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Centrais Eléctricas Rio Verde S.A.  
Centrais Eléctricas Serra do Salto S.A.

**2. Basis of presentation**

The Group has prepared these combined financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The Group has applied IFRS 1, First-Time Adoption of International Financial Reporting Standards ("IFRS1") in its adoption of IFRS. The transition date ("Transition Date") is January 1, 2013. The Group has applied IFRS standards effective for the period ended as of December 31, 2014 to all years presented in these combined financial statements. The Group has never prepared financial statements or financial information on the carve-out basis of preparation presented herein. Prior to the Group's first-time adoption of IFRS, it reported financial information to Renova in accordance with accounting practices adopted in Brazil (BR GAAP). The Group also follows the guidance in the Accounting Manual for the Brazilian Electricity Industry and standards established by the Brazilian National Agency for Electric Energy (*Agência Nacional de Energia Elétrica—ANEEL*). The financial information is presented in thousands of Brazilian Reals (R\$), unless otherwise stated.

The Group applied certain mandatory exceptions as applicable for first-time IFRS adopters. The Group elected not to apply the optional exceptions for first-time adopters. Estimates made by the Group in preparing its first IFRS financial statements reflect the facts and circumstances which existed at the time such estimates were made. Accordingly, the estimates made by the Group to prepare these combined financial statements are consistent with those made in the historical reporting of financial information to Renova.

Since the Group has not previously prepared financial statements, the combined financial statements do not include any IFRS 1 first-time adoption reconciliations.

The financial information with respect to the Group is reflected in the individual legal entities that comprise the Group, which were all under the common control and management of Renova for all periods presented. These combined financial statements have been prepared from the accounting records of Renova and reflect the cash flows, revenues, expenses, assets, and liabilities of these individual legal entities. All transactions and balances between the individual legal entities within the Group have been eliminated in combination.

Because the separate legal entities that comprise the Group were not and are not held by a single legal entity, Parent's net investment is shown in lieu of shareholders' equity in these combined financial statements. Parent's net investment represents the cumulative net investment by Renova in the Group through that date. The impact of transactions between the Group and Renova that were not historically settled in cash, including certain intercompany loans, are also included in Parent's net investment (see note 14).

During the periods presented, the Group functioned as part of the larger group of companies controlled by Renova, and accordingly, Renova performed certain operating and corporate overhead functions for the Group. These functions include, but are not limited to, executive oversight, legal, finance, human resources, information technology, internal audit, financial reporting, tax planning and investor relations. The costs of such services have been allocated to the Group based on the most relevant allocation method to the service provided, primarily based on relative percentage of revenue, installed capacity or headcount. Management believes such allocations are reasonable; however, they may not be indicative of the actual expense that would have been incurred had the Group been operating as a separate entity apart from Renova. The cost allocated for these functions is included in general and administrative expenses in the combined income statements for the historical periods presented. A complete discussion of the Group's relationship with Renova and its affiliated entities, together with the cost allocations, is included in note 14 to the combined financial statements.

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