's taxable income projections, which are periodically reviewed and approved by the Management bodies. These projections are based on assumptions, and the final realized income may differ from the projections.

The following shows the realization of the tax loss and negative basis:

	Fiscal Years								Total
Fiscal Year	**2018**	**2019**	**2020**	**2021**	**2022**	**2023 to 2025**	**2026 and 2027**	**2028 and 2029**	
Tax loss and negative basis **(a)**	21,005	7,524	16,565	15,902	27,650	70,554	60,751		219,951

Explanatory Notes

Income tax and social contribution on the deemed cost have the realizations according to the depreciation of the assets calculated based on the rates defined by ANEEL. We show below the realization of the deferred IR/CS on deemed cost:

	Fiscal Years								Total
Fiscal Year	**2018**	**2019**	**2020**	**2021**	**2022**	**2023 to 2025**	**2026 and 2027**	**2028 and 2029**	
PP&E adjustment - deemed cost (ICPC 10) **(b)**	2,832	10,839	8,399	14,975	15,553	46,658	31,105	375,568	505,929

13 WAREHOUSE

	30.09.2018	**31.12.2017**
Non-Current		
Warehouse....................................	23,469	23,138
(-) Impairment adjustment..............	(19,298)	(19,554)
Total	**4,171**	**3,584**

With the end of the concessions of the Três Irmãos, Ilha Solteira and Jupiá plants, warehouse items remained which were not contemplated in the legislation for transfer to the new operators of these plants. According to MP #579/2012, converted into Law #12,783/2013, the transfer to the new operator of the plants that had the concession expired is only for assets in operation linked to the production of electric power. The Company is negotiating with the new operators interested in acquiring certain items. As the cost of the warehouses may not be recoverable, in compliance with CPC Technical Pronouncement 16 (R1) - Inventories, a realizable value adjustment of BRL 15,520 was made, corresponding to 100% of the balance of the warehouses of these plants. If there is success in the disposal of these warehouse items, the respective costs will be realized, and the loss estimate reversed.

In 2017, an adjustment of BRL 3,778 was made in the warehouse balance related to the Porto Primavera and Paraibuna plants.

14 INTANGIBLE ASSETS

On August 18, 2015, Provisional Measure ("MP") #688 was published, which provides for the renegotiation of the hydrological risk of electric power generation, established the bonus for granting and amended other laws of the industry. In general, terms, the renegotiation agreement provided for participation of generators which are members of the MRE (Energy Reallocation Mechanism) (voluntary) and distributors (compulsory) only, and involved portions of the generator's physical energy guarantee related to the amounts of contracts for the Regulated Contracting Environment ("ACR") and the Free Contracting Environment ("ACL").

The renegotiation by the generators depended on ANEEL's consent, with retroactive effects as of January 1, 2015 and, on the other hand, contemplated a risk premium paid by the generators and, as an effectiveness clause that each agent would abdicate, individually, from lawsuits concerning hydrological risk.

Said MP was converted into Law #13,203 of December 8, 2015 and the regulatory outlining of the renegotiation procedures occurred through Normative Resolution #684 of December 11, 2015, which motivated several internal studies and debates in industry and institutional associations, especially during ANEEL's Public Hearing.

CESP made a decision and filed at ANEEL on January 15, 2016 the application to join the renegotiation of Hydrological Risk in the ACR. Regarding the Free Contracting Environment, the decision was for non-adherence, due to a confirmed non-attractiveness, and the same occurred for the other agents, since there was no adherence to the ACL.

Therefore, due to the eligibility criteria outlined by the ANEEL resolution, only the contracts for the Porto Primavera HPP were considered, namely, 1st and 2nd New Energy Auction ("Botox") and 4th Existing Energy Auction (closed in 2016), of which the main aspects are:

- Transfer of secondary energy and hydrological risk (GSF) by paying the risk premium of BRL 9.50/MWh (January 2015 value);
- In 2016, CESP was 100% protected from the GSF related to the contracted 350 average MW;
- In the period from 2017 to 2028, when the concession of the plant ends, protection will be 100% over the 230 average MW of the "Botox" contract;
- The impact of the hydrological displacement in the year 2015 related to these ACR contracts was BRL 161 million and according to ANEEL's criteria, compensation was of BRL 103 million, as follows:
  - "Botox" contract: postponement of payment of the risk premium for 4 years and 6 months (payment as from July 2020);

Explanatory Notes

- Existing Energy Contract: postponement of payment of the risk premium for 1 year and extension of the concession term for the Porto Primavera HPP for 53 days. During this period, the plant's physical guarantee will be contracted in GSF's regulated and risk-free environment.

On January 26, 2016 ANEEL Ordinance #190 of January 25, 2016, was published in the Federal Official Gazette approving the renegotiation required by CESP.

Considering that the conditions for the coverage of the hydrological risk were accepted, on January 29, 2016, the Company filed at ANEEL the signed Renegotiation Agreement and the protocol for requesting withdrawal from the lawsuit.

With regard to risks, see note 31.7 - Hydrological Risk and GSF (Generation Scaling Factor).

The accounting impacts were reflected in 2015, as shown below:

Hydrological risk renegotiation	2015		
	Prepaid Expenses (Note 10)	Intangible Assets	CCEE Energy Purchase Reduction
Current			
230 MWm contract	15,021		(15,021)
120 MWm contract	9,134	26,134	(35,268)
	24,155	26,134	(50,289)
Non-Current			
230 MWm contract	52,575	-	(52,575)
Total	**76,730**	**26,134**	**(102,864)**

The balance of intangible assets has the following composition:

	30.09.2018			31.12.2017
	Total cost	**Accrued Depreciation/Amortization**	**Net**	**Net**
In Service				
Software and use license	23,288	(8,313)	14,975	16,300
Hydrological risk renegotiation (*)	26,511	(5,807)	20,704	22,318
	49,799	(14,120)	35,679	38,618
Ongoing				
Software and use license	2,128	-	2,128	1,242
Total	**51,927**	**(14,120)**	**37,807**	**39,860**

(*) The renegotiation of the hydrological risk recorded in intangible assets will be amortized on a monthly basis from January 2016 until July 2028, considering the increase of 53 days in the granting of the Porto Primavera HPP.

The activity of intangible asset balances is represented by:

	31.12.2017	**Additions**	**Depreciation/ Amortization**	**Activations**	**30.09.2018**
In Service					
Software and use license	16,300	-	(3,348)	2,023	14,975
Hydrological risk renegotiation	22,318	-	(1,614)	-	20,704
	38,618	-	(4,962)	2,023	35,679
Ongoing					
Software and use license	1,242	2,909		(2,023)	2,218
Total	**39,860**	**2,909**	**(4,962)**	**-**	**37,807**

Explanatory Notes

	31.12.2016	Additions	Depreciation/ Amortization	30.09.2017
In Service				
Software and use license.............	9,844	-	(1,801)	8,043
Hydrological risk renegotiation......	24,185	-	(1,578)	22,607
	34,029	-	(3,379)	30,650
Ongoing				
Software and use license.............	6,359	3,183		9,542
Total	**40,388**	**3,183**	**(3,379)**	**40,192**

15 ASSETS AVAILABLE FOR REVERSAL

Breakdown of assets available for reversal	30.09.2018	31.12.2017
Assets available for reversal	6,337,256	6,337,256
Impairment adjustment	(1,995,310)	(1,995,310)
Contingent assets adjustment...	(2,392,516)	(2,392,516)
Total provisions	(4,387,826)	(4,387,826)
Assets available for reversal (net)	**1,949,430**	**1,949,430**

Provisional Measure #579 of September 11, 2012 (converted into Law #12,783/2013) covered electric power generation, transmission and distribution concessions. Through this Provisional Measure, the Federal Government, as a Granting Authority, offered to CESP the anticipation, for January 2013, of the renewal of the concessions of the Ilha Solteira and Jupiá plants, due on July 07, 2015, provided that certain conditions for trading energy from these plants are accepted. The same treatment was extended to the Três Irmãos Plant, the maturity of its first concession period being in November 2011.

The established conditions relate to new revenues to be earned by the Company for operating these plants, and indemnity amounts for assets not yet amortized, related to the basic project. It also established that plants which did not have their early renewals accepted would be tendered at the end of the concessions.

At a meeting held on December 3, 2012, the Company's shareholders decided not to carry out the early renewal of the concessions. With this decision, CESP continued to operate the Ilha Solteira and Jupiá plants until the end of the concession on July 7, 2015.

CESP's shareholders, at a meeting held on December 03, 2012, decided not to renew the concessions in the form offered by the MP. With this decision, CESP continued to operate the Ilha Solteira and Jupiá plants until the end of the concession, which took place on July 07, 2015. At that time, the Três Irmãos plant was jointly operated with the Ilha Solteira plant, and was operated by CESP according to the rules of the Granting Authority.

15.1 Três Irmãos HPP

The Ministry of Mines and Energy ("MME"), in the capacity of Granting Authority and the National Electric Power Agency ("ANEEL") published the following documents regarding the Três Irmãos HPP:

- MME Ordinance #32 of March 5, 2013 - defines the amounts for physical energy guarantee of the plant at 217.5 average MW (megawatts).

- MME Ordinance #117 of April 5, 2013 - Approves the terms and conditions for the provision of electricity generation services through hydroelectric plants, of which the concession had not been extended pursuant to Law #12,783 of January 11, 2013 and Decree #7,805 of 14 of September 2012, with the purpose of ensuring continuity of service.

- MME Ordinance #125 of April 17, 2013 - Designates CESP as being responsible for the Provision of the plant's Electricity Generation Service. It stipulates that the Provision of the Service shall be carried out until assumption by the utility who wins the bidding. It establishes the Cost of Generation Asset Management ("GAG"), which will be used to define the Annual Generation Revenue ("RAG"), and applies to the Provision of the Service the legislation and regulations regarding the use of hydraulic potentials for the purposes of generating electricity under the quota system.

Explanatory Notes

- ANEEL Approval Resolution #1,518 of April 30, 2013 - Sets the Annual Generation Revenue ("RAG") of the plant for the period from April 18 to June 30, 2013.

- ANEEL Approval Resolution #1,521 of April 30, 2013 - Defines the allocation of physical guarantee quotas for the plant, which shall be contracted by the electricity distribution utilities as of April 18, 2013.

- MME Ordinance #214 of June 14, 2013, as amended by MME Ordinance #33 of January 28, 2014 - determines that in March 2014, ANEEL shall directly or indirectly promote an Request for Proposal for the Concession of the Três Irmãos Hydroelectric Power Plant and subsequent allocation of its Physical Energy and Power Guarantee.

As a result of the above provisions, and in particular ANEEL Resolution #1,521 of April 30, 2013, on April 17, 2013, the economic use of the Três Irmãos Hydroelectric Power Plant was terminated by the sale of its physical energy guarantee under a price system.

In the fourth quarter of 2013, several meetings were held with the participation of the Company's Management and technicians with the Ministry of Mines and Energy ("MME") and with Empresa de Pesquisa Energética ("EPE"). The breakdown of the plant values was discussed in detail by the CESP and EPE calculations, and the understandings, at the administrative level, were exhausted.

On March 27, 2014, the Ministry of Mines and Energy ("MME"), together with the Ministry of Finance ("MF"), published the Interministerial Ordinance #129, defining the indemnity amount at BRL 1,717,362 (referring to June/2012) and the respective payment in monthly installments, within 7 years and a minimum grace period of 90 days to effect the first payment. It conditioned the payment to CESP's submission of the statement contained in Appendix I to the Ordinance in order to receive the indemnity. However, sending the statement would imply the Company's acknowledgment that the indemnity amount set forth in Appendix I was sufficient to cover the amount for the portion of investments related to reversible assets not yet amortized or not depreciated, without any further amounts left to be claimed with respect to the concession indicated therein or to the form of receipt of the indemnity referred to by such Ordinance.

On April 7, 2014, the Company sent a letter to the Ministry of Mines and Energy ("MME"), expressing its OPPOSITION to Interministerial Ordinance #129/MME/MF regarding (i) the amount for indemnity to be paid related to the Três Irmãos HPP; (ii) payment of the indemnity in monthly installments, to be made within 7 years; and (iii) the obligation to sign a statement that implies CESP's acknowledgment that the indemnity amount set forth in the Ordinance was sufficient to cover the amount for the portion of investments related to reversible assets not yet amortized or depreciated, without any further amounts left to be claimed with respect to the concession or to the form of receipt of the indemnity.

The Company's Management believes that it is its right to receive the amount recorded and, pursuant to its Concession Agreement, it shall continue to discuss it in court. Given the existence of a contingent asset and in compliance with CPC 25, which covers Provisions, Contingent Liabilities and Contingent Assets, the Company recorded an adjustment for impairment in December 2013 of BRL 1,811,718 (disputed amount), adjusting the amount for indemnity proposed by the Granting Authority (undisputed amount):

Management Indemnity	3,529,080
Contingent assets adjustment - Três Irmãos HPP (*)	(1,811,718)
Net value (undisputed)	**1,717,362**

(*) Breakdown of contingent assets adjustment - Três Irmãos HPP	**Statement of Income**		**Net Worth**
	Provision	Deferred Income tax and Social contribution	Realization of equity valuation Adjustment
Share of regulatory assets	547,520		
Share of capital gains (IFRS)	1,264,198	429,827	834,371
Contingent assets provision	**1,811,718**	**429,827**	**834,371**

On July 9, 2014, the Company filed at the Federal Justice, in Brasilia, an Ordinary Proceeding with an Application for Interim Relief against the Federal Government, requesting compensation for the investments not yet amortized, in view of the reversal of the assets and facilities of the Três Irmãos plant.

Explanatory Notes

In the records of the lawsuit, in an order dated July 29, 2014, the court rejected the injunction filed by CESP directed to the immediate payment of an undisputed amount totaling BRL 1,717,362. CESP took steps to reverse the decision by an appropriate appeal, but it was not successful at the time. After the submission of a challenge by the FEDERAL GOVERNMENT, on November 28, 2014, a new decision was issued partially deferring the injunction filed, to suspend the waiver clause (sole paragraph of article 3 of MME/MF Ordinance #129/2014 of 3/28/2014), and to order that the Federal Government process the administrative request for payment of the undisputed amount in installments, without prejudice to judicial discussion of the total amount due. However, this decision was suspended by the Federal Regional Court of the First Region on appeal by the Federal Government through a decision confirmed by the Superior Court of Justice ("STJ"), which maintained the rejection of the appeal for interim relief.

On September 9, 2015, the court approved the production of engineering expert evidence requested by CESP, and the on-site expert investigation began in the second half of April 2017.

In December 2015, pursuant to ANEEL Normative Resolution #596/2013, CESP submitted the differences between the Basic Project and the Executive Project of this plant.

On 8/1/2018, the expert presented an opinion resulting from his work, supplementing it on 8/7/2018. When the parties are allowed to read the opinion, their technical assistants will have 15 business days to submit their objections and/or additions to the technical work.

On February 29, 2016, there was a favorable decision on the admission of the State of São Paulo to the case as interested party, based on the sole paragraph of article 5 of Law #9,469/97.

On October 9, 2018, the court determined CESP's subpoena to make a statement on the expert opinion.

On October 16, 2018, the court granted the request for an extension of 30 days to CESP's term to submit its statement on the expert opinion.

On October 18, 2018, CESP requested the attachment of the proof of court deposit of the amount related to the third and final installment of the expert fees.

Operation of the Plant - transition period

As for the operation of the plant, on September 10, 2014, with the mediation of Fundo de Investimentos em Participações Constantinopla and of Fumas Centrais Elétricas S/A, TIJOÁ Participações e Investimentos S/A signed an agreement with the Ministry of Mines and Energy ("MME"), the concession agreement for electric power generation at the Três Irmãos Hydroelectric Power Plant, with 30 days of assisted operation and effective as of October 10, 2014, for a period of 30 years. Therefore, since October 10, 2014, TIJOÁ Participações has been responsible for the concession of the Três Irmãos HPP.

On September 10, 2014, with the mediation of Fundo de Investimentos em Participações Constantinopla and of Fumas Centrais Elétricas S/A, TIJOÁ Participações e Investimentos S/A signed an agreement with the Ministry of Mines and Energy ("MME"), the concession agreement for electric power generation at the Três Irmãos Hydroelectric Power Plant, with 30 days of assisted operation and effective as of October 10, 2014, for a period of 30 years. Therefore, since October 10, 2014, TIJOÁ Participações has been responsible for the concession of the Três Irmãos HPP.

On October 1, 2014, CESP signed with TIJOÁ Participações a contract for the provision of operating and maintenance services at Três Irmãos HPP and associated facilities with a term of 6 months, effective as of October 10 of 2014, with the purpose of enabling TIJOÁ to assume full operation in an orderly manner. This agreement was terminated on April 9, 2015.

On October 16, 2014, TIJOÁ Participações signed with the National Department of Transportation Infrastructure ("DNIT") an agreement for operation and maintenance of the Tres Irmãos gates and the Pereira Barreto canal, in the Tietê River, in the state of São Paulo.

15.2 Ilha Solteira and Jupiá HPPs

The Ministry of Mines and Energy ("MME"), in the capacity of Granting Authority and the National Electric Power Agency ANEEL published the following documents regarding the Ilha Solteira and Jupiá HPPs:

MME/MF Interministerial Ordinance #580 of November 1, 2012, amended by Ordinance #602 of the same date, defining the amount of BRL 21,886,060.00 as indemnity for the concession of generation of electric power at the Ilha Solteira HPP;

- MME Ordinance #123 of April 14, 2015, amended by MME Ordinances #384 of August 18, 2015 and #429 of September 11, 2015, which establishes guidelines for the auction of already-amortized hydroelectric plant concessions;

Explanatory Notes

- MME Ordinance #218 of May 15, 2015, rectified by Ordinance #300 of June 24, 2015 and Ordinance #454 of September 24, 2015, determining that the auction to choose the new operator of the Ilha Solteira and Jupiá HPPs shall be held on November 6, 2015. This auction was postponed, having been held on November 25, 2015.
- MME Ordinance #256 of June 11, 2015 appointing CESP as being responsible for the Provision of Electric Power Generation Services of the Ilha Solteira and Jupiá Hydroelectric Power Plants as of July 8, 2015, until assumption of the utility winner of the Hydroelectric Power Plant bidding, being compensated through a Quota System.
- On July 8, 2015, the economic use of the Ilha Solteira and Jupiá HPPs occurred due to the sale of its physical energy guarantee through a price system. The Company depreciated the plants until June 2015 and reclassified them to the residual book value of the PP&E under "Assets Available for Reversal".
- On July 28, 2015, through ANEEL Approval Resolution #1,924, ANEEL approved the calculation of the Initial RAG for Hydroelectric Power Plants, under a quota system, pursuant to Law #12,783/2013, for the period from July 2015 to June 2016, as defined in Technical Note #180/2015SGT/ANEEL - Department of Tariff Management.
- On August 18, 2015, with the amendment of Provisional Measure #688 of August 18, 2015, converted into Law #13,203/2015 of December 8, 2015, the payment of a bonus for the granting of concessions of electricity was introduced as from the auction held on November 25, 2015. This MP covered the renegotiation of the hydrological risk of electricity generation, and changed other industry laws.
- Resolution #2 of September 18, 2015 of the CNPE (National Council of Energy Policy), which establishes the technical and economic parameters of the bids for electric power generation concessions.
- On October 1, 2015, the MME (Ministry of Mines and Energy) published Ordinance #458, in which it defined the amount of BRL 2,027,810.00 as indemnity for Ilha Solteira HPP, related to the basic project, pursuant to MP #579/2012, converted into Law #12,783/2013, referenced to June 2015 prices, considering depreciation and amortization accrued as of the date of start-up of operation of the facilities, and up to June 30, 2015. For the Jupiá HPP, the Federal Government considers that there is no amount to be paid as indemnity.
- On October 9, 2015, CESP filed an indemnity action against the Federal Government, in order that it be ordered to pay to the Company the amount due for the reversal of the assets and facilities linked to the use of the concession of the Ilha Solteira HPP and Jupiá HPP, considering the updated historical cost of the assets in question, of BRL 1,561,240,516.13.
- On October 28, 2015, the MME (Ministry of Mines and Energy) published Ordinance #500, postponing to November 25 the auction of the concessions of 29 already-amortized hydroelectric plants, including those of Ilha Solteira and Jupiá.
- In December 2015, pursuant to ANEEL Normative Resolution #596/2013, CESP submitted proof of investments in modernizations and improvements related to the reversible assets of the Ilha Solteira and Jupiá HPPs, which on July 30, 2015 had a balance that totaled BRL 230 million. Although the Granting Authority has not yet disclosed the form of payment of the compensation for the assets and there are uncertainties regarding the approval of the investments made, Management's expectation on the indemnity of these assets indicates recoverability of the recorded balances.
- The Federal Government presented its response to the lawsuit on 2.16.2016 and CESP, on 5.3.2016, reinforced its claims and rights and requested documentary accounting expert evidence. We await designation of expert investigation.
- On 6/16/2016, the Federal Government expressed itself in a petition to the effect that there is no evidence to be produced, since there is sufficient documentary evidence in the records.
- On June 30, 2016, the Company closed the assisted operation in the Ilha Solteira and Jupiá HPPs.
- On 8/26/2016, the State of São Paulo petitions for entry as a simple assistant to CESP.
- On 11/4/2016, a decision was issued for the subpoena of the parties regarding the application for admission of the State of São Paulo as a simple assistant, so that CESP and the Federal Government may make a statement within fifteen (15) days.
- On 3/27/2017, the federal court granted the admission of the State of São Paulo.
- On July 10, 2017, CESP filed a petition with a statement on the documents and information attached by the Federal Government, and made a statement on the differences between its VNR calculations and those prepared by EPE/Federal Government.
- On September 22, 2017, the court ruled that the production of accounting expert evidence will only be carried out in the sentence calculation phase, since the matter is exclusively of law, and the core of the claim consists in defining the legal framework applicable to the calculation of indemnity for the plants, whether through the historical cost or a new replacement amount.
- On April 18, 2018, CESP's appeals on the above issue were not accepted.

Explanatory Notes

- On August 24, 2018, the lawsuit was partially granted, recognizing CESP's right to receive in a single installment, and upholding the indemnity calculation criterion of the New Replacement Value ("VNR").
- On September 3, 2018, in view of the sentence, CESP filed a Motion for Clarification for the court to mainly clarify the omission of the sentence that failed to be rendered regarding indemnity for the lands of the Ilha Solteira and Jupiá HPPs.
- On September 25, 2018, the Federal Government filed a Motion for Clarification regarding the form of payment of the indemnity in a single installment.
- On October 10, 2018, a decision was rendered after the filing of Motions for Clarification by CESP and the Federal Government, rejecting the appeals of CESP and the Federal Government.
- On October 11, 2018 the case file was removed from the registry by the Federal Government.

Adjustment for Depreciation of Contingent Assets

Considering that the Granting Authority has already formally made a statement as to the amount of indemnity for these plants, established at only BRL 2,028, the Company believes that it is its right to receive the amount recorded, considering the updated historical cost, and shall continue to discuss it in court. Given the existence of a contingent asset and in compliance with CPC 25, which covers Provisions, Contingent Liabilities and Contingent Assets and in view of ANEEL Resolution #596/2013, the Company constituted an adjustment for depreciation of these assets (contingent assets) in the amount of BRL 580,798, adjusting the amount recorded until the outcome of the legal dispute, as shown below:

	DEVELOPMENT		
Breakdown of assets available for reversal	**Ilha Solteira**	**Jupiá**	**Total**
Assets available for reversal	2,165,858	642,318	2,808,176
Impairment adjustment	(1,657,484)	(337,826)	(1,995,310)
Contingent assets adjustment (*)	(379,464)	(201,334)	(580,798)
Total provisions	(2,036,948)	(539,160)	(2,576,108)
Assets available for reversal (net)	**128,910**	**103,158**	**232,068**

	DEVELOPMENT		
(*) Breakdown of contingent assets adjustment for Ilha Solteira and Jupiá HPPs	**Ilha Solteira**	**Jupiá**	**Total**
Plant	2,165,858	642,318	2,808,176
Impairment adjustment	(1,657,484)	(337,826)	(1,995,310)
Subtotal	**508,374**	**304,492**	**812,866**
MME Ordinance #458 of 1.10.2015	(2,028)	-	(2,028)
Modernization and improvement ANEEL Res. #596/2013	(126,882)	(103,158)	(230,040)
Subtotal	(128,910)	(103,158)	(232,068)
Contingent Assets Provision	**379,464**	**201,334**	**580,798**

Explanatory Notes

16 PROPERTY, PLANT AND EQUIPMENT (PP&E)

The balance of PP&E segregated by nature of assets, with the comments contained in Notes 16.1 to 16.4, is as follows:

		30.09.2018			31.12.2017
	Average Annual Depreciation Rates (%)	Total cost	Accrued Depreciation	Net	Net
In Service					
Land		304,451	-	304,451	299,036
Reservoirs, Dams and Channels	2.0%	9,279,958	(5,451,247)	3,828,711	3,969,100
Buildings, Civil Construction Works and Improvements	2.3%	2,321,947	(1,352,990)	968,957	1,015,497
Machines and Equipment	2.9%	2,778,109	(1,518,620)	1,259,489	1,304,384
Vehicles	6.9%	6,124	(3,938)	2,186	2,439
Furniture and Utensils	0.6%	3,720	(2,676)	1,044	1,179
		14,694,309	(8,329,471)	6,364,838	6,591,635
(R&D)					
Machines and Equipment		(807)	97	(710)	(737)
		14,693,502	(8,329,374)	6,364,128	6,590,898
Ongoing					
Land		-	-	-	1,301
Reservoirs, Dams and Channels		69	-	69	-
Machinery and Equipment in Assembly		647	-	647	-
		716	-	716	1,301
Total		**14,694,218**	**(8,329,374)**	**6,364,844**	**6,592,199**

On August 11, 2015, ANEEL issued Normative Resolution #674, which approved the revision of the Manual of Asset Control of the Electric Power Industry ("MCPSE") and maintained the annual depreciation rates for assets in granted service within the electric power industry. The annual depreciation rates adopted in the public energy service, for the related generation assets, vary from 2% to 6.67%.

The balance of PP&E is net of the impairment recorded in the amount of BRL 2,308,617, of which BRL 2,301,703 was from the Engenheiro Sérgio Motta (Porto Primavera) HPP and BRL 6,914 from the Jaguari HPP.

The activity of PP&E asset balances is represented by:

	31.12.2017	Additions	Depreciation	Activations	Reclassification/ Write-offs	30.09.2018
In Service						
Land	299,036	-	-	6,600	(1,185)	304,451
Reservoirs, Dams and Channels	3,969,100	-	(135,147)	-	(5,242)	3,828,711
Buildings, Civil Construction Works and Improvements	1,015,497	-	(39,405)	-	(7,135)	968,957
Machines and Equipment	1,304,384	-	(57,574)	106	12,573	1,259,489
Vehicles	2,439	-	(251)	-	(2)	2,186
Furniture and Utensils	1,179	-	(110)	-	(25)	1,044
	6,591,635	-	(232,487)	6,706	(1,016)	6,364,838
R&D Asset Costs						
Machines and Equipment	(737)	-	39	(12)		(710)
	6,590,898	-	(232,448)	6,694	(1,016)	6,364,128
Ongoing						
Land	1,301	5,299	-	(6,600)	-	-
Reservoirs, Dams and Channels	-	69	-	-	-	69
Machinery and Equipment in Maintenance		753	-	(106)	-	647
	1,301	6,121	-	(6,706)	-	716
R&D Asset Costs						
Machinery and Equipment in Assembly	-	(12)	-	12	-	-
	1,301	6,109	-	(6,694)	-	716
Total	**6,592,199**	**6,109**	**(232,448)**	**-**	**(1,106)**	**6,364,844**

Explanatory Notes

	Restated					
	31.12.2016	**Additions**	**Depreciation**	**Activations**	**Reclassification/Write-offs**	**30.09.2017**
In Service						
Land	295,391	-		1,213	-	296,604
Reservoirs, Dams and Channels	3,956,317	-	(135,173)	-	-	3,821,144
Buildings, Civil Construction Works and Improvements	1,040,580	-	(39,267)	-	-	1,001,313
Machines and Equipment	1,376,913	-	(56,783)	90	(186)	1,320,034
Vehicles	2,781	-	(257)	-	-	2,524
Furniture and Utensils	1,329	-	(120)	-	(11)	1,198
	6,676,311	-	(231,600)	1,303	(197)	6,442,817
R&D Asset Costs						
Machines and Equipment	(787)	-	38	-	-	(749)
	6,672,524	-	(231,562)	1,303	(197)	6,442,068
Ongoing						
Land	1,895	-	-	(1,213)	1,213	1,895
Reservoirs, Dams and Channels	82,873	13,194	-	-	-	96,067
Buildings, Civil Construction Works and Improvements	26,865	10	-	-	-	26,875
Machinery and Equipment in Maintenance	2,834	-	-	-	-	2,384
Machinery and Equipment in Assembly	-	972	-	(90)	-	882
Other	5,728	277	-	-	-	6,005
	119,745	14,453	-	(1,303)	1,213	134,108
Total	**6,792,269**	**14,453**	**(231,562)**	**-**	**1,016**	**6,576,176**

16.1 Ongoing PP&E

Ongoing PP&E mainly includes expenses with modernization, repowering of machinery and equipment for the power station. Thus, in view of CPC 20, the Company does not capitalize interest on its ongoing PP&E because it believes that it does not have a qualifying asset.

As of 2009, the costs with new regulation in excess of the recoverable value of the assets belonging to the Engenheiro Sérgio Motta (Porto Primavera) plant are no longer capitalized and are recorded directly in the result (Note 28.2).

16.2 Assets Linked to the Concession

According to articles 63 and 64 of Decree #41,019 of February 26, 1957, the assets and facilities used in the production, transmission and distribution of electric power, including trading, are linked to these services and may not be removed, disposed of, assigned or given as mortgage guarantee without prior and explicit authorization of the Regulatory Body. ANEEL Resolution #20/99 regulates the unlinking of assets from concessions of the Public Electric Power Service, granting prior authorization for the unlinking of assets that are unsuitable for the concession, when intended for disposal. It also determines that the proceeds of the disposal shall be deposited in a linked bank account, and shall be applied in the concession.

16.3 Deemed cost

In compliance with Technical Pronouncement CPC 37 (IFRS 1) and ICPC 10, the Company opted for the adoption of deemed cost for the plants forming part of the generation infrastructure, adjusting the initial balances at the transition date on 1/1/2009 for their values estimated by independent evaluators.

According to ICPC 10, on 1/1/2009, the net effect of the first adoption of deemed cost for the plants resulted in an increase in PP&E of BRL 3,553,278, as a contra entry to of the deferred income tax and social contribution account of BRL 1,208,115 (34%) and in the Equity Valuation Adjustment account, under Shareholders' Equity, of BRL 2,345,163. The details are shown below:

Explanatory Notes

Plant	01.01.2009		
	Deemed cost limited to recovery amount	Book value	Capital gains (losses)
Engenheiro Sérgio Motta	8,917,513	10,912,754	(1,995,241)
Ilha Solteira + Três Irmãos	7,780,060	3,326,400	4,453,660
Jupiá	1,207,288	275,394	931,894
Paraibuna	141,296	20,905	120,391
Jaguari	45,618	3,044	42,574
Total	**18,091,775**	**14,538,497**	**3,553,278**
Deferred taxes			(1,208,115)
Effect on shareholders' equity			**2,345,163**

Activity:

	PP&E BRL	Deferred taxes Assets/(Liabilities) BRL	Shareholders' Equity BRL
	PP&E BRL	Deferred duties Assets/(Liabilities) BRL	Shareholders' Equity BRL
Initial balance as of 1.1.2009	**3,553,278**	**(1,208,115)**	**2,345,163**
Realizations	(5,064,860)	1,722,052	(3,342,808)
Balance as of 12.31.2017	**(1,511,582)**	**513,937**	**(997,645)**
Realization for the period (depreciation)	23,552	(8,008)	15,544
Final balance as of 9.30.2018	**(1,488,030)**	**505,929**	**(982,101)**

Plant	30.09.2018		
	PP&E BRL	Deferred duties Assets/(Liabilities) BRL	Shareholders' Equity BRL
Engenheiro Sérgio Motta HPP (Capital Losses)	(1,528,099)	519,553	(1,008,546)
Paraibuna HPP	30,044	(10,215)	19,829
Jaguari HPP	10,025	(3,409)	6,616
Total	**(1,488,030)**	**505,929**	**(982,101)**

The remaining Asset Valuation Adjustment balance of BRL 982,101 as of 9.30.2018 (BRL 997,645 as of 12.31.2017) corresponds basically to the capital losses from the Porto Primavera plant, which will be realized by the transfer to the Retained earnings account, to the extent of the depreciation or realization of those assets.

16.4 Asset Impairment

Complying with CPC #01, Management annually prepares internal studies to evaluate the recoverability of the book value of the PP&E of the Company's power station in its future operations, considering the following components and assumptions:

- Future cash flow from operations, deducted at present value, for each plant considered as the lowest level of the cash-generating unit. This flow covers the remaining period for the concession, \not including any period of extension or renewal;
- Future cash flow of the indemnity amount at the end of the concession, deducted at present value.

Deduction rate compatible with the market (2009: 6.69%; 2010: 6.24%; 2011: 5.70%; 2012: 4.95%; 2013: 5.73%; 2014: 5.44%; 2015: 6.75%; 2016: 7.11%; 2017: 6.06% p.a. net of income tax).

Explanatory Notes

On 12.31.2010, the Company performed a recoverability test on its HPPs and found that the book value of the Jaguari HPP was below its fair value, while the Engenheiro Sérgio Motta HPP recovered its value, in view of the provision that occurred in 2008 (BRL 2,467,094). Thus, the impairment of the Jaguari HPP and the reversal of the provision for impairment of the Engenheiro Sérgio Motta HPP were accounted for, at the net amount of BRL 163,593, as shown in the table below.

			As of 12.31.2017
HPP	**Book Value**	**Fair Value**	**Impairment/Reversal**
Jaguari HPP	38,946	37,148	**(1,798)**
Paraibuna HPP	62,724	62,724	-
Engenheiro Sérgio Motta HPP	6,347,281	6,512,672	**165,391**
Total	**6,448,951**	**6,612,544**	**163,593**

17 ENERGY PURCHASED FOR RESALE

	30.09.2018	31.12.2017
Current		
Energy purchased for resale **(a)**	119,793	113,162
Provision - CCEE - injunction **(b)**	86,955	86,955
Provision - CCEE - September 2018 (note 28.1)	6,331	-
	213,079	**200,117**

(a) Relates to contracts for energy purchased for resale (Note 28.1), for balancing the energy balance for the period.

(b) On September 27, 2017, the Company obtained at the Federal Court of São Paulo an injunction that ordered the suspension of the effects of Ordinance #41/2017 of the Ministry of Mines and Energy ("MME"), as well as the removal of its knock-on effects in view of accounting and financial settlements in the CCEE as from August/2017.

The ordinance covers the updating of risk aversion parameters in computational models which are used for the operation, pricing, expansion and calculation of the physical guarantee of the electric power industry, with a direct impact on the pricing and trading of energy.

The judge ordered the suspension of the effects and aforementioned knock-on effects determined in the MME ordinance until final decision.

On 12.20.2010, TRF/3 suspended (i) the injunction obtained in a lower court decision, (ii) the order to send the case to the Federal Court of the 16th Chamber of Brasilia to remain at the Federal Court of the 21st Civil Chamber of São Paulo. CESP has filed a suitable appeal that is pending decision.

18 LOANS AND FINANCING

18.1 Breakdown

	30.09.2018				31.12.2017			
	Current		Non-Current	Total	Current		Non-Current	Total
	Charges	Principal Amount	Principal Amount		Charges	Principal Amount	Principal Amount	
Foreign Currency								
BNDES **(1)**	2,923	254,828	44,688	302,439	1,230	198,077	178,457	377,764
Other Institutions	189	-	1,258	1,447	70	-	943	1,013
	3,112	254,828	45,946	303,886	1,300	198,077	179,400	378,777
Domestic Currency								
ELETROBRÁS **(2)**	2	5,152	889	6,043	3	5,152	4,752	9,907
	3,114	**259,980**	**46,835**	**309,929**	**1,303**	**203,229**	**184,152**	**388,684**

There are no covenants on existing loan and financing agreements.

(1) The balance of principal on September 30, 2018 of BRL 299,516 (BRL 376,534 on December 31, 2017) relates to an agreement executed with Banco Nacional de Desenvolvimento Econômico e Social ("BNDES") on September 4, 2002, the original amount of which was $552,650 thousand, with amortization of the principal as from April 15, 2005, in 88 installments every two months and adjusted by UMBNDES, plus a basic spread of 1.91% p.a. and a gap of 0.95% p.a., with interest due as of April 15, 2003. This agreement is guaranteed by the Federal Government and counter-guaranteed by the State Government. It is a barter agreement,
composed of debt previously renegotiated within the context of the "Brady Plan", referring to the "Pair Bonus" in the amount of $325,516 thousand and the "Discount Bonus" in the amount of $227,134 thousand.

Explanatory Notes

(2) Balance of principal of BRL 6,041 (BRL 9,904 on December 31, 2017) related to financing with ELETROBRAS, as follows:

(a) Balance of BRL 5,835 (BRL 9,585 on December 31, 2017) relates to the principal of financing for civil works and electromechanical assembly of the Porto Primavera plant, with a monthly payment compensated at the rate of 5% p.a., maturing up to November 30, 2019.

(b) Balance of BRL 206 (BRL 318 on 12.31.2017) relates to the principal of financing for acquisition of materials and equipment, formalized through an Instrument of Debit Recognition ("IRD"), with a quarterly payment compensated at a fixed rate of 8% p.a., maturing up to August 15, 2020.

18.2 Breakdown of the outstanding balance of principal in foreign currency:

	30.09.2018			31.12.2017		
		Thousand USD (*)			Thousand USD (*)	
Currency	**Thousand BRL**	**(Equivalent)**	**%**	**Thousand BRL**	**(Equivalent)**	**%**
USD	300,774	75,120	100.00	377,447	114,110	100.00

18.3 Calendar of maturities for the principal of loans and financing of Non-current liabilities:

	Foreign Currency		Domestic Currency	Total
	Thousand BRL (*) (Equivalent)	**Thousand BRL**	**Thousand BRL**	**Thousand BRL**
From 2019 to 2020	11,161	44,688	889	45,577
From 2012 to 2024	314	1,258	-	1,258
	11,475	**45,946**	**889**	**46,835**

(*) Converted to USD at the rate of BRL 4.0039 as of September 30, 2018 (BRL 3.3080 as of 12.31.2017).

18.4 The main currencies and indexes of loans and financing showed the following percentage fluctuations:

In the quarters ended	USD	IPCA	TR	IGP-M	IGP-DI
30.09.2018	3.84	0.72	-	2.75	2.93
30.09.2017	(4.24)	0.59	0.09	(0.16)	0.56

19 STATEMENT OF LOAN AND FINANCING

BREAKDOWN OF FINANCIAL DEBT

	Contract	Currency	Explanatory Note	Annual financial charges	Final maturity	Frequency of Payment: Charges	Frequency of Payment: Principal Amount	Charges	Current	Non-Current	9.30.2018 Total	12.31.2017 Total
FOREIGN CURRENCY								**3,112**	**254,828**	**45,946**	**303,886**	**378,777**
BNDES	*BRADY*	*USD*	18.2 item 1	2.86% p.a. + UMBNDES	Oct-2019	(Feb, Apr, Jun, Aug, Oct, Dec)	(Feb, Apr, Jun, Aug, Oct, Dec)	**2,923**	**254,828**	**44,688**	**302,439**	**377,764**
OTHER INSTITUTIONS								**189**	**-**	**1,258**	**1,447**	**1,013**
	ELETROPAULO	*USD*		Div (0.8125% p.a. + LIBOR)	Apr-2024	Sem. (Apr and Oct)	Sem. (Apr and Oct)	**189**	**-**	**1,258**	**1,447**	**1,013**
DOMESTIC CURRENCY								**2**	**5,152**	**889**	**6,043**	**9,907**
ELETROBRÁS								**2**	**5,152**	**889**	**6,043**	**9,907**
	ELETROBRÁS - RGR	*BRL*	18.3 item 2	Fixed Rate = 5% p.a.	Nov-2019	Monthly	Monthly	**-**	**5,001**	**834**	**5,835**	**9,585**
	ELETROBRÁS - IRD	*BRL*		Fixed Rate = 8% p.a.	Aug-2020		Quarterly (Feb, May, Aug, Nov)	**2**	**151**	**55**	**208**	**322**
								3,114	**259,980**	**46,835**	**309,929**	**388,684**

Explanatory Notes

19.1 Activity of Loans, Financing and FIDC

	Domestic Currency	Foreign Currency	Total
Initial balance as of 12.31.2017	**9,907**	**378,777**	**388,684**
Interest and Commissions	431	18,700	19,131
Foreign Exchange Fluctuations	-	64,443	64,443
Amortization of Principal Amount	(4,281)	(141,104	(145,385)
Amortization of Interest	(14)	(16,930)	(16,944)
Final balance as of 9.30.2018	**6,043**	**303,886**	**309,929**

	Domestic Currency	Foreign Currency	FIDC	Total
Initial balance as of 12.31.2016	**15,061**	**553,333**	**83,151**	**651,545**
Interest and Commissions	714	25,281	595	26,590
Monetary Fluctuations	-	-	1,155	1,155
Foreign Exchange Fluctuations	-	(14,802)	-	(14,802)
Amortization of Principal Amount	(3,849)	(114,728)	(84,901)	(203,478)
Amortization of Interest	(730)	(23,122)	-	(23,852)
Final balance as of 9.30.2017	**11,196**	**425,962**	**-**	**437,158**

20 TAXES AND SOCIAL CONTRIBUTIONS

	30.09.2018	31.12.2017
Current		
COFINS on revenues	2,514	10,811
PIS on revenues	540	2,343
ICMS on energy supply (tax substitution)	4,302	4,180
PERT 2017 Installments (*)	14,152	14,152
Social charges w/o payroll – company	3,002	3,470
Taxes and social contributions of service providers	1,392	1,670
	25,902	**36,626**

(*) Provisional Measure #783 of 5.31.2010 and its amendments, converted into Law #13,496 of 10.24.2017, established the Special Tax Regularization Program ("PERT") within the scope of the Federal Revenue Service of Brazil and the Office of the Attorney General of the National Treasury.

RFB Normative Instruction #1,711 of 6.16.2017 and its amendments regulated, within the scope of the Federal Revenue Service of Brazil, the aforementioned Provisional Measure.

CESP opted for the PERT on September 22, 2010 to include PIS and COFINS debts offset with credit not approved by the Brazilian Federal Revenue Service in an administrative discussion, which had a period for withdrawal ending on 11.30.2017.

The Company collected 20% of the consolidated debts, in five (5) monthly and consecutive installments, the last one being in December 2017, and the remaining balance will be settled with credit from tax losses and/or negative basis of social contribution on a date to be defined by the Federal Revenue Service when providing information to consolidate debts.

Explanatory Notes

21 EMPLOYEE PENSION PLAN ENTITY

	30.09.2018			31.12.2017
	Current	Non-Current	Total	Total
- Supplementary Benefit Agreement				
Variable Contribution ("CV") (Note 21.2.1)................	204	1,787	1,991	1,957
- CPC 33/IAS 19 Adjustment	(204)	(1,787)	(1,991)	(1,957)
	-	-	-	-

21.1 Benefit Plans

CESP sponsors retirement and pension benefits plans for its employees and former employees and beneficiaries thereof, in order to supplement the benefits provided by the official social security system. The CESP Foundation is the entity responsible for managing the benefit plans sponsored by CESP.

CESP, through negotiations with the unions representing the category, reformulated the plan in 1997, having as its main characteristic the mixed model, composed of 70% of real salary of contribution as a predefined benefit, and 30% of the real salary of contribution as a predefined contribution. This reformulation had the objective of equating the actuarial technical deficit and reducing the risk of future deficits. In addition to the benefits of the plan, CESP offers its employees other benefits such as medical and dental care.

The payment of the plan for the predefined benefit is shared between the Company and employees. The cost of the portion established as predefined contribution is shared between the Company and employees based on a percentage freely chosen by the participant up to the

limit of 2.5% of the portion. Payment rates are reassessed periodically by an independent actuary.

The Cleared Proportional Supplementary Benefit ("BSPS") is guaranteed to employees participating in the supplementation plan who have joined the new model implemented as of January 1, 1998, who leave the job, even without being retired. This benefit ensures the proportional amount of supplementation relative to the period of service prior to the date of the reformulation of the new supplementation plan. The benefit will be paid after termination of the employee and provided that the employee has fulfilled the minimum requirements provided for in the regulation of the new plan.

21.2 Financial equalization of the benefit plans with the CESP Foundation

In order to equate and guarantee cash flow between CESP and the CESP Foundation, a portion of the actuarial liability determined by independent actuaries (BSPS and predefined benefit plan) is represented by legal instruments formalized by the Company in 1997, with the intervention of the National Department of Supplementary Pension ("SPC") in the form of intra-company loan agreements and adjustment of a reserve to be amortized, which have a variable clause, as follows:

21.2.1 Contract for the Equalization of the Variable Contribution Plan ("CV")

Relates to the balance of the contract for the adjustment of mathematical reserves to cover the existing actuarial technical deficit with the CESP Foundation related to the Variable Contribution Plan ("CV"). In accordance with the legislation, any deficit determined in the CV plan must be equated by the sponsor and active and assisted participants, proportionally to the formation of the funds. The contract was executed on June 20, 2017 and the balance corresponds to the sponsor's liability to be paid in 137 monthly installments until June 2028, restated by the IGP-DI plus the real interest rate used in the last actuarial valuation. Annually, the balance will be reviewed as a result of any gains or losses ascertained in the actuarial revaluations of the plan.

The contract has a variable annual adjustment clause according to the actuarial cost, therefore, they represent, in essence, guarantees for the financial equalization of the benefits plan. For this reason, CESP's liabilities are recorded in accordance with CPC 33/IAS 19.

As of June 30, 2018, the difference between the balances shown in these contracts and the amount of the liabilities, recorded in accordance with CPC 33/IAS 19, is due to the difference in methodologies used between CESP and the CESP Foundation to assess the financial situation of the benefit plans, which are adjusted annually by the effects of actuarial gains and losses over time (maturity of the plan).

Explanatory Notes

In essence, the debt agreement is considered a guarantee for the equalization of cash flow between the Company and the CESP Foundation.

Activity

	30.09.2018	30.09.2017
Initial balance	-	-
(Revenue)/ expense for the period	748	3,191
Contributions paid	(4,735)	(40,702)
Actuarial (gains)/losses	(3,013)	37,511
Final balance	**-**	**-**

Below we show the estimated expense for the year 2018, based on the actuarial valuation of 2017:

	2018			
Estimated Expense/(Revenue) for 2018	**BSPS**	**BD**	**CV**	**TOTAL**
Cost of current service		12,104	5,815	17,919
Cost of interest on the bond	393,394	67,801	5,331	466,526
Expected return on plan assets	(402,699)	(72,310)	(6,810)	(481,819)
Expense/(Revenue) on the "asset ceiling"	9,305	4,350	1,308	14,963
Employee contribution	-	(4,249)	(3,010)	(73259)
(Revenue)/expense for the fiscal year	**-**	**7,696**	**2,634**	**10,330**

22 INDUSTRY CHARGES

	30.09.2018	31.12.2017
Current		
Global Reversal Reserve ("RGR"):	4,750	12,005
- Monthly Quota **(a)**	-	11,192
- Quota Difference - 2016 **(b)**	7,859	7,982
Financial Compensation for the Use of Water Resources	261	243
Electric power services inspection fee ("TFSEE")	1,168	1,057
Quotas for R&D (FNDCT) **(c)**	585	529
Quotas for R&D (MME) **(c)**	112,436	141,175
R&D - Projects **(d)**	14,160	13,383
Charges for the Use of the Electric Grid - CUSD/CUST **(e)**	137	129
Rate of Use of the Distribution System ("TUSDg") **(f)**	**141,356**	**187,695**
Non-Current		
Global Reversal Reserve ("RGR"):		
- Quota Difference - 2017 **(g)**	1,466	1,466
R&D - Projects **(d)**	15,899	-
	17,365	1,466
	158,721	**189,161**

(a) September 2018 RGR quota, in the amount of BRL 4,103, plus ten (10) installments of BRL 64.7 related to the RGR difference in 2016, according to ANEEL Order #1,791 of August 8, 2018.

(b) Difference in the 2016 RGR quota, which had its form of payment defined by ANEEL according to Order #1,791 of August 8, 2018.

(c) Quotas provisioned in the Annual Research and Development (R&D) Program to be collected from the National Fund for Scientific and Technological Development ("FNDCT") and the Ministry of Mines and Energy ("MME"), in compliance with Law #9,991 of July 24, 2000.

(d) Balance of funds to be applied in Research and Development (R&D) projects, restated by SELIC. Investments on R&D are accounted for as assets and upon completion of the project, are recognized as settlement of the bond.

Explanatory Notes

(e) Charges for the use of the transmission and distribution system ("CUST/CUSD"), according to ANEEL Approval Resolution #2,408 of June 26, 2018.

(f) Charges for the use of the distribution system (TUSDg), according to ANEEL Approval Resolutions #2,437/2018 (Elektro) and #2,290/2017 (Elektro).

(g) Difference in 2017 RGR quota, which will have its form of payment defined by ANEEL in 2019.

23 PROVISION FOR LEGAL RISK

The Company has lawsuits at different courts and levels, of labor, tax, civil and environmental nature. The Company's Management, based on the opinion of its legal advisors, has established provisions for those that are considered to be probable losses.

Breakdown:

	31.12.2017	Activity				30.09.2018
	Balance	Update	Provisioning/ (Reversal)	(-) Payments	(-) Note 11 Agreement	Balance
Labor						
Miscellaneous lawsuits	271,618	20,652	21,052	(39,445)	-	273,887
Civil lawsuits						
Miscellaneous lawsuits	32,067	2,336	153	-	-	34,556
Tax lawsuits				-	-	
Miscellaneous lawsuits	24,788	2,002	1,249	-		28,039
Damages						
Environmental proceedings	1,106,798	54,453	(366,416)	(27,184)	(583,175)	184,476
Civil proceedings	1,205,755	183,663	63,752	(24,817)	(72)	1,428,281
Expropriations						
Expropriation proceedings - CESP Plants	137,413	22,563	(12,034)	(6,136)	-	141,806
Expropriation proceedings - spun-off companies	172,327	13,162	(8,662)	(24,188	-	152,639
Sum of Damages and Expropriations	2,622,293	273,841	(323,360)	(82,325)	(583,247)	1,907,202
TOTAL	**2,950,766**	**298,881**	**(300,906)**	**(121,770)**	**(583,247)**	**2,243,674**

	31.12.2016	Activity			30.09.2017
	Balance	Update	Provisioning/(Reversal)	(-) Payments	Balance
Labor					
Miscellaneous lawsuits	240,790	19,377	42,806	(70,206)	232,767
Civil lawsuits					
Miscellaneous lawsuits	29,403	1,692	374	-	31,469
Tax lawsuits					
Miscellaneous lawsuits	22,432	1,536	(29)	(30)	23,909
Damages					
Environmental proceedings	1,005,115	80,014	(37,987)	(24,094)	1,023,048
Civil proceedings	1,129,361	78,176	(18,787)	(31,659)	1,157,091
Expropriations and damages					
Expropriation proceedings - CESP Plants	232,613	20,613	(7,419)	(1,687)	244,120
Expropriation proceedings - spun-off companies	214,581	14,446	(18,225)	(2,999)	207,803
Sum of Damages and Expropriations	2,581,670	193,249	(82,418)	(60,439)	2,632,062
TOTAL	**2,874,295**	**215,854**	**(39,267)**	**(130,675)**	**2,920,207**

On September 30, 2018, the legal risks, in their different types, were evaluated and classified according to the probability of economic and financial risk to the Company, as shown below:

Explanatory Notes

Type	Loss Expectation			Total
	Probable	Possible	Remote	
Labor lawsuits	273,877	85,230	112,732	471,839
Miscellaneous civil lawsuits	34,556	269,765	2,128	306,449
Tax proceedings	28,039	81,112	200	109,351
Environmental proceedings	184,476	259,379	1,814,888	2,258,743
Civil proceedings	1,428,281	946,982	2,951,020	5,326,283
Expropriation proceedings - CESP Plants	141,806	433,404	1,778,770	2,353,980
Expropriation proceedings - spun-off companies	152,639	336	546,458	699,433
Total as of September 30, 2018	**2,243,674**	**2,076,208**	**7,206,196**	**11,526,078**
Total as of December 31, 2017	**2,950,766**	**3,386,601**	**6,191,999**	**12,529,366**

On September 30, 2018, the total amount claimed by the plaintiffs in the various lawsuits was BRL 11,526,078 (BRL 12,529,366 on 12.31.2017). On the same date, the total provision for legal risks having probable loss expectation is BRL 2,243,674 (BRL 2,950,766 on 12.31.2017), and the Company has court deposits in guarantee of lawsuits in the amount of BRL 536,839 (BRL 1,194,691 on December 31, 2017) related to civil, labor, tax, environmental and expropriation lawsuits - CESP plants (Note 11).

The Company's Management, based on the opinion of its legal advisors, believes that there are no significant future risks that are not covered by sufficient provisions in its Interim Financial Statements or that may result in a significant impact on its cash flow.

The main lawsuits are described briefly below:

23.1 Labor claims

On September 30, 2018, labor claims against CESP amounted to BRL 471,839 (BRL 436,373 on 12.31.2017). CESP maintains provisions recorded to face possible obligations in the amount of BRL 273,877 (BRL 271,618 on 12.31.2017), represented by 682 lawsuits. The Company maintains court deposits in guarantee of lawsuits, in the amount of BRL 94,347 (BRL 110,020 on 12.31.2017 - Note 11).

Labor lawsuits with a possible loss expectation amount to BRL 85,230 (BRL 82,532 on 12.31.2017), corresponding to 476 lawsuits.

23.1.1 Possible impact of indexation on labor provisions

In a decision taken on August 14, 2015 on a petition for an unconstitutionality claim, the TST (Superior Labor Court) changed the understanding and determined that the labor claims would be restated by the IPCA-E (Special Extended Consumer Price Index), and no longer by the TR (Reference Rate). The decision was made based on the judgment carried out by the STF (Supreme Federal Court), which recognized as unconstitutional the use of the TR as an index for indexation, for not fully representing the value of the currency, and thus, not being able to compensate for the injured asset.

On October 14, 2015, the STF granted an injunction in a constitutional complaint, which suspended the effects of the decision issued by the TST, but at the end, said complaint was dismissed. The lawsuit that is processed in the TST is pending decision on appeals filed at the STF. The company valuated the possible impact at the amount of BRL 47,598 (BRL 34,388 on 12.31.2017) until 9.30.2018.

23.2 Miscellaneous Civil Lawsuits

23.2.1 Ordinances of the former National Department of Waters and Electric Power ("DNAEE")

CESP is involved in lawsuits filed by industrial consumers aiming at compensation for amounts allegedly overpaid as electricity tariff during 1986. These amounts derive from the increase in the rates promoted by Ordinances #38 and #45, respectively of February 28 and March 4, 1986, of the former DNAEE. The lawsuits having risks assessed as probable and possible losses on September 30, 2018 are BRL 34,556 and BRL 4,156, respectively (BRL 32,067 and BRL 3,899 on 12.31.2017).

Explanatory Notes

23.2.2 AES - Sul Lawsuit

It covers a declaratory action with a request for interim relief filed by AES Sul. There was an injunction authorizing the revaluation of amounts in the CCEE in favor of AES Sul, related to the rationing period which occurred in 2001. CESP and other agents obtained an injunction to remove the revaluation and liquidation determined by such court, and became parties to the case. The Company has already challenged the lawsuit, which until now, has no court decision. AES Sul claims the right not to opt for relief, which allows liquidation in the CCEE in its favor, with CESP's share of approximately BRL 265,609 (BRL 247,076 on 12.31.2017), which has a loss risk assessed as possible.

23.3 Tax Lawsuits

CESP is involved in tax lawsuits in the estimated amount of BRL 109,351 (BRL 105,670 on 12.31.2017), consisting of BRL 28,039 (BRL 24,788 on 12.31.2017), with an expectation of loss considered to be probable, related to to 10 lawsuits and guarantee deposits in the amount of BRL 40,894 (BRL 38,406 at 12.31.2017). Other 122 lawsuits classified as possible loss totaled BRL 81,112 (BRL 71,328 at 12.31.2017).

23.4 Environmental Lawsuits

CESP responds to environmental lawsuits aimed at the deployment of a fish ladder, riparian forest, conservation unit, protection of slopes, legal reserve, water table and compensation for economic losses and damages to the fish fauna.

The estimate of the sum of the lawsuits with a risk of loss evaluated as probable and possible, after executing an agreement with the MPMS (Note 23.8), reached BRL 443,855 (BRL 2,175,444 on 12.31.2017) as of 9.30.2018, as shown below:

	PROBABLE	POSSIBLE	TOTAL
Slope protection	12,250	215,314	227,564
Parks	169,893	-	169,893
Water table	-	4,112	4,112
Other	2,333	39,953	42,286
	184,476	**259,379**	**443,855**

The Company has recorded the amount of BRL 40,361 (BRL 640,733 on 12.31.2017) in court deposits related to environmental proceedings (Note 11).

23.5 Civil Lawsuits - CESP Plants

23.5.1 Fishermen Lawsuits

There are ongoing lawsuits against CESP filed by fishermen from the region of the Engenheiro Sérgio Motta (Porto Primavera) Hydroelectric Power Plant, who are claiming compensation for losses and damages resulting from the filling of the reservoir of said plant up to the limit of 257 meters above sea level. The total amount for lawsuits having a risk of loss assessed as probable and possible on September 30, 2018 is BRL 190,996 and BRL 542,205, respectively, for 132 lawsuits (BRL 103,247 and BRL 638,835 on 12.31.2017). Considering the analysis of the merits of these claims for compensation by its legal advisors, the analysis of the stage of proceedings and decisions already rendered in the judicial domain, which in most cases have been favorable to the Company, which indicate that the amounts to be paid, when so decided by law, are substantially lower than those sought by the claimants.

23.5.2 Lawsuits from Ceramic Potters

These are lawsuits filed by ceramic potters impacted at the time of the formation of the Engenheiro Sérgio Motta Hydroelectric Power Plant. They are 45 lawsuits involving the amount of BRL 1,177,539 (BRL 1,003,836 on 12.31.2017) with a probable risk of loss and BRL 152,022 (BRL 181,438 on 12.31.2017) with a possible risk of loss on September 30, 2018. The filed claims are diverse, including a claim for an extension of the 8-year term established in the commitments executed between CESP and the impacted parties regarding the time to maintain the ceramic potter activity.

Explanatory Notes

23.5.3 Breach of Contract and Other Lawsuits

There are 87 lawsuits in progress against CESP claiming compensation for breach of contract and other matters related to the plants that are part of its power station, and provisions of BRL 5,725 and BRL 54,021 (BRL 54,693 and BRL 42,979 on 12.31.2017) were established, related to lawsuits having a probability of loss assessed as probable. There are also 126 other lawsuits considered as possible losses, totaling BRL 252,755 (BRL 243,941 on 12.31.2017).

23.6 Expropriation Lawsuits - CESP plant

Provisions in the amount of BRL 141,806 (BRL 137,413 on 12.31.2017) have been established for 25 expropriation lawsuits involving the formation of the reservoirs of its plants, having a risk of loss assessed as probable by the Company's legal advisors. Expropriation lawsuits with possible loss expectation amount to BRL 433,404 (BRL 377,758 on 12.31.2017) related to 2 lawsuits.

23.7 Civil Lawsuits/Expropriations - Spun-off Companies

Several lawsuits are underway to discuss the amount of compensation to be paid by the Company due to the expropriation of real estate located in the areas of the plants, involving obligations and legal issues of projects of generation companies AES Tietê, Duke Energy and CTEEP (Companhia de Transmissão de Energia Elétrica Paulista) (spin-offs of CESP), and CESP is responsible for the payment of existing lawsuits until March 31, 1999.

On September 30, 2018, the amount claimed by expropriated parties corresponding to all these lawsuits is BRL 699,433 (BRL 644,863 on 12.31.2017). CESP has recorded a provision of BRL 152,639 (BRL 172,327 on 12.31.2017) for the obligations related to the companies resulting from the partial spin-off proceedings, with an expectation of probable loss.

23.8 Out-of-court Settlement with the Public Prosecutor's Office and City Halls of Mato Grosso do Sul

On June 30, 2018, the Company reached a Settlement with the Public Prosecutor's Office of the state of Mato Grosso do Sul and the City Halls of Anaurilândia, Bataguassu, Batayporã, Brasilândia, Santa Rita do Pardo and Três Lagoas, all of the region affected by the reservoir of Porto Primavera, in the state of Mato Grosso do Sul.

The Settlement aims to terminate legal actions filed by those institutions against CESP, as well as the environmental obligations set forth in the 1998 Instruments of Amicable Settlement ("IPCAs") and in the 2001 Instrument of Adjustment of Conduct ("TAC"), superseding them with the commitment of the Company to comply with all the conditions of Operation License #121/2000 - 2nd Renewal, issued on May 23, 2018 by IBAMA (Brazilian Institute of the Environment and Renewable Natural Resources).

In summary, in addition to complying with the conditions of the Operating License, CESP is responsible for: (i) Completing the work of protection of slopes in the 1.6 km-long missing part, and proceed to the protection of slopes that may be detected by IBAMA, (ii) Send funds in the amount of BRL 2 million so that the municipality of Bataguassu may acquire real estate do implement a recreational area, (iii) Delivering works and equipment already completed and pending acceptance by the municipalities, wherein the latter undertake to accept them without further burden to CESP, (iv) Send to the Institute of the Environment of Mato Grosso do Sul ("IMASUL") the amount of BRL 50 million, divided into 10 successive annual installments of BRL 5 million, which can be restated by the Reference Tax Unit of the state of Mato Grosso do Sul, with half of the amount allocated to the acquisition of areas and the implementation of infrastructure for the Pantanal State Park of the Rio Negro Park and the other half intended for the development of micro basin programs in the Paraná River basin, (v) Proceeding to the environmental recovery and afforestation of the Permanent Preservation Area ("APP") of the reservoir, on the Mato Grosso do Sul side, mentioned in the Operating License (vi) Including the recovered areas mentioned in the Degraded Area Recovery Program, in the APP monitoring routines, (vii) Informing the Public Prosecutor's Office of all embarkation points built along the Mato Grosso do Sul side of the reservoir, (viii) Transferring to the Municipality of Bataguassu the stock of clay held by the Company, which is located deposited in the District of Nova Porto XV, and (ix) Maintaining the transfer of funds for maintenance of the Várzeas do Rio Ivinhema State Park, which at current prices is estimated at annual installments of BRL 3.7 million, while the operation of the Plant lasts.

Under the Agreement, the state of Mato Grosso do Sul is authorized to raise the value of existing court deposits, estimated at approximately BRL 583 million as of March 31, 2018. The parties grant to CESP full, general, irrevocable and unchangeable discharge of all obligations set forth in the Agreement Instrument, and any discussion in or out of court shall be forbidden with respect to indemnities, compensation, specific performance, claims of consequential losses and damages, loss of profits or expenses in any way whatsoever.

Explanatory Notes

The Agreement extinguishes lawsuits filed by the Public Prosecutor's Office of Mato Grosso do Sul and said City Halls, which, as of March 31, 2018, were classified as follows:

Loss Expectation	Thousand BRL
Probable	988,676
Possible	904,060
Remote	332,132
Total	**2,224,868**

Item	Assets	Liabilities		
	Guaranties and deposits (Note 11)	Contingency	Other Bonds (Note 24.2)	Income
Probable				
Environmental	(583,175)	935,042	-	351,867
Civil	(72)	53,634	-	53,562
Sum	(583,247)	988,676	-	405,429
P.M. Bataguassu	-	-	2,000	(2,000)
State of MS	-	-	50,000	(50,000)
Sum	(583,247)	988,676	52,000	353,429
Possible				
Environmental		869,901	-	-
Civil		34,159	-	-
Sum	-	904,060	-	-
Remote				
Environmental		332,132	-	-
Total	**(583,247)**	**2,224,868**	**52,000**	**353,429**

24 SOCIAL AND ENVIRONMENTAL BONDS AND OTHER BONDS

24.1 Social and Environmental Bonds

	30.09.2018	31.12.2017
Non-Current		
Reforestation **(a)**	49,258	41,150
Licensing	25,425	20,775
Implementation of parks **(b)**	-	42,970
	74,683	**104,895**

(a) Relates to the commitment to carry out reforestation in the Company's own areas around Porto Primavera.

(b) The impact of the agreement with Mato Grosso do Sul (note 23.8) resulted in the settlement of this bond.

Explanatory Notes

Non-Current	31.12.2017	Provision/(Reversal) (Note 28)	(-) Payments	30.09.2018
Reforestation	41,150	10,735	(2,627)	49,258
Licensing	20,775	4,650	-	25,425
Deployment	42,970	(42,970)		-
	104,895	**(27,585)**	**(2,627)**	**74,683**

Non-Current	31.12.2016	Provision/(Reversal) (Note 28)	30.09.2017
Reforestation	49,250	-	49,250
Licensing	28,800	-	28,800
	78,050		**78,050**

24.2 Other Bonds

	30.09.2019	31.12.2017
Current		
CESP Foundation **(a)**	834	526
Hazard pay court settlement **(b)**	2,350	26,258
Spun-off companies court settlement (Note 23.7) **(c)**	-	17,617
MS state out-of-court settlement (Note 23.8) **(d)**	5,022	-
Other	3,702	3,159
	11,908	**47,560**
Non-Current		
MS state out-of-court settlement **(d)**	45,202	-
Global Reversal Reserve ("RGR") (difference fiscal year 2017)	14,722	15,481
PIS/COFINS provision for updating court deposits	9,320	19,102
	69,244	34,583
	81,152	**82,143**

(a) Refers to the balance of accounts rendered with the pension plan entity and included mainly social security contingency with the INSS, with a probable loss risk assessment.

(b) The Workers' Union of the Electric Power Industry of Campinas ("STIEEC") filed a labor claim on 11.29.1994, requesting the payment of hazard pay on the entire compensation of the employee, pursuant to Law #7,369/85, its lawsuit was upheld at all levels of the labor justice. At the enforcement phase (payment of the bond), in a hearing held on 11.23.2016 at the Regional Labor Court of the 15th Region, CESP and the Workers' Union accepted the settlement proposal of the Judicial Vice-President Judge and the Coordinating Judge of the TRT Settlement Nucleus, which was approved in the following terms:

i. BRL 169,903, the first and second installments being of BRL 14,569, respectively settled on 12.19.2016 and 1.17.2017.

ii. The remaining balance will be paid in 13 monthly and equal installments and will mature on the 5th business day.

iii. The CESP Foundation was excluded from the lawsuit, and all the employees who joined the settlement gave a general, full and unrestricted discharge, including any repercussions on the Pension Supplementation Plan of the CESP Foundation.

iv. The TRT approved the amount of the settlement as an indemnity, with 70% of the total amount corresponding to interest and 30% to indemnity of supplementary pension and attorneys' fees.

	12.31.2017 Balance	(-) Payments	9.30.2018 Balance
Current			
Hazard pay court settlement (Note 23.1)	26,258	(23,908)	2,350

Explanatory Notes

	12.31.2017 Balance	Transfers	(-) Payments	9.30.2018 Balance
Current				
Hazard pay court settlement (Note 22.1).........	133,678	21,656	(98,654)	56,680
Non-Current				
Hazard pay court settlement (Note 22.1).........	21,656	(21656)	-	-
	155,334	**-**	**(98,654)**	**56,680**

(c) In October 2017, a judicial settlement was executed regarding the form of payment in installments of the expropriation enforcement regarding the transmission line from CESP's spin-off, in the amount of BRL 26,426, to be paid in 6 installments as of November 2017.

	12.31.2017 Balance	(-) Payments	9.30.2018 Balance
Current			
Spun-off companies judicial enforcement (Note 23.7)...............	17,617	(17,617)	-

(d) On June 30, 2018, an out-of-court settlement was signed with the Public Prosecutor's Office and city halls of Mato Grosso do Sul, annulling several lawsuits, totaling BRL 2,224,868 thousand, in consideration of the corresponding court deposits of BRL 583,247 thousand and payment an additional BRL 52,000 thousand, of which BRL 2,000 thousand were counter-presented to the city of Bataguassu and BRL 50,000 thousand to the state of Mato Grosso do Sul, in 10 annual and successive installments, converted into UFERMS (Tax Reference Unit of the State of Mato Grosso do Sul).

	12.31.2017 Balance	Settlement (Note 23.8)	Transfers	Update	(-) Payments	9.30.2018 Balance
Current						
P.M. Bataguassu out-of-court settlement (Note 28.2)	-	2,000		-	(2,000)	-
MS state out-of-court settlement (Note 28.2)	-	-	5,000	22	-	5,022
	-	2,000	5,000	22	(2,000)	5,022
Non-Current						
MS state out-of-court settlement	-	50,000	(5,000)	202	-	-
	-	**52,000**	**-**	**225**	**(2,000)**	**50,225**

25 TRANSACTIONS WITH RELATED PARTIES

The compensation of the Company's Management in the third quarter of 2018 was BRL 516 (BRL 529 in 2017), and this amount is related to fixed and variable compensation in the amount of BRL 422 (BRL 427 in 2017) and social charges in the amount of BRL 95 (BRL 102 in 2017).

Transactions with related parties are substantially represented by the following transactions:

		Balance as of 9.30.2017					Accrued up to 30.09.2017
			Assets		Liabilities		Revenue/(expense)
	Note	Nature of transaction	Current	Non-Current	Current	Non-Current	Revenue/(expense)
		-					
Agencies of the state of SP (a)		Assignment of employees	27,676	-	-	-	
EMAE (b)................................		Rent/condominium fee	-	-	127	-	(3,711)
Eletrobrás (c)	18	Loans	-	-	5,154	889	(431)
CESP Foundation (d)..............	21	Pension plan entity	-	-	-	-	(7,748)

		Balance as of 9.30.2017					Accrued up to 30.09.2017
			Assets		Liabilities		Income
	Note	Nature of transaction	Current	Non-Current	Current	Non-Current	Revenue/(expense)
		-					
Agencies of the state of SP (a)		Assignment of employees	27,150				
EMAE (b)		Rent/condominium fee		127			(3,187)
Eletrobrás (c)	18	Loans		5,156	7,328		(729)
CESP Foundation (d)	21	Pension plan entity					(3,191)

Explanatory Notes

(a) Assignment of employees, through reimbursement, to the State Office for Finance, Transports, DAEE and other agencies of the Administration of the state of São Paulo, the controlling shareholder of the Company.

	31.12.2017	Activity		30.09.2018
	31.12.2017	Settlement (Note 23.8)	Transfers	Update
	Balance	Additions	Receipts	Balance
Assignment of employees .	27,044	5,801	(5,169)	27,676
	31.12.2017	Activity		30.09.2018
	31.12.2017	Settlement (Note 23.8)	Transfers	Update
	Balance	Additions	Receipts	Balance
Assignment of employees .	27,150	6,490	(5,282)	28,358

(b) Contract for the lease of property (buildings) owned by EMAE (Empresa Metropolitana de Águas e Energia S/A) (same controlling shareholder), which the Company uses for its headquarters and its administrative offices, with the updated monthly rent of BRL 127 (BRL 127 as of 12.31.2017) and a condominium fee of BRL 267, recorded in current liabilities on 9.30.2018.

(c) Contracts between CESP and Eletrobrás - Centrais Elétricas Brasileiras S.A. (a shareholder of the Company), referring to the principal of financing (BRL 39,593 thousand) for civil works and electromechanical assembly of the Porto Primavera plant, with a monthly payment at the rate of 5% p.a., maturing up to November 30, 2019, as well as a balance of principal of financing (BRL 1,386 thousand) for the acquisition of materials and equipment, formalized through an Instrument of Debit Recognition ("IRD"), with a quarterly payment at a fixed rate of 8% p.a., maturing up to August 15, 2020.

(d) Contract with the CESP Foundation (related to the employee pension fund), for the Cleared Proportional Supplementary Benefit ("BSPS") restated by the IGP-DI plus interest of 6.0% p.a. and balance of certificate of indebtedness for liquidation of retention of pension plan reserve, restated by the TR plus interest of 8.0% p.a. and variable contribution agreement ("CV").

26 SHAREHOLDERS' EQUITY

In compliance with Corporate Governance practices, we show the shareholding composition of the Company, as well as shareholders directly or indirectly holding more than 5% of the shares of each type and class up to the natural person level.

26.1 Share Capital

The paid-in share capital of BRL 5,975,433 is divided into 109,167,801 ordinary shares, 7,386,323 Class A preferred shares and 210,948,549 Class B preferred shares. The share capital may be increased, according to the Bylaws, up to a maximum limit of BRL 17,926,300, by resolution of the Board of Directors.

The main shareholders of the Company, as of September 30, 2018, are the following:

	Qualities of Shares - In Units								
	Ordinary	%	d	Preferred Class A	%	Preferred Class B	%	Total	%
Government of the state of São Paulo and Connected Companies									
São Paulo State Treasury	102,706,383	94.08		-		15,135,166	7.17	117,841,549	35.98
Companhia do Metropolitano de São Paulo (METRÔ)	161.82.500	1.08		-				1,182,500	0.36
						-	-		
Companhia de Saneamento Básico do Estado de São Paulo (SABESP)	6,690	0.01		-		-	-	6,690	0.01
Companhia Paulista de Parcerias (CPP)	-	-		-		13,793,103	6.54	13,793,103	4.21
Desenvolvimento Rodoviário AS (DERSA)	180	0.00		-		-	-	180	-
Department of Water and Electric Power (DAEE)	1,907	0.00		-		-	-	1,907	-
	103,897,660	95.17		-		28,928,269	13.71	132,825,929	40.56
Other									
Board of Directors and Supervisory Board	88	0.00		-		400	0.00	488	0.00
Credit Suisse Securities (Europe)	-	-		-		13,286,359	6.30	13,286,359	4.05
UBS AG (London Branch)	-	-		-		14,679,095	6.96	14,679,095	4.48
SPX Investimentos	-	-		-		11,517,000	5.46	11,517,000	3.52
Centrais Elétricas Brasileiras S.A. (ELETROBRÁS)	37,633	0.03		6,664,526	90.23	-	-	6,702,159	2.05
HSBC Bank PLC London	-	-		-	-	18,268,011	8.66	18,268,011	5.58
The Bank of New York - ADR Department	34,677	0.03		158,324	2.14	-	-	193,001	0.06
Individuals	4,175,325	3.83		530,695	7.19	10,373,107	4.92	15,079,127	4.60
Other Legal Entities	1,016,324	0.93		3,704	0.05	113,896,308	53.99	114,916,336	35.09
Other	6,094	0.01		29,074	0.39	-	-	35,168	0.01
	5,270,141	4.83		7,386,323	100.00	182,020,280	86.29	194,676,744	59.44
	109,167,801	100.0		7,386,323	100.00	210,948,549	100.00	327,502,673	100.00
Paid-in share capital by shares in Thousand BRL	**1,991,815**			**135,000**		**3,848,618**		**5,975,433**	

Explanatory Notes

26.2 Rights of Shares

(a) Class A preferred shares have the following characteristics:

- Priority in the reimbursement of capital, without the right to a premium in case of liquidation of the Company;
- Annual, non-cumulative priority dividend of ten percent (10%), calculated on the value of the paid-in share capital represented by class A preferred shares, to be equally distributed among such shares;
- The right to appoint, together with class B preferred shares, a member of the Supervisory Board and respective alternate, chosen by the shareholders in a separate voting session;
- The right to participate in capital increases arising from the capitalization of reserves and profits, under equal conditions with ordinary shares and class B preferred shares;
- They shall not have the right to vote, and shall be non-redeemable; and
- Class A preferred shares are granted the right pursuant to article 111 paragraph 1 of Law #6,404/76.

(b) Class B preferred shares have the following characteristics:

- The right to receive a value per share corresponding to one hundred percent (100%) of the amount paid per share to the disposing controlling shareholder in the event of disposal of the Company's control;
- The right to participate on equal terms with ordinary shares in the distribution of the mandatory dividend attributed to such shares pursuant to the Bylaws;
- The right to appoint, together with class A preferred shares, a member of the Supervisory Board and respective alternate, chosen in a separate voting session;
- The right to participate in capital increases arising from the capitalization of reserves and profits, under equal conditions with ordinary shares and class A preferred shares;
- They will not have voting rights, and will not acquire such rights even in the event of non-payment of dividends; and
- They will be non-redeemable.

(c) Each nominative ordinary share is entitled to one (1) vote in the resolutions of the General Meetings.

(d) Pursuant to article 5 of the Company's Bylaws and subject to the legal provisions and the conditions set forth herein shareholders may convert (I) class A preferred shares into ordinary shares and into class B preferred shares, and (II) ordinary shares into class A preferred shares and into class B preferred shares, provided, in both cases, they are paid-in. The Company's class B preferred shares are non-convertible.

26.3 Capital Reserves

	30.09.2018	31.12.2017
Compensation of Ongoing PP&E Activation - Net Equity.......	1,929,098	1,929,098

Remaining balance of credit resulting from the capitalization of the compensation on own resources used during the construction of PP&E, calculated up to December 31, 1998, applied to works in progress.

26.4 Equity Valuation Adjustment

According to ICPC 10, on 1.1.2009, the net effect of changes in the value of PP&E (increase for some assets, and decrease for others), by the adoption of deemed cost (Note 16.3), net of income tax and deferred social contribution, was recorded in shareholders' equity under the "Equity valuation adjustment" account. The realization is recorded in the "Retained earnings" account insofar as the depreciation and write-off of the adjustment at the fair value of the PP&E is recognized in the result.

	PP&E	Deferred tax Assets/(Liabilities) BRL	Shareholders ' equity BRL
Initial balance as of 12.31.2017	**(1,511,582)**	**513,937**	**(997,645)**
Realization for the fiscal year (depreciation)................	23,552	(8,008)	15,544
Final balance as of 9.30.2018	**(1,488,030)**	**505,929**	**(982,101)**

Explanatory Notes

26.5 Other Comprehensive Income - CPC 33 (R1)

Since the adoption of CPC 33 (R1), actuarial gains and losses have been recognized in shareholders' equity (other comprehensive income). Their activity is shown below:

	2018	2017
Initial balance	(370,669)	(337,258)
CPC 33 (R1) adjustment for the period	3,013	(37,511
Final balance as of September 30	**(367,656)**	**(374,769)**

26.6 Profit Reserves

	30.09.2018	31.12.2017
Legal reserve (a)	98,878	98,878
Statutory reserve (b)	405,546	405,546
Unrealized profits reserve (c)	73,924	73,924
	578,348	**578,348**

(a) The Legal reserve will be established through the retention of 5% of the profit for the fiscal year, up to the limit of 20% of the Share capital;

(b) The Statutory reserve may be established by retention of up to 20% of the profit for the fiscal year, according to the resolution of the General Meeting, up to the limit of 10% of the Share capital;

(c) At the Ordinary General Meeting held on April 30, 2010, the proposal for the establishment of the Reserve for unrealized profits was approved, considering that:

- Net Income for the fiscal year 2009, of BRL 763 million, was strongly influenced by the positive financial result of foreign exchange fluctuation revenues in the amount of BRL 665 million. Of this profit, the BRL 580 million portion was related to foreign exchange fluctuations not realized financially, due to the existence of long-term liabilities. Recognition of this revenue did not entail cash inflow, and was an unrealized result. The realization of this reserve has occurred on the occasion of the payment of installments of the principal of loans and financing each fiscal year (Note 18.5).
- The aforementioned Unrealized profit reserve was recorded based on CVM Guidance Opinion #13/1987 and CVM/SNC/SEP Circular #1/2006 and Subsection II of article 197 of Law #6,404/76, regarding the foreign exchange fluctuation portions to be realized until 2019.
- This reserve, if not absorbed by losses, will be realized according to the schedule below, by the amount of the installments in each year of realization, which will integrate the dividend basis of the proposals for allocation of results to shareholders, in the respective fiscal years, in pursuant to subsection III, of article 202 of Law #6,404/76.

Breakdown of the unrealized installments:

Fiscal Years	2018	2019	Total
Unrealized Installments	38,482	35,442	**73,924**

Explanatory Notes

27 REVENUE

27.1 Contracts for Trading Electric Power in the Regulated Environment ("CCEARs") and Price Update

CESP has contracts with 33 distributors for the supply of energy, as a result of the auctions carried out (Note 1.2). These contracts have a price adjustment clause based on the IPCA fluctuation, applied on the dates of the distributors' adjustments with ANEEL, as follows:

Readjustments in 2018	Products and Prices BRL/MWh			Readjustment for the year (%)
Utilities	Readjustment Month	2009 to 2038	2010 to 2039	
Energisa Borborema	January	239.35	225.59	2.86
Ampla, Light, CPFL Jaguari	February	240.12	226.31	2.84
Energisa MT, CPFL Paulista, Energisa MS, RGE Sul, Coelba, Coelce, Cosem, Celpe, Energisa SE	March	240.34	226.52	2.68
Cemig (b)	April	240.87	227.01	2.76
Copel and RGE	June	241.83	227.91	2.86
Energisa TO, Energisa Sul-Sudeste and Eletropaulo	July	244.88	230.79	4.39
Celesc, Celpa, EDP ES, Elektro, Cemar and Energisa PB	August	245.68	231.56	4.48
Ceal	September	245.46	231.35	4.19

Readjustments in 2018	Products and Prices BRL/MWh			Readjustment for the year (%)
Utilities	Readjustment Month	2009 to 2038	2010 to 2039	
Energisa Borborema	February	232.71	219.33	5.35
Ampla, CPFL Jaguari	March	233.48	220.05	4.76
Light	March	233.48	220.05	1.20
Enersul, Cemat, CPFL Paulista, AES Sul, Coelba, Cosem, Coelce, Energisa SE and Celpe	April	234.06	220.60	4.57
Cemig (b)	May	234.39	220.91	4.08
RGE and Copel	June	235.12	221.60	3.60
Energisa Sul-Sudeste	July	234.58	221.09	4.17
Celtins and Eletropaulo	July	234.58	221.09	3.00
Celpa, EDP ES, Celesc, Elektro Redes, Celmar and Energisa PB	August	235.14	221.62	2.71
Ceal and Cepisa	September	235.59	222.04	2.46

Explanatory Notes

27.2 Energy Sold

The tables below show the energy sold for the period, as well as the quantity and values of distribution thereof by consumption class and trading environment:

Energy Sold in the 3rd Quarter	MWh (*)		Thousand BRL	
	2018	2017	2018	2017
Provision (1)				
Industrial	1,211,845	1,057,957	220,702	176,433
Supply Contracts				
Trading Agents **(2)**	735,982	847,900	141,091	148,035
Energy Auctions (3)				
Product 6 CCENV2009-2038	170,660	174,761	40,923	40,635
Product 7 CCENV2010-2039	318,528	319,416	72,170	70,187
	489,188	494,177	113,093	110,822
	1,225,170	**1,342,077**	**254,184**	**258,857**
Electric Power Trading Chamber ("CCEE") (4)				
Settlement of prior periods	-		17,745	
Energy Reallocation Mechanism ("MRE")	886,516	448,528	10,547	5,144
	889,516	447,528	28,292	5,144
Total	**3,326,531**	**2,847,562**	**503,178**	**440,434**

.

(*) Information not reviewed by independent auditors

Energy Sold up to September 30	MWh (*)		Thousand BRL	
	2018	2017	2018	2017
Supply (1)				
Industrial	3,178,791	2,963,632	565,899	492,256
Supply Contracts				
Trading Agents **(2)**	2,231,057	2,374,002	422,011	422,243
Energy Auctions (3)				
Product 6 CCENV2009-2038	531,353	536,185	125,996	123,316
Product 7 CCENV2010-2039	960,887	962,675	214,925	208,667
	1,492,240	1,498,860	340,921	331,983
	3,723,297	**3,872,862**	**762,932**	**754,226**
Electric Power Trading Chamber ("CCEE") (4)				
Short-Term Energy (PLD)	250,733	192,969	53,914	24,126
Settlement of prior fiscal years	-	-	25,229	8,610
Energy Reallocation Mechanism ("MRE")	1,266,127	1,012,884	14,745	11,105
	1,516,860	1,205,853	93,888	43,841
Total	**8,418,948**	**8,042,347**	**1,422,719**	**1,290,323**

(1) Refers to energy sales to free consumers, in the Free Contracting Environment ("ACL").

(2) Refers to the supply of energy to the electric power traders in the Free Contracting Environment ("ACL").

(3) Refers to the supply of energy to electricity distribution utilities through Energy Auctions in the Regulated Contracting Environment ("ACR") and the Excess and Difference Compensation Mechanism ("MCSD").

(4) Includes the amounts of available energy billing (PLD and MRE) traded within the scope of the Electric Power Trading Chamber ("CCEE").

Explanatory Notes

Summary by Trading Environment	For the quarters ended September 30					
	MWh (*)		Thousand BRL		BRL/MWh (Average) (*)	
	2018	2017	2018	2017	2018	2017
Free Market						
Free Consumers	1,211,845	1,057,957	220,702	176,433	182.12	166.77
Trading Agents	7735.982	847,900	141,091	148,035	191.74	174.59
	1,947,827	1,905,857	361,793	324,468	185.74	170.25
Regulated Market						
Energy Auctions	489,188	494,177	113,093	110,822	231.19	224.26
Electric Power Trading Chamber – PLD	-	-	-	-	-	-
	489,188	494,177	113,093	110,822	231.19	224.26
Total	**2,437,015**	**2,400,034**	**474,886**	**435,290**	**194.86**	**181.37**

Summary by Trading Environment	Accrued for the period up to September 30					
	MWh(*)		Thousand BRL		BRL/MWh (Average) (*)	
	2018	2017	2018	2017	2018	2017
Free Market						
Free Consumers	3,178,791	2,963,632	565,899	492,256	178.02	166.10
Trading Agents	2,231,057	2,337,634	422,011	422,243	189.15	177.86
	5,409,848	5,337,634	987,910	914,499	182.61	171.33
Regulated Market						
Energy Auctions	1,492,240	1,498,860	340,921	331,983	228.46	221.49
Electric Power Trading Chamber – PLD	250,733	192,969	53,914	24,126	215.03	125.03
	1,742,973	1,691,829	394,835	356,109	226.53	210.49
Total	**7,152,821**	**7,029,463**	**1,382,745**	**1,270,608**	**193.31**	**180.75**

(*) Information not reviewed by independent auditors.

	Accrued up to	
	2018	2017
Quota System	Thousand BRL	
Jupiá HPP	-	1,016
Total	**-**	**1,016**

Explanatory Notes

27.3 Net Operating Revenue

In compliance with the requirements of CPC 47 (Revenue), the following is the reconciliation between the gross revenue for tax purposes and the net revenue shown in the statement of income.

	Quarters ended		Accrued up to	
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
GROSS OPERATING REVENUE				
Revenues w/ Energy				
Energy provision	220,702	176,433	565,899	492,256
Energy supply – Contracts	141,091	148,035	422,011	422,243
Energy supply – Auctions	113,093	110,822	340,921	331,983
Short-term energy	28,292	5,144	93,888	43,841
	503,178	440,434	1,422,719	1,290,323
Energy supply in the quota system	-	1,016	-	1,016
Other revenues	646	622	1,953	2,666
	503,824	442,072	1,424,672	1,294,005
DEDUCTIONS TO OPERATING REVENUE				
Quota for global reversal reserve ("RGR") (*)	(1,894)	(23,107)	(22,453)	(44,012)
Research and development (R&D)	(4,401)	(3,620)	(12,244)	(10,801)
Service Tax ("ISS")	(34)	(32)	(97)	(136)
COFINS on operating revenues	(36,722)	(33,254)	(103,645)	(96,120)
PIS on operating revenues	(7,973)	(7,220)	(22,502)	(20,868)
Financial offset for the use of water resources	(11,399)	(11,606)	(35,475)	(35,652)
Electric industry inspection fee – TFSE	(784)	(730)	(2,244)	(4,067)
	(63,207)	(79,569)	(198,660)	(211,656)
NET OPERATING REVENUE	**440,617**	**362,503**	**1,226,012**	**1,082,349**

(*) The moving of the Quota account to the global reversal reserve for the third quarter of 2018 reflects the recording of RGR in the amount of BRL 12,309 (corresponding to three RGR installments defined for the period from July 2017 to June 2018), as a contra entry to the reduction of BRL 10,415 related to the RGR adjustment for the fiscal year 2016, according to ANEEL Order #1,791 of August 8, 2018.

28 COSTS AND EXPENSES

We present the Explanatory Note detailing the costs and operating expenses for the 3rd quarter of 2018, aligned with the new presentation format:

	Quarter ended 9.30.2018					
Nature of costs and expenses	**Electricity Costs**	**Operation Cost**	**General and administrative expenses**	**Other operating expenses**	**Other net (expenses)/revenues (Note 28.2)**	**Total**
Energy purchased (Note 28.1)	(360,813)	-	-	-		(360,813)
Industry charges (Note 28.1)	(32,017)	-	-	-	-	(32,017)
COFINS/PIS Credit w/o transmission system charges	35,298	-	-	-	-	35,298
Personnel	-	(5,864)	(28,744)	-	-	(34,608)
Managers	-		(251)	-	-	(251)
Employee pension plan entity - CPC 33/IAS 19	-	(2,583)	-	-	-	(2,583)
Material	-	(710)	(436)	-	-	(1,146)
Third-party services	-	(5,809)	(9,982)	-	-	(15,791)
Depreciation	-	(77,311)	(1,622)	-	(241)	(79,174)
Other charges (ONS/CCEE)	-	-	(243)	-	-	(243)
Rents	-	-	(1,181)	-	-	(1,181)
Reversal/(Provision) for impairment of warehouses (Notes 13 and 15)	-	-	-	132	-	132
Reversal/(Provision) for legal risks (Note 23)	-	-	-	(69,760)	(22,246)	(92,006)
PIS/COFINS provision for updating court deposits	-	-	-	8,941	-	8,941
Estimated credit loss	-	-	-	(394)	-	(394)
Costs of new regulations	-	-	-	-	(1,103)	(1,103)
Other expenses	-	(4,050)	(962)	(1,085)	(3,619)	(9,716)
Total	**(357,532)**	**(96,327)**	**(43,421)**	**(62,166)**	**(27,209)**	**(586,655)**

Explanatory Notes

Nature of costs and expenses	Accrued up to 9.30.2018					
	Electricity Costs	Operation Cost	General and administrative expenses	Other operating expenses	Other net (expenses)/revenues (Note 28.2)	Total
Energy purchased (Note 28.1)	(557,456)	-	-	-	-	(557,456)
Industry charges (Note 28.1)	(94,157)	-	-	-	-	(94,157)
COFINS/PIS Credit w/o transmission system charges	54,506	-	-	-	-	54,506
Personnel	-	(17,593)	(82,606)	-	-	(100,199)
Managers	-	-	(1,301)	-	-	(1,301)
Employee pension plan entity - CPC 33/IAS 19	-	(7,748)	-	-	-	(7,748)
Material	-	(1,802)	(1,339)	-	-	(3,141)
Third-party services	-	(17,135)	(25,858)	-	-	(42,993)
Depreciation/Amortization	-	(231,947)	(4,728)	-	(735)	(237,410)
Other charges (ONS/CCEE)	-	-	(722)	-	-	(722)
Rents	-	-	(3,303)	-	-	(3,303)
Enforcement of MPMS.1 Settlement (Note 23.8 and 24.2)	-	-	-	-	(52.0000)	(52.0000)
Reversal/(Provision) of social and environmental commitments	-	-	-	-	27,585	27,585
Reversal/(Provision) for impairment of warehouses (Note 13)	-	-	-	255	-	255
Reversal/(Provision) for legal risks (Note 23)	-	-	-	6,575	(4,500)	2,075
PIS/COFINS reversal/(provision) for updating court deposits	-	-	-	9,782	-	9,782
Estimated credit loss	-	-	-	(1,047)	-	(1,047)
Costs of new regulations	-		-	-	(2,075)	(2,075)
Other expenses or revenues	-	(5,107)	(2,798)	(2,380)	(3,405)	(13,690)
Total	**(597,107)**	**(281,332)**	**122,655**	**13,185**	**(35,130)**	**(1,023,039)**

Nature of costs and expenses	Restated Accrued up to 9.30.2018					
	Electricity Costs	Operation Cost	General and administrative expenses	Other operating expenses	Other net (expenses)/revenues (Note 28.2)	Total
Purchased energy (Note 28.1	(340,405)					(340,405)
Industry charges (Note 28.1)	(30,773)					(30,773)
COFINS/PIS Credit w/o transmission system charges	2,900					2,900
Personnel		(5,477)	(27,947)			(33,424)
Managers			(529)			(529)
Employee pension plan entity - CPC 33/IAS 19		(1,064)				(1,064)
Material		(720)	(398)			(1,118)
Third-party services		(6,011)	(7,803)			(13,814)
Depreciation/Amortization		(76,682)	(1,062)		(266)	(78,010)
Other charges (ONS/CCEE)			(239)			(239)
Rents			(1,161)			(1,161)
PERT installments					(5,419)	(5,419)
Provision for legal risks (Note 23)				(61,887)	(4,401)	(66,278)
PIS/COFINS provision for updating court deposits				(849)		(849)
Estimated credit loss				215		215
Costs of new regulations					(4,048)	(4,048)
Other expenses or revenues		(1,550)	(757)	(882)	6,638	3,449
Total	**(368,278)**	**(91,504)**	**(39,896)**	**(63,393)**	**(10,035)**	**(573,106)**

Explanatory Notes

	Restated					
	Accrued up to 9.30.2018					
Nature of costs and expenses	Electricity Costs	Operation Cost	General and administrative expenses	Other operating expenses	Other net (expenses)/revenues (Note 28.2)	Total
Energy purchased (Note 28.1)	(454,180)	-	-	-	-	(454,180)
Industry charges (Note 28.1)	(90,123)	-	-	-	-	(90,123)
COFINS/PIS Credit w/o transmission system charges	11,717	-	-	-	-	11,717
Personnel	-	(17,604)	(83,176)	-	-	(100,780
PDV (Voluntary dismissal program) (*)	-	(2,868)	(14,951)	-	-	(17,819)
Managers	-	-	(2,033)	-	-	(2,033)
Employee pension plan entity - CPC 33/IAS 19	-	(3,191)	-	-	-	(3,191)
Material	-	(1,724)	(1,178)	-	-	(2,902)
Third-party services	-	(15,799)	(25,422)	-	-	(41,221)
Depreciation/Amortization	-	(230,911)	(3,223)	-	(807)	(234,941)
Other charges (ONS/CCEE)	-	-	(699)	-	-	(698)
Rents	-	-	(3,184)	-	-	(3,184)
PERT installments	-	-	-	-	(5,419)	(5,419)
Contingent fees	-	-	-	-	5,177	5,177
Provision for legal risks (Note 23)	-	-	-	(167,172)	3,779	(163,393)
Hazard Pay Settlement Enforcement	-	-	-	-	(2,539)	(2,539)
PIS/COFINS provision for updating court deposits	-	-	-	(2,546)	-	(2,546)
Estimated credit loss	-	-	-	(2,165)	-	(2,165)
Costs of new regulations	-	-	-	-	(10,456)	(10,456)
Other expenses or revenues	-	(3,668)	(2,346)	(2,359)	4,389	(3,984)
Total	**(532,586)**	**(275,765)**	**(136,211)**	**(174,242)**	**(5,876)**	**(1,124,680)**

(*) On January 24, 2017, the Board of Directors approved the Voluntary Termination Program - ("PDV"), with the following characteristics: i) intended for all employees admitted to CESP's permanent staff with an employment contract of an indefinite duration; ii) financial incentive of 3 to 14 compensations, depending on length of service; iii) medical-hospital and dental care for 12 months as from the date of termination, limited to 3/31/2018; iv) Deadline for adherence by 2/17/2017; and v) terminations up to 3/31/2017. On the same day, the Board disclosed the program to the employees. Adherence to the program was of 100 employees, costing BRL 17,819.

28.1 Purchased Energy and Industry Charges

	Quarters ended		Accrued up to	
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
Purchased energy (1)				
CCEE	(8,963)	(170,529)	(22,452)	(231,074)
CCEE Provision	19,270	(166,120)	(6,331)	(173,761)
CCEE net	10,307	(336,649)	(28,783)	(404,835)
Energy from MRE	-		(1,239)	(27)
Hydrological risk renegotiation premium (Notes 9 and 14)	(3,755)	(3,755)	(11,266)	(11,266)
Energy purchased for resale	(367,365)		(516,168)	(38,052)
	(360,813)	(340,404)	(557,456)	(454,180)
Use of Electrical Grid (2)				
Connection – CTEEP	(16)	(16)	(47)	(34)
Basic Grid	(32,001)	(30,758)	(94,110)	(90,089)
	(32,017)	(30,774)	(94,157)	(90,123)
Subtotal	**(392,830)**	**(371,178)**	**(651,613)**	**(544,303)**
COFINS/PIS credit w/o grid/energy use charges	35,298	2,900	(54,506)	11,717
Total	**(357,532)**	**(368,278)**	**(597,107)**	**(532,586)**

(1) Billing and closing amounts at the Electric Power Trading Chamber ("CCEE") resulting from the acquisition of energy and the apportionment among the generating companies of the country, as well as other acquisitions to fulfill contracts.

(2) Connection and basic network charges due to the use of the transmission system: values set by ANEEL Approval Resolutions #2,259 of June 27, 2017 and #2,408 of June 26, 2018.

Explanatory Notes

28.2 Other Net (Expenses)/Revenues

	Quarters ended		Accrued up to	
	30.09.2018	**30.09.2017**	**30.09.2018**	**30.09.2017**
Depreciation of non-bound assets	(241)	(266)	(735)	(807)
Reversal/(Provision) expropriation proceedings - spun-off companies **(a)**	(22,246)	(4,401)	(4,500)	3,779
Reversal/(Provision) of social and environmental commitments	-	-	27,585	-
Costs with new regulations (protection of reservoir slopes) **(b)**	(1,103)	(4,048)	(2,075)	(10,456)
Implementation MPMS - PM Bataguassu Settlement (Note 23.8 and 24.2)	-	-	(2,000)	-
Implementation MPMS - State of MS Settlement (Note 23.8 and 24.2)	-	-	(50,000)	-
Hazard Pay Settlement Enforcement	-	(2,539)	-	(2,539)
PERT installments	-	(5,419)	-	(5,419)
Reversal/(Provision) Contingent fees	-	-		5,177
Contingent fees	(2,830)	-	(2,830)	-
Expenses with covenants	(300)	(2,115)	(2,475)	(5,409)
Gain/(loss) on the disposal of assets and rights	1,174	9,879	2,342	9,879
Other net revenues	1,313	270	4,388	3,895
Other net (expenses)	2,976	(1,396)	(4,830)	(3,976)
	(789)	6,638	(575)	4,389
Total	**(27,209)**	**(10,035)**	**(35,130)**	**(5,876)**

(a) Under CESP's Partial Spin-off Protocol, bonds related to expropriation lawsuits prior to March 31, 1999, of the plants incorporated by the spun-off companies, are the responsibility of the Company (Note 23.7)

(b) The costs of new regulations in excess of the recoverable value of the assets belonging to the Porto Primavera plant, as of the fiscal year 2009, are no longer capitalized and are recorded directly in the result (Note 16.1).

29 FINANCIAL RESULT

	Quarters ended		Accrued up to	
	30.09.2018	**30.09.2017**	**30.09.2018**	**30.09.2017**
Revenue				
Income from financial investments	7,864	12,193	21,336	46,008
Update of subordinated quotas (FIDC)	-	-		1,833
Update of establishment of court deposits	2,002	300	8,590	3,008
Update of balance of court deposits	4,986	18,251	21,795	54,752
Foreign Exchange Fluctuations	18,875	23,628	36,732	52,991
Other	753	62	995	196
(-) PIS/COFINS on financial revenues	(452)	(649)	(1,382)	(2,439)
	34,028	53,785	88,066	156,349
Expense				
Debt charges				
Foreign currency	(6,057)	(7,914)	(18,700)	(25,281)
Domestic currency	(121)	(209)	(431)	(1,309)
	(6,178)	(8,123)	(19,131)	(26,590)
Other				
Financial transaction tax	(184)	(58)	(410)	(168)
Expenses with financial transactions (FIDC)	-	-	-	(125)
Update of R&D – projects	(489)	(1,595)	(1,846)	(6,120)
PERT 2017 installments (Note 21)	-	(12,188)	-	(12,188)
Update of UFERMS on MP/MS settlement	(225)	-	(225)	-
Other charges	(6,836)	(335)	(7,644)	(6,135)
	(7,734)	(14,176)	(10,125)	(24,736)
Indexation and Foreign Exchange Fluctuations				
Domestic currency				(1,155)
Foreign currency	(31,827)	(5,389)	(101,175)	(38,189)
	(31,827)	(5,389)	(101,175)	(39,344)
	45,739	(27,688)	(130,431)	(90,670)
Financial Result	**(11,711)**	**26,097**	**(42,365)**	**65,679**

Explanatory Notes

30 INCOME TAX AND SOCIAL CONTRIBUTION - RESULT

The Company calculates Income Tax and Social Contribution on a monthly basis based on a suspension or reduction trial balance sheet, in which the (temporary or permanent) additions/exclusions provided for in legislation are considered, as well as the (positive/negative) net foreign exchange fluctuations on loans and financing, in view of the option for the cash system to tax such fluctuations.

Reconciliation of tax expense with the nominal rate

The table below is a reconciliation of the tax expense presented and the amount calculated by applying the total tax rate of 34% (25% income tax and 9% social contribution) on taxable income.

	3rd Quarter 2018		Accrued up to 9.30.2018	
	Income Tax	Social Contribution	Income Tax	Social Contribution
Earnings before Income Tax ("IRPJ") and Social Contribution ("CSLL")	**(157,749)**	**(157,749)**	**160,608**	**160,608**
Current rate	25%	9%	25%	9%
Expectation of IRPJ and CSLL expenses, according to the current tax rate	39,437	14,197	(40,152)	(14,455)
Adjustments to the current rate:	-	-	-	-
(a) Effect of IRPJ and CSLL on permanent differences	-	-	-	-
Dividends received..	-	-	1	-
Tax loss/Negative base recorded for the fiscal year..	(9,979)	(2,500)	(123,217)	(41,080)
Other	30,042	9,723	42,370	11,976
(b) Effect of IRPJ and CSLL on unrecorded temporary differences	(18,567)	(6,684)	175,830	63,299
Accounted Revenue/(Expense)	**40,933**	**14,736**	**54,832**	**19,740**
Income tax and social contribution expense comprised of:	-	-	-	-
Current	-	-	-	-
Deferred (Note 12)	40,933	14,736	54,832	19,740
Total in result..	**40,933**	**14,736**	**54,832**	**19,740**
Effective Rate	**25.9%**	**9.3%**	**-34.1%**	**-12.3%**

	3rd Quarter 2018		Accrued up to 9.30.2018	
	Income Tax	Social Contribution	Income Tax	Social Contribution
Profit/(Loss) before Income Tax ("IRPJ") and Social Contribution ("CSLL")............	**(184,506)**	**(184,506)**	**23,348**	**23,348**
Current rate	25%	9%	25%	9%
Expectation of IRPJ and CSLL expenses, according to the current tax rate	46,127	16,606	(5,837)	(2,101)
Adjustments to the current rate:				
(a) Effect of IRPJ and CSLL on permanent differences				
Dividends received..	-	-	1	-
Adjustment of deferred credit (supplement)	-		7,236	-
Other	(2,064)	(1,928)	2,869	(2,501)
(b) Effect of IRPJ and CSLL on unrecorded temporary differences	(36,825)	(13,257)	(46,054)	(16,579)
Accounted Revenue/(Expense)...	**7,238**	**1,421**	**(41,785)**	**(18,055)**
Income tax and social contribution expense comprised of:				
Current...	12,415	3,613	(20,051)	(9,767)
Deferred (Note 11)...	(5,177)	(2,192)	(21,734)	(8,288)
Total in result	**7,238**	**1,421**	**(41,785)**	**(18,055)**
Effective Rate	3.9%	0.8	179.0%	77.3%

As described in Note 12, the Company is limited to the projection of future taxable income for additional recognition of credit on tax losses, negative basis of social contribution, as well as on temporary differences. The differences between the nominal and effective rates arise from the limitation for new recognitions, as well as permanent additions/exclusions.

Explanatory Notes

31 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's business mainly comprises the generation of power for sale to large consumers (free market) and public electricity distribution service utilities (regulated market). As of 9.30.2018, the market values of the main financial instruments were close to the book values, as shown in the following table:

	30.09.2018	31.12.2017
Financial Assets		
Amortized cost		
Consumers and resellers (Note 6)	173.43	196,465
Free energy/CCEE (Note 6)	59,339	-
	232,682	196,465
Fair value through profit or loss		
Cash and cash equivalents (Note 5)	473,567	310,536
Assets available for reversal (Note 15)	1,949,430	1,949,430
	2,422,997	2,259,966
	2,665,679	**2,456,431**
Financial Liabilities		
Valued at Amortized cost	309,929	388,684
Loans and Financing (Note 18)	**309,929**	**388,684**

31.1 Indebtedness Index (Liquidity)

Indebtedness Index	30.09.2018	31.12.2017
Loans + Financ. + FIDC	309,929	388,684
Cash and Cash equivalents (Note 5)	(473,567)	(310,565)
Net Debt	**(163,638)**	**78,148**
Net Worth	7,352,758	7,114,565
Net Indebtedness Index	**-2.2%**	**1.1%**

The table below shows the Company's financial liabilities by maturity ranges, corresponding to the remaining fiscal year in the Balance Sheet until the contractual date of maturity.

	Maturities				
	1 year	2 years	5 years	More than 5 years	Total
As of September 30, 2018					
Loans and Financing	259,980	48,691	--	1,258	309,929
As of December 31, 2017					
Loans and Financing	204,532	183,073	126	953	388,684

31.2 Exchange Rate Risk

The Company's indebtedness and results of operations are significantly affected by the exchange rate (US dollar) market risk factor. As of September 30, 2018, the total balance of the loans and financing account, including charges incurred to date, amounted to BRL 303,886 (BRL 378,777 on 12.31.2017) related to funding in foreign currency, exclusively US dollars.

	Accounting Balance	
Liabilities	**30.09.2018**	**31.12.2017**
Loans and Financing US Dollar - USD (Note 18)	303,886	378,777
Total	**303,886**	**378,777**

Explanatory Notes

Exchange Rate Risk Sensitivity Analysis

CESP believes that the risk of liabilities in foreign currency is the increase in the US dollar exchange rate (PTAX) in loans and financing contracts denominated in foreign currency, which affects financial expenses for the fiscal year.

In compliance with CVM Instruction #475/08, and as suggested by CPC 40 and IFRS 7, to determine the effects of the unfavorable exchange rate fluctuation, using in this liability the scenario disclosed in the Focus report (BACEN) of 10.5. 2018, the Company adopted the scenarios of minimum negative variations defined by said instruction and variations equivalent to 25% and 50% on the respective exchange rates used to determine the probable, possible and remote scenarios.

Currencies	Forecast	Appreciation of rate by	
		25%	50%
US Dollar: USD/BRL	4.04	5.05	6.06

Based on the financial position and the notional value of the outstanding financial instruments as of 9/30/2018, the Company, adopting scenarios of fluctuations, estimated that the impact on the debt balance would be close to those indicated in the scenario columns in the following table:

		Impact		
Liabilities	Balance as of 9.30.2018	Probable Scenario	Possible Scenario	Remote Scenario
US Dollar Loans and Financing - USD	303,886	2,930	79,634	156,337
Total	**303,886**	**2,930**	**79,634**	**156,337**

31.3 Interest Rate/Inflation Risk

This risk arises from the possibility of the Company incurring losses due to fluctuations in interest rates and inflation, which increase financial expenses related to loans and financing raised. The Company has not executed derivative contracts to hedge against such risk, but it continuously monitors market interest rates in order to assess the need to replace the modality of its debts. On September 30, 2018, the Company had BRL 303,886 raised at variable interest rates and/or restated to the inflation rate, and BRL 6,043 raised at fixed rates:

In thousands of Reais

Liabilities Linked to rates:	Accounting Balance	
	30.09.2018	31.12.2017
Domestic Currency	**6,043**	**9,907**
FLAT RATE	6,043	9,907
Foreign Currency	**303,886**	**378,777**
UMBNDES	302,439	377,764
LIBOR	1,447	1,013
Total	**309,929**	**388,684**

Interest rate and inflation risk sensitivity analysis

CESP considers that the risk of liabilities in contracts that, in addition to fixed and spread rates, have costs restated to floating interest rates is an increase in these rates and a consequent increase in financial expenses related to liabilities obtained in foreign currency.

The Company grouped the liabilities by contracted rates and prepared a sensitivity analysis in accordance with CVM Instruction #475/08 and as suggested by CPC 40 and IFRS 7. In foreign currency liabilities, the conversion to reais with the same closing parity as the present statement was considered in order to reflect only changes in interest rate scenarios.

Explanatory Notes

Indexes	Forecast	Appreciation of rate by	
		25%	50%
UMBNDES	5.02	6.28	7.53
LIBOR	1.64	2.05	2.46

The result of this analysis reflects the impact of the rates on the short-term result (October 2018 to September 2019), considering the appropriation of interest (interest to be incurred) up to the date of each maturity, as shown in the table below:

Risk	Balance as of 9.30.2018	Probable Scenario	Possible Scenario	Remote Scenario
UMBNDES Fluctuation	302,439	420	2,123	4,305
LIBOR Fluctuation	1,447	3	18	32
Total	**303,886**	**423**	**2,141**	**4,337**

31.4 Credit Risk

The risk arises from the possibility that the Company may incur losses resulting from the difficulty of receiving amounts billed to its customers. This risk is assessed by the Company as low, in view of: (1) for receivables arising from the supply revenue - the strong number of its clients, the existence of contractual guarantees, the fact that they are utilities of public energy distribution services under federal supervision, even subject to concession intervention, and because there is no history of significant losses in the realization of their receivables; and (2) for receivables arising from the provision revenue - the strong number and business size of its clients, the prior credit analysis and the existence of contractual guarantees of at least two months of billing. As of September 30, 2018, the Company's Management believes that there are no credit risk exposure situations that could significantly affect its operations and future results.

31.5 Derivative Financial Instruments

In compliance with CVM Resolution #550/2008 of October 17, 2008, the Company informs the following:

(a) Financial policy adopted by the Company

The Company does not adopt the policy of using derivative financial instruments. The Company has a debt of approximately BRL 310 million as of September 30, 2018, largely restructured with domestic and international financial institutions in recent years.

(b) Internal and operational controls on contracting financial transactions

In order to manage the risks associated with each strategy and each negotiation with financial institutions, financial transactions of any nature are approved by the Board of Executives and may be brought to the Board of Directors under the conditions established in the Company's by-laws.

(c) Derivative transactions

The Company did not contract any derivative transactions until September 30, 2018.

31.6 Valuation of Financial Instruments

The main financial instruments of assets and liabilities of the Company as of September 30, 2018 are described below, as well as the criteria for their valuation/evaluation:

(a) Cash and cash equivalents

Comprise cash, bank accounts and financial investments. The market value of these assets does not differ from the amounts shown in the Company's balance sheet.

(b) Amounts Receivable

Free Energy and Short-Term Energy: these credits basically derive from free energy during the rationing period and transactions carried out within the scope of the current Electric Power Trading Chamber ("CCEE") and were recorded and valued based on the information made available based on prices prevailing over the year in the CCEE. There were no transactions related to these credits or debits that could affect their classification and valuation as of the date of these statements.

Explanatory Notes

(c) Investments

They are recorded at acquisition cost, and a provision for their reduction to market value is recorded when required or applicable. The market value of other investments approximates their book values.

(d) Loans, Financing and FIDC

The Company has assets and liabilities measured at fair value through the result; in addition, it had other financial liabilities not measured at amortizable value, which could be compared to market funding amounts.

In the specific operations of the electric power industry, financial, subsidized and renegotiation operations having no similar market and low liquidity, the Company assumed that the market value is represented by the respective book value, due to the uncertainties present in the variables that should be considered in the creation of a pricing model.

The Credit Rights Investment Fund ("FIDC") had its closure in May 2017.

31.7 Hydrological Risk and GSF (Generation Scaling Factor)

CESP's electricity generation depends directly on hydrological conditions, since all its power stations are hydroelectric. The Company's main hydroelectric power plant, the Engenheiro Sérgio Motta (Porto Primavera) HPP, which accounts for 94% of its physical guarantee for sale, is concentrated in the area of influence of the Paraná river basin, in the western region of the state of São Paulo, and is a run-of-the-river plant.

The Physical Guarantee of the system represents the maximum amount of energy capable of being supplied in a permanent condition to a given criterion of guarantee of supply. The respective Physical Guarantee of each plant corresponds to the energy limit that it is authorized to trade through contracts.

The risks of water scarcity due to rainfall conditions are cyclical, but these occurrences have been intense in recent years. According to current regulations in the electric power sector, part of this shortage is covered by the Energy Reallocation Mechanism ("MRE"), an instrument that shares the risks of insufficient energy generation among all hydroelectric power plants that are part of this mechanism, capturing the differences in the seasonality of the flows in the different watersheds in order to neutralize the financial impact associated with the hydrological risk coming from the centralized dispatch that characterizes the SIN (National Interconnected System).

When the sum of the generation of the MRE plants is not sufficient to supply the sum of the physical guarantees of these ventures, the so-called GSF (Generation Scaling Factor) of less than 1 occurs, thus financially impacting these plants by the ratio between their physical guarantee and the amount effectively generated, valued at the PLD (Difference Settlement Price) and settled on a monthly basis. For this reason, the GSF may affect the Company's results and its financial condition, as well as the generation of future cash flow.

On the other hand, when the generation of these plants exceeds the physical guarantees, the MRE agents benefit from the so-called "secondary energy", which is also compensated at the PLD.

In order to mitigate the financial impacts of the hydrological risk on hydroelectric generation in the SIN, the Federal Government published Provisional Measure #688/2015, later converted into Law #13,203/2015, presenting an agreement to renegotiate this risk, with retroactive effects up to 2015.

CESP, after in-depth studies and analyzes, filed at ANEEL an application for adherence to the renegotiation of the hydrological risk in the ACR (Regulated Contracting Environment), in which 350 average MW contracted in 2016 and 230 average MW contracted from 2017 to 2028 (Note 14) have their risks covered regarding the GSF. With respect to the ACL (Free Contracting Environment), the decision was for non-adherence, due to a confirmed non-attractiveness, and the same occurred for the other agents of the industry.

Explanatory Notes

31.8 Risk of non-renewal of concessions

CESP has the concession of three hydroelectric power plants, the maturities of which are listed in the table below:

HPP	Maturity
Jaguari	05/20/2020
Paraibuna	03/09/2021
Engenheiro Sérgio Motta (Porto Primavera)	07/11/2028

Pursuant to Federal Laws #12,783/2013, 13,203/2015 and 13,360/2016 and Federal Decree #7,805/2012, the Granting Authority has already been requested to extend the Jaguari and Paraibuna HPP concessions.

Also in accordance with these regulations, the extension of the Porto Primavera HPP concession can only be requested from 60 months before the end of its concession.

On the other hand, according to explanatory note #33, the controlling shareholder decided to resume the process of disposing of the shareholding control of CESP, in view of the publication of Federal Decree #9,271/2018, which regulates the granting of a new concession contract associated with the privatization of the holder of the public electric power generation service concession through bidding for the transfer of control, with the payment of bonus for the granting and Use of the Public Asset to the Granting Authority.

32 INSURANCE

The Company has insurance contracts with coverage determined by expert guidance, considering the nature and degree of risk to cover possible losses on its assets and/or liability as shown below:

Type	Insurance Company	Coverage	Maturity	Insured Amount
D&O - Seguro de Administradores	Chubb Seguros S/A	Civil liability - D&O	6/2019	12,000
Life - APC	Sul América Seguros S/A	Compensation for death or permanent disability of employees	10/2018	5,173
Equity Risks	MAPFRE Seguros Gerais S/A	Machines and Equipment of the Power Plants' Generation System	6/2019	448,248

33 SUBSEQUENT EVENT

- On October 19, 2018, an auction of shares of the Company's share capital, owned by the government of the state of São Paulo and its subsidiaries, was held in accordance with Request For Proposal #SF.001/2018 (available at http://vendacesp.com.br), wherein the winner was the São Paulo Energia Consortium, consisting of VTRM Energia Participações S/A and SF NINETY TWO Participações Societárias Ltda., for a price of BRL 14.60 (fourteen reais and sixty cents) per share, which corresponds to a goodwill of 2.09% over the minimum price of BRL 14.30/share.

  On November 1, 2018, the Treasury Department of the government of the state of São Paulo approved the acts of the Bidding Commission and awarded the object of the bid to the São Paulo Energia Consortium.

  The process is conditioned to the consent of the transfer of CESP's control by ANEEL and the Economic Defense Board of Directors ("CADE"), according to their respective competencies. The estimated date for approval of the transfer of CESP's corporate control in the request for proposal is 6/12/2018.

  Also according to the calendar of the request for proposal, it is foreseen that the signing of the Share Purchase and Sale Agreement must occur on 12/11/2018 and Auction Settlement on 12/12/2018.

Other Information that the Company Deems Relevant

In compliance with Corporate Governance practices, we show the shareholding composition of the Company, as well as shareholders directly or indirectly holding more than 5% of the shares of each type and class up to the natural person level.

1. CESP SHAREHOLDING BREAKDOWN

The main shareholders of the Company as of September 30, 2018 are as follows:

	Qualities of Shares - In Units							
	Ordinary	**%**	**Preferred Class A**	**%**	**Preferred Class B**	**%**	**Total**	**%**
Government of the State of São Paulo and Connected Companies:								
São Paulo State Treasury	102,706,383	94.08			15,135,166	7.17	117,841,549	35.98
Companhia do Metropolitano de São Paulo (METRÔ)	1,182,500	1.08					1,182,500	0.36
Companhia de Saneamento Básico do Estado de São Paulo (SABESP)	6,690	0.01					6,690	-
Companhia Paulista de Parcerias (CPP)	-				13,793,103	6.54	13,793,103	4.22
Desenvolvimento Rodoviário AS (DERSA)	180	0.00					180	0.00
Other	1,907						1,907	0.00
	103,897,660	95.17			28,928,269	13.71	132,825,929	40.56
Other								
Board of Directors and Supervisory Board	88	0.00			400	0.00	488	0.00
Centrais Elétricas Brasileiras S/A -ELETROBRÁS (publicly-held company) (a)	37,633	0.03	6,664,526	90.23		-	6,702,159	2.05
CREDIT SUISSE SECURITIES (EUROPE) LIMITED					13,286,359	6.30	13,286,359	4.06
UBS AG, LONDON BRANCH					14,679,095	6.96	14,679,095	4.48
HSBC Bank PLC London (*)					18,268,011	8.66	18,268,011	5.58
SPX INVESTIMENTOS					11,517,000	5.46	11,517,000	3.52
The Bank of New York - ADR Department	34,677	0.03	158,324	2.14	-	-	193,001	0.06
Individuals	4,175,325	3.83	530,695	7.19	10,373,107	4.92	15,079,127	4.60
Other Legal Entities	1,016,324	0.93	3,704	0.05	113,986,308	53.99	114,916,336	35.09
Other	6,094	0.01	29,074	0.39	-	-	35,168	0.00
	5,270,141	4.83	7,386,323	100.00	182,020,280	86.29	194,676,744	59.44
	109,167,801	**100.00**	**7,386,323**	**100.00**	**210,948,549**	**100.00**	**327,502,673**	**100.00**
Paid-in share capital by shares in Thousand BRL	1,991,815		134,766		3,848,851		5,975,433	

a) Includes shareholders who individually hold shares in a percentage lower than 5% of the voting capital.

(*) The shareholder did not provide information on the breakdown of the share capital.

Other Information that the Company Deems Relevant

1.1. Ownership Position of Holders of more than 5% of the Shares of each Type and Class, Up to The Natural Person Level

Companhia Paulista de Parcerias (CPP) — **Position as of 9.30.2018**

Shareholders	Ordinary	%	Preferred	%	Total	%
	Qualities of Shares - In Units					
State Treasury Business Department						
			13,793,103		13,793,103	100.00
			13,793,103		13,793,103	100.00

Centrais Elétricas Brasileiras S.A. — **Position as of 9.30.2018**

Shareholders	Ordinary	%	Preferred Class A	Preferred Class B	%	Total	%
	Qualities of Shares - In Units						
Federal Government	554,395,652	51.00		1,544	0.00	554,397,196	41.00
BNDESPAR	141,757,951	13.04		18,691,102	7.04	160,449,053	11.86
BNDES	74,545,264	6.86		18,262,671	6.88	92,807,935	6.86
FND	45,621,589	4.20				45,621,589	3.37
FGHAB	1,000,000	0.09				1,000,000	0.07
Other	269,729,841	24.81	146,920	228,481,566	86.08	498,358,327	36.84
	1,087,050,287	100.00	146,920	265,436,883	100.00	1,352,634,100	100.00

Information not reviewed by independent auditors

Other Information that the Company Deems Relevant

1.2. Position of Controlling Shareholders, Officers and Outstanding Shares as of September 30, 2018 and 2017

	Number of Shares In Units - 9.30.2018							
	Ordinary	%	Preferred Class A	%	Preferred Class B	%	Total	%
Controller and Control Group	103,897,660	95.17			28,928,269	13.71	132,825,929	40.56
Managers								
Board of Directors								
Officers	88	0.00			400	0.00	4,488	0.00
Supervisory Board								
Shares in Treasury								
Other Shareholders	**5,270,053**	**4.83**	**7,386,323**	**100.00**	**182,019,880**	**86.29**	**194,676,256**	**59.44**
	109,167,801	100.00	7,386,323	100.00	210,948,549	100.00	327,502,673	100.00
Outstanding Shares	**5,270,053**	**4.83**	**7,386,323**	**100.00**	**182,019,880**	**86.29**	**194,676,256**	**59.44**

	Number of Shares In Units - 9.30.2018							
	Ordinary	%	Preferred Class A	%	Preferred Class B	%	Total	%
Controller and Control Group	103,897,660	95.17			28,928,269	13.71	132,825,929	40.56
Managers								
Board of Directors								
Officers	88	0.00			400	0.00	4,488	0.00
Supervisory Board								
Shares in Treasury								
Other Shareholders	5,270,053	4.83	7,399,122	100.00	182,003,131	86.29	194,676,256	59.44
	109,167,801	**100.00**	**7,399,122**	**100.00**	**210,935,800**	**100.00**	**327,502,673**	**100.00**
Outstanding Shares	**5,270,003**	**4.83**	**7,399,122**	**100.00**	**182,003,131**	**86.29**	**194,672,256**	**59.44**

Information not reviewed by independent auditors

Opinions and Statements / Special Review Report - Without Qualification

INDEPENDENT AUDITOR'S REVIEW REPORT ON QUARTERLY INFORMATION ("ITR")

To the

Shareholders, Board Members and Administrators of

CESP - Companhia Energética de São Paulo

São Paulo - SP

Introduction

We have reviewed the interim accounting information of CESP - Companhia Energética de São Paulo ("Company"), contained in the Quarterly Information ("ITR") Form, for the quarter ended September 30, 2018, which comprise the balance sheet as of September 30, 2018 and the related statements of income and comprehensive income for the three-month and nine-month periods then ended, and the statements of changes in shareholders' equity and cash flows for the nine-month period then ended, including a summary of main accounting policies and other explanatory notes.

The Company's Management is responsible for preparing the interim accounting information in accordance with Technical Pronouncement CPC 21 (R1) - Interim Financial Statement and international standard IAS 34 - Interim Financial Reporting, issued by the International Accounting Standards Board (IASB), as well as for submitting this information in a manner consistent with the standards issued by the Brazilian Securities and Exchange Commission, applicable to the preparation of the Quarterly Information ("ITR"). Our responsibility is to express a conclusion on this interim accounting information based on our review.

Scope of the review

We conducted our review in accordance with Brazilian and international standards for review of interim financial information (NBC TR 2410 - Review of interim financial information performed by the auditor of the entity and ISRE 2410 - Review of interim financial information performed by the independent auditor of the entity, respectively). A review of interim financial information consists of inquiries, mainly to persons responsible for financial and accounting matters, and the application of analytical procedures and other review procedures. The scope of a review is significantly less than that of an audit conducted in accordance with auditing standards and therefore has not enabled us to obtain assurance that we are aware of all material matters that could be identified in an audit. Therefore, we do not express an audit opinion.

Conclusion on the interim accounting information

Based on our review, we are not aware of any fact that leads us to believe that the above-mentioned interim financial information has not been prepared, in all material respects, in accordance with CPC 21 (R1) and IAS 34, including the presentation of this information in a manner consistent with the standards issued by the Brazilian Securities and Exchange Commission ("CVM"), applicable to the preparation of the Quarterly Information (ITR).

Emphasis of matter

Assets available for reversal

As mentioned in Explanatory Note #15 to the interim accounting information, the Company has recognized the amount of BRL 1,949,430 thousand under the "Assets available for reversal" item, net of provision, in which the amount of BRL 232,068 thousand is due to improvements made to the concession assets of the Jupiá and Ilha Solteira power plants, for which Aneel published Normative Resolution #596/2013, which covers the definition of criteria for indemnity purposes, as well as the amount of BRL 1,717,362 thousand that refers to the indemnity of the Três Irmãos plant, the amount of which was defined by Interministerial Ordinance #129 on March 27, 2014, published by the Ministry of Mines and Energy ("MME") and the Ministry of Finance ("MF"), where the base value is from June 2012. The Company claims in court the assessment of amounts for the indemnifiable assets and forms of receipt. Our review report contains no change in this regard.

Restatement of previous interim accounting information

As described in Note 2.3 to the interim accounting information, the disclosures and amounts corresponding to the interim accounting information for the quarter ended September 30, 2017 have been changed and are being restated to reflect the effects of changes in accounting practice and accounting classification for the balance sheet as of December 31, 2016, and in the statements of income, comprehensive income, changes in shareholders' equity, cash flows and added values (supplementary information) for the quarter ended September 30, 2017 and enhancement of disclosure in explanatory notes in order to demonstrate comparability and consistency of the Company's accounting information. Our review report contains no change in this regard.

Other matters

Statement of added value

We have also reviewed the Statement of Added Value ("DVA") for the nine-month period ended September 30, 2018, the submission of which is required in the interim accounting information pursuant to the standards issued by the Brazilian Securities and Exchange Commission ("CVM"), applicable to the drafting of Quarterly Information ("ITR") and considered supplementary information by the IFRS, which do not require submission of the DVA. This statement has been subject to the same previously-described review procedures and, based on our review, we are not aware of any fact that causes us to believe that it has not been suitable prepared in all material respects in accordance with the interim accounting information taken together.

São Paulo, November 12, 2018.

BDO RCS Auditores Independentes SS

CRC 2 SP 013846/0-1 \

Jairo da Rocha Soares

Accountant CRC 1 SP 120458/0-6

Opinions and Statements / Officers' Statement on Financial Statements

STATEMENT

In compliance with the provisions of subsections V and VI of article 25 of CVM Instruction #480 of December 7, 2009, the members of the Board of Directors of CESP - Companhia Energética de São Paulo, a publicly-held company with main place of business at Avenida Nossa Senhora do Sabará, n° 5312, Pedreira neighborhood, in the city of São Paulo, state of São Paulo, enrolled with the Corporate Taxpayer's Roll ("CNPJ") under #60.933.603/0001-78, hereby state that they: (i) have reviewed, discussed and agreed with the Company's Interim Financial Statements for the period ended September 30, 2018; and (ii) have reviewed, discussed and agreed with the opinions expressed in the report by BDO RCS Auditores Independentes SS regarding the Company's Interim Financial Statements for the period ended September 30, 2018.

Opinions and Statements / Officers' Statement on the Independent Auditor Report

STATEMENT

In compliance with the provisions of subsections V and VI of article 25 of CVM Instruction #480 of December 7, 2009, the members of the Board of Directors of CESP - Companhia Energética de São Paulo, a publicly-held company with main place of business at Avenida Nossa Senhora do Sabará, n° 5312, Pedreira neighborhood, in the city of São Paulo, state of São Paulo, enrolled with the Corporate Taxpayer's Roll ("CNPJ") under #60.933.603/0001-78, hereby declare that: (i) have reviewed, discussed and agreed to the Company's Interim Financial Statements for the period ended September 30, 2018; and (ii) have reviewed, discussed and agreed with the opinions expressed in the report by BDO RCS Auditores Independentes SS regarding the Company's Interim Financial Statements for the period ended September 30, 2018.

Reason for Restatement

Version	Description
2	Supplement to the Commentary on Performance (Economic and Financial Indicators)