
Table of Contents

Commitments for social and environmental costs—In connection with the development of its energy generation projects, the Group has assumed commitments for social and environmental costs to be incurred as condition for obtaining the related licenses and permits for operations. These obligations are recorded at the net present value of the estimated future costs associated with these commitments, and a corresponding charge is capitalized as part of the project assets, when the obligations are incurred. Over time the liability is accreted to its expected future value. That portion of the liability expected to be paid or settled within 12 months is classified as a current liability. The capitalized asset cost is depreciated over the estimated useful life with the related project assets.

Revenue Recognition—The Group's revenue derives from the sale of electric energy under long-term power purchase agreements and is recorded based on the quantity of the electricity delivered at the contracted rates, net of applicable federal sales taxes (PIS and COFINS). These rates are generally fixed under the terms of the PPAs and are adjusted annually for inflation. The remaining term of the PPAs at December 31, 2014 was between 14 and 18 years.

Energy Balance CCEE/Eletrabras—The terms of the PPAs with Eletrabras (SHPPs) and CCEE (wind energy) each establish separate mechanisms for the settlement of amounts due from or payable to the parties, representing the differences between the actual volume of electricity generated by the Group as compared to the contracted volumes.

In the case of the Eletrabras PPAs, differences between the amount of electricity generated and that sold in the CCEE environment are adjusted and offset in the monthly billings with Eletrabras in the subsequent year by CCEE.

In the case of the CCEE PPAs, differences in the volumes of actual electricity generated and the contracted volumes within a defined tolerance of 90-130% are accumulated monthly and are available to offset future differences in volumes during the subsequent four-year period; after which time, the accumulated balance will be liquidated. Differences outside of the defined tolerances are liquidated in the subsequent year.

These resulting differences between the actual amount of electricity generated and that billed, result in deferred payable and unbilled receivable amounts with the respective parties until they are liquidated, which are recorded in Energy balance—CCEE/Eletrabras in the combined balance sheets. The related balances are not eligible for offset among the separate PPAs. The outstanding balances are subject to monetary inflation updates in accordance with the applicable inflation index as defined in the respective PPAs, which is recorded as part of finance income / expense in the combined income statements.

Seasonality—There are substantial seasonal variations in monthly and annual volumes, which depend fundamentally on the amount of rain that falls in each rainy season and the wind conditions which are variable and difficult to predict. As such, operating results vary significantly from period to period depending on the weather conditions during the periods in question.

Finance income and expenses

Finance Income—Finance income is principally represented by interest income on the Group's cash and cash equivalents balances, short-term investments and restricted deposit accounts. Interest income is recognized using the effective interest method.

Finance Expenses—Finance expenses are principally represented by interest on borrowings, contractual monetary inflation adjustments for certain financial assets and liabilities, as well as other financing fees and taxes. Borrowing costs that are not attributable to the acquisition, construction or production of a qualifying asset are recognized in income under the effective interest method.

F-284