CELSE - Centrais Elétricas de Sergipe S.A.

(pre-operating company)

Financial statements
December 31, 2017

KPDS 217189

Contents

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Report on the Audit of the Financial Statements

To Management and Shareholders of
CELSE - Centrais Elétricas de Sergipe S.A.
Aracaju - SE

Opinion
We have audited the financial statements of CELSE - Centrais Elétricas de Sergipe S.A. (the “Company”), which comprise the statement of financial position as at December 31, 2017, the statements of loss, and comprehensive income, changes in equity, and cash flows for the year then ended December 31, 2017 and 2016 and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016 the financial performance and its cash flows for the year then ended December 31, 2017 and 2016 in accordance with the Accounting Practices Adopted in Brazil and with International Financial Reporting Standards (IFRS), issued by International Accounting Standards Board (IASB).

Basis for opinion
We conducted our audit in accordance with International Standards of Auditing (ISAs) and Brazilian Standards of Auditing. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the Accountants’ Professional Code of Ethics and the professional standards issued by the Brazilian Federal Accounting Council (“Conselho Federal de Contabilidade”) in accordance with these requirements. We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

Auditor's responsibilities for the auditing of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omission, misinterpretation, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Recife, March 13, 2018

KPMG Auditores Independentes
CRC PE-000904/F-7

João Alberto da Silva Neto
Accountant CRC RS-048980/O-0 T-CE

CELSE - Centrais Elétricas de Sergipe S.A.

Statement of financial position for december 31, 2017

(In thousands of reais)

	Note	2017	2016
Assets			
Current assets			
Cash and cash equivalents	8	21,725	10,729
Recoverable taxes		529	129
Others credits		18	-
Total current		**22,272**	**10,858**
Non-current assets			
Other credits		357	40
Property, plant and equipment	10	764,194	198,969
Intangible assets		85	95
Total non-current		**764,636**	**199,104**
Total assets		**786,908**	**209,962**

	Note	2017	2016
Liabilities			
Current liabilities			
Suppliers	11	38,166	14,708
Related parties	15	225	100
Taxes and social contributions	12	1,640	186
Other accounts payable		854	264
Total current		**40,885**	**15,258**
Equity	13		
Share capital		712,001	200,001
Advances for future capital increase		61,900	-
Accumulated loss		(27,878)	(5,297)
Total equity		**746,023**	**194,704**
Total liabilities and equity		**786,908**	**209,962**

See the accompanying notes to the financial statements

CELSE - Centrais Elétricas de Sergipe S.A.

Statements of loss

For the year ended december 31, 2017

(In thousands of reais)

	Note	2017	2016
General and administrative expenses	16	(24,266)	(5,823)
Operating loss		**(24,266)**	**(5,823)**
Financial income		1,904	570
Financial expenses		(219)	(44)
Net financial income	17	**1,685**	**526**
Loss for the year		**(22,581)**	**(5,297)**

See the accompanying notes to the financial statements

CELSE - Centrais Elétricas de Sergipe S.A.

Statements of comprehensive loss

For the year ended december 31, 2017

(In thousands of reais)

	2017	2016
Loss for the year	(22,581)	(5,297)
Other comprehensive income	-	-
Total comprehensive income for the year	**(22,581)**	**(5,297)**

See the accompanying notes to the financial statements

CELSE - Centrais Elétricas de Sergipe S.A.

Statements of changes in equity

For the year ended december 31, 2017

(In thousands of Reais)

	Note	Share Capital	Advances for future capital increase	Accumulated loss	Total equity
Company's establishment on September 25, 2015.		-	-	-	-
Balances at December 31, 2015		**-**	**-**	**-**	**-**
Capital increase	13	200,001	-	-	**200,001**
Loss for the year		-	-	(5,297)	**(5,297)**
Balances at December 31, 2016		**200,001**	**-**	**(5,297)**	**194,704**
Capital increase	13	512,000	-	-	**512,000**
Advances for future capital increase	13	-	61,900		**61,900**
Loss for the year		-	-	(22,581)	**(22,581)**
Balances at December 31, 2016		**712,001**	**61,900**	**(27,878)**	**746,023**

See the accompanying notes to the financial statements

CELSE - Centrais Elétricas de Sergipe S.A.

Statements of cash flows

For the year ended december 31, 2017

(In thousands of reais)

	2017	2016
Cash flow from operating activities		
Loss for the year	(22,581)	(5,297)
Adjustments for:		
Depreciation	161	21
	(22,420)	(5,276)
Changes in:		
Increase in recoverable taxes	(400)	(129)
Increase in other credits	(335)	(40)
Increase in suppliers (a)	5,664	744
Increase in tax and social contribution	1,454	186
Increase in other accounts payable	590	264
Net cash used in operating activities	**(15,447)**	**(4,251)**
Cash flow from investment activities		
Acquisition of intangible assets	(11)	(95)
Acquisition of property, plant and equipment (a)	(547,446)	(184,926)
Net cash used in investment activities	**(547,457)**	**(185,021)**
Cash flow from financing activities		
Advances for future capital increase	61,900	-
Proceeds from increase in capital	512,000	200,001
Net cash from financing activities	**573,900**	**200,001**
Net increase in cash and cash equivalents	**10,996**	**10,729**
Cash and cash equivalents at January 1	10,729	-
Cash and cash equivalents at December 31	**21,725**	**10,729**

(a) In December 31, 2017, non-cash investing activities related to aquisition of property, plant and equipment via supplier fina in the amount of R$ 17,919 (R$ 14,064 in 2016) are not included in the statement of cash flows.

See the accompanying notes to the financial statements

Notes to the financial statements

(In thousands of Reais, unless otherwise indicated)

1 Operations

CELSE - Centrais Elétricas de Sergipe S.A. (CELSE or Company) is a privately-held company, domiciled in Brazil, established on September 25, 2015. The address of the office, current headquarters of the company, is Rua Valdemar Dantas,100, Aracaju, Sergipe.

CELSE has the following business purpose: (i) the generation and trading of electricity through the implementation and exploitation of the thermal power plant Porto de Sergipe I; (ii) the implementation of thermoelectric power generation units, using combustible natural gas, to be operated by the company, or associated companies or by third parties; (iii) the production and trading of steam, hot water, chilled water/cooling (thermal energy) and electric power through thermal generation, distributed generation, cogeneration or any other process or technology, from any energy sources; (iv) the import, export, vaporization and trading in the domestic market of liquefied natural gas and natural gas; and (v) interest in other companies.

CELSE has been incorporated to execute, procure, construct, manage, operate, and own the facilities and activities of a 1.5GW gas-fired combined cycle thermal power plant comprised of three combustion turbine generators, three heat recovery steam generators and one steam turbine generator, known as "Porto de Sergipe I," currently under construction in the state of Sergipe, in the northeast region of Brazil, or the Power Plant. The Power Plant will have a dedicated liquefied natural gas, or LNG, regasification offshore terminal utilizing a floating storage and regasification unit, or FSRU, together, the "Project".

The Project was awarded 26 25-year power purchase agreements, or PPAs, in April 2015, as a result of the winning bid by CELSE's shareholders at the 2015 A-5 energy auction conducted by the Brazilian government. As a result, CELSE executed PPAs with 26 companies to provide fthe sale of the entire 1.5GW installed capacity of the Project, with delivery of power commencing on January 1, 2020.

In October 2016, CELSE signed a lump-sum turn-key ngineering, procurement and construction contract (EPC Contract) with General Electric Switzerland GmbH, General Electric International, Inc., Alstom Energia Térmica e Indústria Ltda. and Grid Solutions Transmissão de Energia Ltda., jointly GE. The EPC Contractor is responsible for the construction, design, engineering and procurement of the Power Plant, which comprises the generators, certain necessary equipment, a high voltage substation and a high voltage transmission line, among other systems and components. The EPC Contract is a turn-key, fixed price contract of (i) EUR€214,167,506.00; (ii) US$277,394,161.00; and (iii) R$1,317,000,000.00, which cover all direct and indirect costs incurred by the EPC Contractor, or its subcontractors or suppliers, in performing the contracted work.

The plant construction works began in November 2016; therefore, on December 31, 2017, CELSE is in the pre-operating stage. The plant's commercial activities will start on January 1, 2020. To date, the company is in compliance with the construction schedule of the project.

Licenses and authorizations

On April 15, 2016, Porto de Sergipe I obtained Preliminary Permit no. 11-3-2016 for the preparation and development of the detailed engineering design of the plant from the State Administration of the Environment - ADEMA. This license is valid until April 15, 2019.

On August 4, 2016, Porto de Sergipe I obtained Environmental Permit no. 78/2016 to carry out geotechnical drilling for installation of the plant from the State Administration of the Environment - ADEMA.

On November 29, 2016, Porto de Sergipe I obtained Environmental Permit no. 115/2016 for the execution of earthmoving services from the State Administration of the Environment - ADEMA.

On December 21, 2016, the fulfilment of conditions for the Preliminary Permit required to obtain the Installation License of the plant was filed at ADEMA.

On January 4, 2017, Porto de Sergipe I obtained Environmental Permit no. 2/2017 for the construction of the building site from the State Administration of the Environment- ADEMA.

On March 16, 2017, Porto de Sergipe I obtained Environmental Permit no. 36/2017 for the execution of staking services from the State Administration of the Environment- ADEMA.

a. Going concern basis of accounting

The financial statements have been prepared on a going concern basis, which assumes that the Company will obtain enough financial resourses to generate future cash flow.

The Company recognized a loss of R$ 22,581 for the year ended December 31, 2017. Although the Company is in a pre-operational stage, Management does not recognize uncertainty about the future capacity of operating cash flow generation, considering:

- Advances for future capital increases in the amount of R$ 61,900, made by the shareholders Ebrasil Energia Ltda. and GGPower Participações S.A on February 22, 2017;
- Capital increase to R$ 512,000, according to the Extraordinary General Meetings, dated February 22, 2017 and November 20, 2017; and
- Future operating cash flow, based on business plan reviewed by Periodically Specialized Consulting.

Also, to cover the construction of the plant, CELSE is planning to obtain funds from commercial banks, guaranteed by an Export Credit Agency - ECA, and from multilateral development banks. Until this financing is obtained, commitments undertaken by the company will be paid using capital contributions received from the shareholders, until the issuance of the financial statements, Corporate instruments with commitment of capital contributions by the shareholder, had already been signed.

2 Basis of accounting

These financial statements have been prepared in accordance with accounting practices adopted in Brazil (BR GAAP) and also in accordance with International Financial Reporting Standards (IFRS), as issued by International Accounting Standards Board (IASB).

The financial statements were authorized for issue by the Executive Board on March 13, 2018. Once the financial statements have been issued, only the shareholders have the power to change them.

Details of the Company's accounting policies are included in Note 6.

All relevant information specific to the financial statements, and only such information, is being evidenced, and corresponds to the information used by Company´s management.

3 Basis of measurement

The financial statements have been prepared based on the historical cost except for non-derivatives financial instruments at fair value through profit or loss.

4 Functional and presentation currency

These financial statements are presented in Brazilian Real, which is the Company's functional currency. All amounts have been rounded to thousands of Reais, unless otherwise indicated.

5 Use of estimates and judgments

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Uncertainties on assumptions and estimates

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets within the year ending December 31, 2017 is included in Note 8 - Deferred income tax and social contribution: availability of future taxable profit against which tax credit can be used. .

6 Significant accounting policies

In preparing these financial statements, the company applied the accounting policies detailed below:

a. Foreign currency

Transactions in foreign currency are translated into the respective functional currency of the Company at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currency are translated into functional currency at the exchange rate at reporting date. Non-monetary assets and liabilities that are measured based on historical cost in foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognized in profit or loss, except when capitalized as cost of construction in progress.

b. Financial instruments

The Company classifies non-derivative financial assets into the following category: financial assets at fair value through profit or loss.

The Company classifies non-derivative financial liabilities into the following category: other financial liabilities

Non-derivative financial assets

The Company initially recognises financial assets on the trade date when the entity becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substatntially all of the risks and rewards of ownership of the the financial asset are transferred, or it neither transfer nor retains substiatually all of risk and rewards of ownership and does not retain control over transferred assets.

Non-derivative financial assets measurement

A financial asset is classified as at fair value through profit or loss if it is designated as such on initial recognition. Directly attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, including any interest or dividend income, are recognised in profit or loss.

Cash and cash equivalents

Cash equivalents are maintained for the purpose of meeting short-term cash commitments. Cash and cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change value.

Non-derivative financial liabilities

Recognition and derecognition

The Company initially recognizes financial liabilities on the trade date when entity becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expired.

The Company has the following non-derivative financial liabilities: suppliers and other accounts payable.

Other non-derivative financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to offset the amounts and intents either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

c. Share capital

Common shares are classified as shareholders' equity. Each common share entitles holders to one vote on Shareholders' Meetings. The company has not issued preferred shares or other type of membership share convertible into common shares.

d. Property, plant and equipment

Itens of property, plant and equipment are measured at cost, less accumulated depreciation and any accumulated impairment losses, if applicable. The cost of under construction assets includes materials and direct labor, as well as any other costs attributable to bringing the assets to the location and condition required for them to operate in the manner intended by management.

Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over the estimated useful lives, and is generally recognized in profit or loss. The estimated useful lives of property, plant and equipment are disclosured in Note 9. The useful lives of fixed assets under construction will be determined as construction is completed.

e. Provisions

A provision is recognised when the Company has a legal or constructive obligation arising from past event, when it is more likely than not that there will be an outflow of benefits, and amount can be estimated reliably.

f. Deferred income and social contribution taxes

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on business plans of the Comapny and the reversal of temporary differences. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

7 New standards and interpretations

A number of new standards are effective for annual periods beginning after January 1, 2017. The Company has not early adopted the new or amended standards in preparing these financial statements.

7.1 IFRS 9 Financial Instruments

IFRS 9/CPC 48 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39/ CPC 38 Financial Instruments: Recognition and Measurement.

a. Classification - Financial assets

IFRS 9/CPC 48 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

The Company does not believe that the new classification requirements, if applied at December 31, 2017, would have had a material impact on its cash equivalents that are managed on a fair value basis.

b. Impairment - Financial assets and contract assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with a forward-looking ‘expected credit loss’ (ECL) model. This will require considerable judgement as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and

- lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; an entity may choose to apply this policy also for trade receivables and contract assets with a significant financing component.

The Company believes that impairment losses will not have significant impact because cash aquivalents are measured at fair value through profit or loss.

c. Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

The Company has not designated any financial liabilities at FVTPL and the Company has no current intention to do so. The Company's preliminary assessment did not indicate any material impact if IFRS 9's requirements regarding the classification of financial liabilities were applied at December 31, 2017.

d. Disclosures

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and ECLs. The Company does not expect any material impact if IFRS 9's requirements regarding disclosures were applied at December 31, 2017.

7.2 IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

The company is currently in a development stage and expects to become operational in early 2020 as mentioned in note 1 above. Given this fact, the Company will implement IFRS 15 in that year..

7.3 IFRS 16 Leases

IFRS 16 replaces existing leases guidance including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases—Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The standard is effective for annual periods beginning on or after 1 January 2019.

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard - i.e. lessors continue to classify leases as finance or operating leases.

No significant impact is expected because the Company does not have significant lease agreements.

8 Cash and cash equivalents

	2017	**2016**
Cash and cash bank deposits	3,264	110
Bank Deposits Certificate (CDB)	18,461	10,619
	21,725	**10,729**

For the year ended December 31, 2017 and 2016, the average return on the CDB was 95% of the Interbank Deposit Certificate (CDI).

9 Deferred income tax and social contribution

Unrecognized deferred income tax assets

The Company has experienced tax losses since inception and therefore the Company has not recognized deferred income tax assets in respect of the following items to the extent there is no taxable temporary difference that will reverse in the same period that deductible temporary differences reverse.

Deferred income tax assets may be recognized/increased in the near term when the Company starts to experience future sustainable taxable income during the carryforward period and it is probable that these tax benefits will be realized.

	2017	**2016**
Income tax loss and negative basis carried forward	9,479	1,801
Total unrecognized deferred income tax assets	**9,479**	**1,801**

Brazilian unrecognized income tax carryforward losses amounting to R$9,479 at December 31, 2017 do not expire, however they can only offset up to 30 percent of a taxpayer’s taxable income in any given year.

10 Property, plant and equipment

a. Breakdown

		2017			2016		
	Annual depreciation rates (%)	Cost	Accumulated depreciation	Total	Cost	Accumulated depreciation	Total
Machinery and equipment	3,33 a 10	94	(3)	91	12	-	12
Buildings	4 a 10	9	(1)	8	9	-	9
Furniture and fixtures	10	1,654	(136)	1,519	895	(21)	874
Land	-	7,567	-	7,567	4,409	-	4,409
Constructions in progress	-	755,010	-	755,010	193,665	-	193,665
		764,334	**(140)**	**764,194**	**198,990**	**(21)**	**198,969**

b. Reconciliation of carrying amount

	Land	Machinery and equipment	Buildings	Furniture and fixtures	Total on operation	Construction in progress	Total
Balances at December 31, 2016	**4,409**	**12**	**9**	**874**	**5,304**	**193,665**	**198,969**
Acquisition	3,158	82	-	780	4,020	561,345	565,365
Depreciation	-	(3)	(1)	(136)	(140)	-	(140)
Balances at December 31, 2017	**7,567**	**91**	**8**	**1,518**	**9,184**	755,010	**764,194**

	Land	Machinery and equipment	Buildings	Furniture and fixtures	Total on operation	Construction in progress	Total
Balances at December 31, 2015	-	-	-	-	-	-	-
Acquisition	4,409	12	9	895	5,325	193,665	198,990
Depreciation	-	-	-	(21)	(21)	-	(21)
Balances at December 31, 2016	**4,409**	**12**	**9**	**874**	**5,304**	193,665	**198,969**

Land

Refers to the purchase value of the area where the thermal power plant Porto de Sergipe I is located.

Constructions in progress

As mentioned above, the company signed a turnkey EPC agreement with GE for the construction of the plant. The amounts recorded in Construction in progress are mainly related to the prepayments made to GE for the purchase of equipment to build the plant, secured by bank guarantees, and other directly attributable expenditures. The company also classifies expenses incurred with environmental licensing and studies and development projects as construction in progress. The balances are recorded as construction in progress and will be transferred to fixed assets in use after the plant's go-live date.

Depreciation

Expenses with depreciation in the amount of R$ 140 relating to furniture and fixtures were allocated to results for the year 2017 (R$ 21 at 2016).

11 Suppliers

	2017	2016
General Electric Switzerland GMBH (a)	15,249	-
Alstom Energia Térmica e Industrial Ltda.(a)	13,944	-
Swiss Re Corporate (b)	-	10,836
Grid Solutions Transmissão de Energia	2,034	-
Black & Veatch International (c)	660	2,995
External lawyers advisors	2,962	509
AIG Seguros	-	137
Others	3,317	231
	38,166	**14,708**

(a) As described in Note 1, Astom Energia Termica e Industrial Ltda and General Electric Switzerland GMBH are suppliers under the EPC Contract, responsible for construction, design, engineering and procurement of the Plant, which comprises the generators, a high voltage substation and a high voltage transmission line, among other systems and components.

(b) Related to Construction/Erection All Risks insurance policy.

(c) Related to Owner´s Engineering services, which include the monitoring of costs and of compliance with the schedule of the EPC agreement signed with GE, as well as the technical review of the design of the equipment to be provided.

12 Taxes and social contributions

	2017	2016
IRRF	56	13
PIS e COFINS	286	84
ISS	241	33
INSS e FGTS	79	20
CIDE	640	36
Others	338	-
	1,640	**186**

13 Equity

Share capital

CELSE’s capital corresponds to R$ 285,001 at December 31, 2017 (R$ 200,001 at 2016), consisting of 285,001,000 nominative common shares with no par value (200,001,000 shares at 2016), distributed as follows:

	2017		2016	
	Shares	%	Shares	%
Ebrasil Energia Ltda.	356,000,500	50%	100,000,500	50%
GGPower Participações S.A.	356,000,500	50%	100,000,500	50%
	712,001,000	**100%**	**200,001,000**	**100%**

Capital increase
In the year 2017, there were capital subscriptions in the amount of R$512,000.00 paid by the shareholders Ebrasil Energia Ltda and GGPower Participações S.A., authorized at the Extraordinary General Meeting held on February 22, 2017, and November 20, 2017.

Advances for future capital increase
On February 22, 2017, there were contributions for future increase in capital in the amount of R$ 61,900 made by the shareholders Ebrasil Energia Ltda. and GGPower Participações S.A. Such amounts are mandatorily convertible to shares.

14 Provision for contingencies
CELSE is in the pre-operating stage and, based on the report of its legal advisors, Management is not aware of any lawsuits, civil, labor or tax proceedings against the company. Consequently, no provision for contingencies was recorded or disclosed in these financial statements.

15 Related parties

a. Parent companies
The company's control is shared by the companies Ebrasil Energia Ltda. and GGPower Participações S.A., which, in turn, have DC Energia e Participações S.A., Golar LNG Ltd. and Stonepeak Infrastructure Partners as ultimate parent companies.

b. Related party balances

	2017	**2016**
Centrais Elétricas de Pernambuco S.A. - EPESA (i)	225	100
	225	**100**

(i) EPESA is a subsidiary of Eletricidade do Brasil S.A. - EBRASIL, which is the parent company of EBRASIL Energia Ltda. The transaction relates to an agreement with the associated company for the provision of administrative services (Common share services of administrative routines).

c. Other related party transactions
The logistics solution for the supply of gas to Porto de Sergipe I will take place via the chartering of a Floating Storage Regasification Unit (FSRU) from the indirect parent company Golar Power Ltd. The FSRU is currently being built and, in the coming years, a service agreement will be formalized with the terms and conditions of this business relationship between the parties.

d. Remuneration of key personnel
The officers, whom are those persons who have the authority and responsibility for planning, directing and controlling the activities of the entity - directly or indirectly, are elected by the Board of Directors and considered key management personnel in accordance with the Company's by-laws. On December 31, 2017, the annual remuneration of key management personnel was R $ 2,851 (R$ 1,057 in 2016).

On December 31, 2017 and 2016, the company does not maintain private pension and retirement plans or other post-employment benefits.

16 General and administrative expenses

	2017	2016
Services	(12,354)	(3,187)
Administrative personnel	(10,762)	(2,326)
Rent and leases	(588)	(196)
Tax	(220)	-
Depreciation and amortization	(161)	(21)
Others	(181)	(93)
	(24,266)	**(5,823)**

17 Net financial income

	2017	2016
Financial income		
Interest on financial investments	1,904	570
	1,904	**570**
Financial expenses		
Tax on financial income (PIS and COFINS)	(89)	(26)
Other	(130)	(18)
	(219)	**(44)**
Net financial income	**1,685**	**526**

18 Financial instruments

The company reviews the main financial instrument assets and liabilities, as well as the criteria for their valuation, evaluation, classification and related risks.

Company´s Management did not identify any significant difference between fair value and those amounts presented in the financial statements at December 31, 2017 and 2016. The company does not have derivative financial instruments or any other risk assets and it does not make speculative investments.

Financial assets

Cash and cash equivalents are a non-derivative financial asset measured at fair value through profit or loss. There is no divergence between carrying amounts and fair value.

Financial liabilities

Suppliers and other accounts payable are classified as other financial liabilities and there is no material divergence between carrying amounts and fair value.

a. *Risk management*

Company´s Management manages risk exposure in its operations with financial instruments through operating strategies and internal controls.

The Board of Directors has overall responsability for the establishment and oversight of risk management framework. The risk management is carried out through risk mapping, definition of owners, action plans, formal internal policies, approval matrices and an integrated management system.

Liquidity risk

Liquidity risk is the risk that Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial assets. The Company approachs to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when are due.

All contractual maturities of financial liabilities (suppliers and other accounts payable) in the amount of R$38,916 are due in one year.

19 Insurance coverage

CELSE contracted insurance to cover assets for amounts considered sufficient to cover any risks.

At December 31, 2017, the insurance coverage are:

Risks	Covered amounts
Construction/Erection All Risks - CEAR	4,670,335
Performance bond	164,275
Civil liability - Civil works	129,848
Civil liability - Directors and Officers	50,000
Property damage - administrative offices	1,450

20 Commitments

There is a commitment of Regulated Power Purchase Agreement between Celse and twenty six contracts with energy distributors, for period of 25 years, with no volume and price locked in advance.

In addition to the EPC - Engineering, Procurement and Construction agreement signed with GE, already mentioned in note 1, in November 2016 CELSE also signed an agreement for the supply of gas with Ocean LNG, a joint venture formed by Qatar Petroleum and ExxonMobil. The contractually negotiated supply will be for a term of up to 25 years, starting from January 2020, when the contractual obligation to deliver power under the CCEAR signed in the context of the A-5/2015 auction will occur. There is no locked price however, the Base Annual Contract Quantity is 68,400,000 MMBTU, multiplied by the number of days in the relevant contract year, divided by the number of days in the relevant calendar year.

In December 2016, CELSE signed a service agreement with GE Power Services for the operation and maintenance of the plant (O&M) for a term of up to 25 years, starting from January 2020, the plant’s commercial startup date. Payments are made according to contract stages, which are divided between Pre-mobilization (R$ 430), Mobilization (R$ 9,660) and BOP Equipment ISP ($ 7,694). Besides, it has the Monthly Fixed fee (vary from R$ 1,215 and R$ 1,325), Variable Monthly Fee and Maintenance event fee, to be paid by wire transfer to the bank account identified by Contractor within 30 days from the event.