Result under IFRS

The concept behind the changes in Contract Assets

taesa

Accounting methods in the transmission sector

In the electric power transmission sector, the concessionaire obtains the right to operate the infrastructure for the provision of public services and is remunerated for making this infrastructure available.

For this purpose, there are two accounting methods applied in the transmission sector: the Regulatory (BRGAAP) and the Corporate (IFRS).

- In accounting under BRGAAP, revenue actually represents receipts (the Annual Permitted Income – RAP); therefore, the Regulatory result reflects the Company’s cash flow. Furthermore, investments are recognized as Property, Plant and Equipment.

- In IFRS accounting, investments are recognized as Contract Assets, pursuant to Resolution 762, of December 22, 2016 (Securities Commission). Thus, income under IFRS reflects changes in of Contract Assets.

Although the Regulatory result reflects cash flow, the distribution of dividends is based on the result under IFRS.

Accounting methods in the transmission sector

As of January 1, 2018, the adoption of IFRS 9 (CPC 48) or IFRS 15 (CPC 47) became mandatory, with disclosure of this new accounting as of the 2018 Annual Financial Statements.

TAESA chose to adopt IFRS 15, whose principles are based on the business model that identifies the contract with the customer (goods or services) and their respective contractual performance obligations, defining the transaction price and revenue recognition as of the fulfillment of these obligations (**recognition of Contract Assets**).

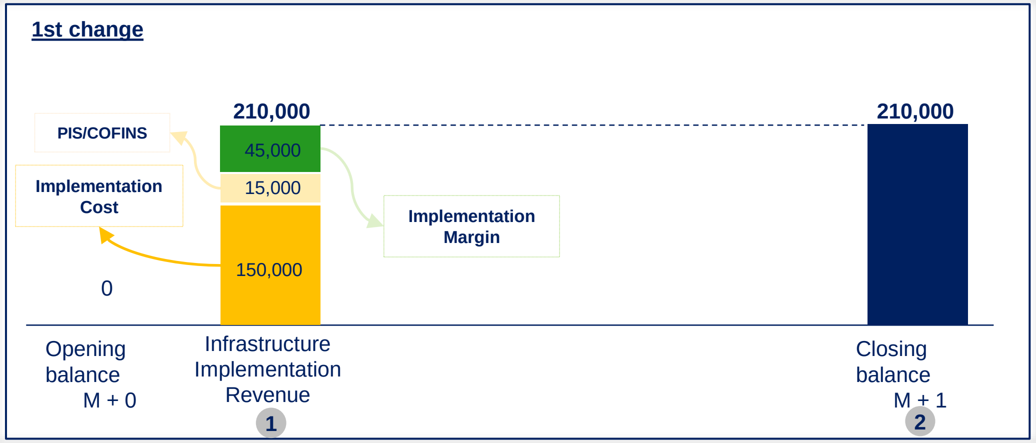
For the calculation of the Contract Assets, the rate adopted becomes the market rate upon the auction, fixed over the concession term (“Project Rate”). Thus, the Contract Asset is calculated monthly from the future flow of receipts brought to present value by the Project Fee.

Contract Assets under IFRS

The example below is based on accounting for a single transmission concession. This is an example with illustrative amounts to explain the concepts of IFRS accounting in the energy transmission sector.

Breakdown of Contract Assets – Pre-operational phase (construction)

Initial moment: Beginning of investment in construction



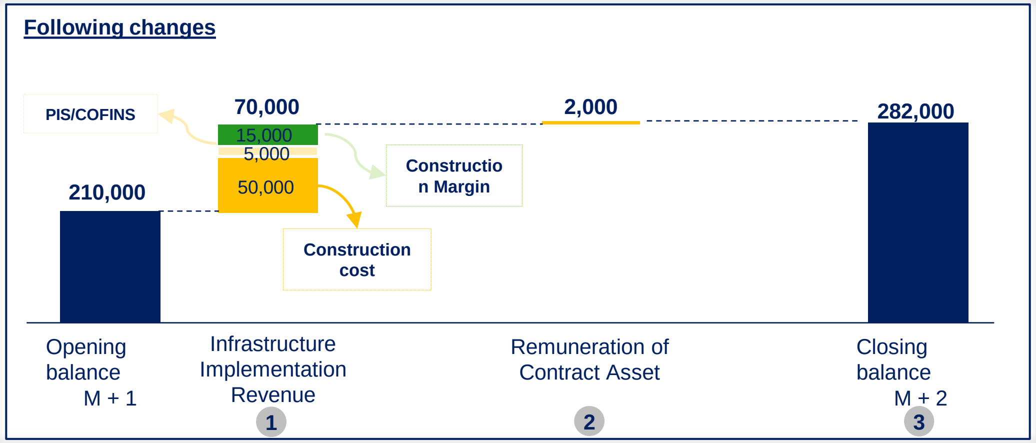
1. The breakdown of the Contract Asset occurs, at the initial moment, through the infrastructure implementation revenue.

   During the construction period, this revenue is determined by the infrastructure implementation costs incurred (investments) plus PIS/COFINS and the infrastructure implementation margin.

   The implementation margin is composed of the margin percentage applied to implementation costs incurred for the period.

2. At first, the sum of said amounts is what makes up the Contract Asset balance.

Formation of the Contract Assets: Implementation revenue + Contract asset remuneration



1. Revenue from infrastructure implementation is added monthly to the balance of Contract Assets during the construction, following the breakdown described above.

2. At this moment, the Contract Asset is increased by a defined remuneration rate for the respective project on the opening balance, which is a market rate measured at the time of the auction.

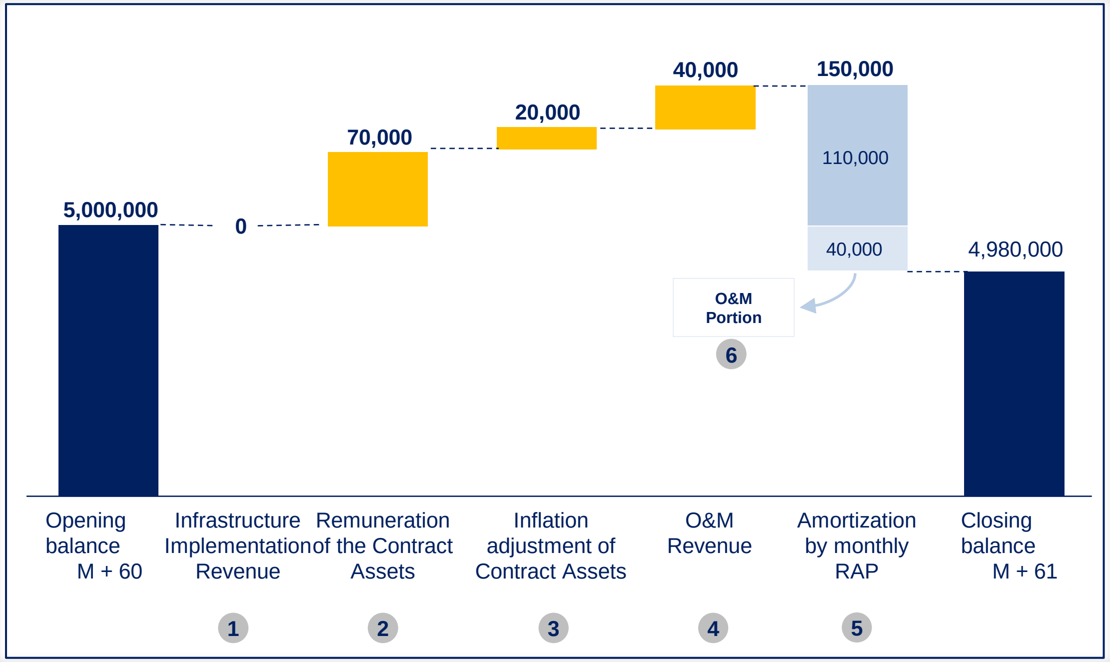
3. Therefore, in the pre-operational phase, the Contract Asset is formed by the implementation revenue and the project remuneration. It is worth highlighting that, during this construction phase, said remuneration interest is part of the infrastructure implementation revenue.

Contract Assets under IFRS

The example below is based on accounting for a single transmission concession. This is an example with illustrative amounts to explain the concepts of IFRS accounting in the energy transmission sector.

Changes of Contract Assets after start-up - Operational phase

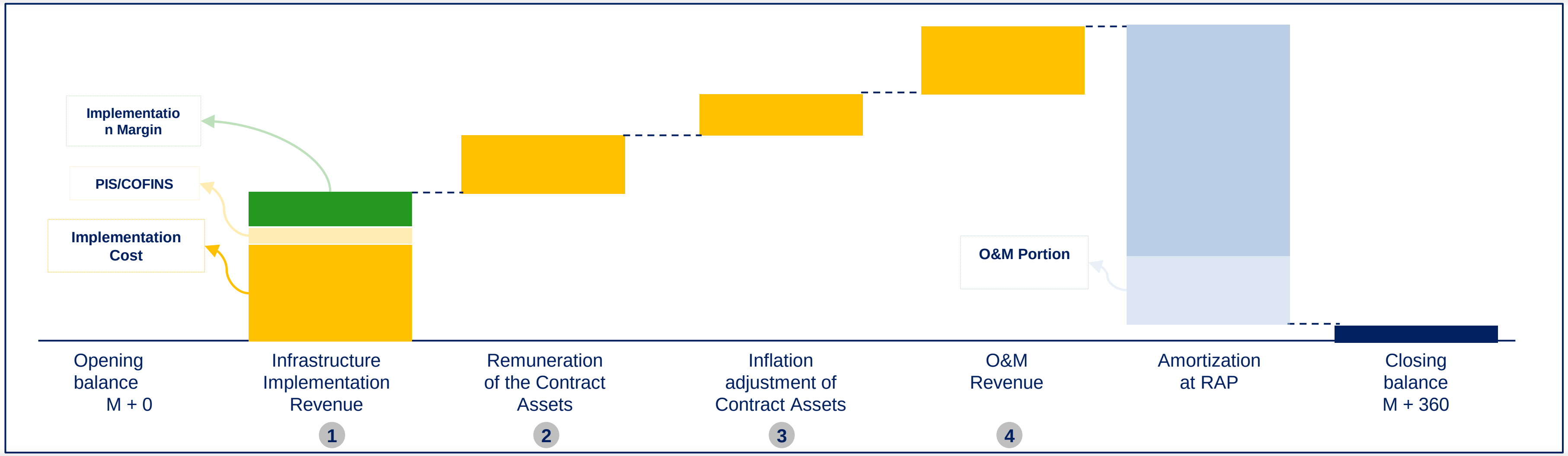
Remuneration and Inflation Adjustment of Contract Assets, O&M Revenue and Amortization at RAP.



1. For obvious reasons, there is no revenue from implementing infrastructure during the operational phase.
2. The Contract Asset continues to be remunerated at the project fee.
3. Moreover, after the commissioning, Contract Assets will be monthly adjusted for inflation (IGP-M or IPCA rate, according to each concession), calculated by the monetary restatement of future receipts brought to present value at the project fee.
4. O&M revenue is a portion of RAP to remunerate the operation and maintenance of concession assets.
5. The amortization of the Contract Asset is carried out through the monthly amount of the RAP (receipts), which is adjusted annually for inflation.
6. As the O&M revenue is a portion of the RAP, it does not impact changes in the Contract Assets as it is canceled out with the amortization by the RAP.

Impact on income (loss) under IFRS

Changes in Contract Assets



IFRS income
1 Infrastructure Implementation Revenue
2 Contract Asset Remuneration Revenue
3 Revenue from Inflation Adjustment of Contract Assets
4 Operation and Maintenance Revenue

>>>>> DIRECTLY RELATED TO CHANGES IN CONTRACT ASSETS

The Infrastructure Implementation revenue caption is linked to the first element of the change as a consequence of the investments incurred and occurs only in the pre-operational stage of the concession.

The Contract Asset remuneration generates an IFRS revenue of the same amount.

The monetary restatement of the Contract Asset generates an IFRS revenue of the same amount. **This income caption naturally suffers the impact of macroeconomic indices.**

The RAP portion corresponding to operation and maintenance generates an O&M revenue of the same amount, which is annually readjusted by the same inflation rate that readjusts the RAP.