Consolidated Financial Statements

ISA Capital do Brasil S.A. and Subsidiary

December 31, 2010 and 2009 and
January 1, 2009
with Independent Auditor's Report

ISA Capital do Brasil S.A. and Subsidiary

Financial statements

December 31, 2010 and 2009 and January 1, 2009

Contents

A free translation from Portuguese into English of Independent Auditor's Report on individual financial statements in accordance with accounting practices adopted in Brazil and on consolidated financial statements in accordance with IFRS and also with accounting practices adopted in Brazil

Independent auditor’s report on financial statements

The Shareholders, Board of Directors and Officers
ISA Capital do Brasil S.A.
São Paulo – SP

We have audited the accompanying individual and consolidated financial statements of ISA Capital do Brasil S.A (“Company”), identified as Company and Consolidated, respectively, which comprise the balance sheet as at December 31, 2010 and the related statements of operations, changes in equity and cash flow statements for the year then ended, and a summary of significant accounting practices and other explanatory information.

Management’s responsibility for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting practices adopted in Brazil, and for the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), and in accordance with accounting practices adopted in Brazil, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Brazilian and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the Company’s financial statements 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. An audit also includes evaluating the appropriateness of accounting practices used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Basis for qualified opinion on individual and consolidated financial statements

As a result of the 2010 debt restructuring, indicated in Note 25, ISA Capital do Brasil S.A. recognized the issue of preferred shares redeemable as an equity instruments which, in our opinion, should be recognized as a financial instrument liabilities, in accordance with accounting practices adopted in Brazil, specifically Brazilian Financial Accounting Standards Board (CPC) pronouncement CPC 39, approved by Brazilian Securities and Exchange Commission (CVM) Rule No. 604, of November 19, 2009, and IAS 32. Furthermore, ISA Capital do Brasil recognized remuneration of the referred to instrument as cumulative fixed dividend, as established in its Articles of Incorporation and Shareholders' Agreement, and not as financial expenses bearing interest as we understand it should be. Had the Company recognized the referred to share issue as financial instrument liabilities, equity as of December 31, 2010 would decrease by R$1,200,000, from R$2,093,889 to R$893,889, and liabilities would increase by the same amount, from R$421,696 to R$1,621,696. In addition, had the referred to been recognized as a financial expense, not as dividend, loss for the year ended December 31, 2010 would increase by R$107,637, net of tax effects, from (R$104,534) to (R$ 212,271). However, the recording method adopted by the Company did not change its financial position as of December 31, 2010.

Opinion on individual financial statements

In our opinion, except for the effects of the matter described in the Basis for qualified opinion on individual and consolidated financial statements paragraph, the individual financial statements referred to above present fairly, in all material respects, the financial position of ISA Capital do Brasil S.A. ("Company") as of December 31, 2010, its financial performance and its cash flows for the year then ended, in accordance with accounting practices adopted in Brazil.

Opinion on consolidated financial statements

In our opinion, except for the effects of the matter described in the Basis for qualified opinion on individual and consolidated financial statements paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ISA Capital do Brasil S.A. ("Company") as of December 31, 2010, its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with IFRS issued by IASB, and accounting practices adopted in Brazil.

Emphasis of a matter

As described in Note 2, the consolidated financial state. As regards ISA Capital do Brasil S.A. ("Company"), these practices are different from IFRS, applicable to separate financial statements, solely as far as assessment of investments in subsidiaries, affiliate and jointly-owned subsidiaries under the equity method is concerned, whereas for IFRS purpose, such investments should be assessed at cost or fair value.

As mentioned in Note 36, Law No. 4819/58 granted the employees under São Paulo State control the advantages already granted to other public employees, particularly retirement pay supplement and pension plans, and established that expenses arising therefrom are full responsibility of São Paulo Government. Payment management involves Fundação CESP, who prepares payrolls, and State Government, who remits the amount to subsidiary CTEEP (who remits it to Fundação CESP for payment to final beneficiary). This has been the procedure since CESP spin-off, which created CTEEP and, through December 2003, was fully met by all parties. Beginning 2004, São Paulo State government required the right to process payrolls and pay employees directly. Nevertheless, in January 2006, based on a report issued by São Paulo State General Attorney's Office, São Paulo State Finance Authorities started disallowing part of benefits paid to retired employees and, since then, it has been generating accounts receivable from Government, given that subsidiary CTEEP pays the disallowed portions as benefit contribution, as required by a decision awarded by the 49^{th} Labor Court. Widely and strongly supported by its legal advisors' opinion, and also considering the fact that São Paulo State Finance Authorities are not challenging its full responsibility for providing funds to pay those benefits related to application of Law No. 4819/58, issued thereby, the Company's management understands that no liabilities or provision for losses are to be recorded in the financial statements of subsidiary CTEEP and, as a result, in the financial statements of the Company itself in relation to said accounts.

Other matters

Individual and consolidated balance sheets as of January 1, 2009, prepared in accordance with accounting practices adopted in Brazil then effective, presented as basis for preparation of the opening balance sheets mentioned in Note 5.1, were previously audited by other independent auditors, who issued an unqualified report dated March 27, 2009, with an emphasis-of-a-matter paragraph the matter mentioned in the previous paragraph, regarding amounts related to Law No. 4819/58.

As part of our audit of the individual and consolidated financial statements as of December 31, 2010, we also reviewed the adjustments mentioned in Note 5.1, which aimed to adjust opening balance sheets as of January 1, 2009. We concluded that such adjustments are fair and appropriate.

Statements of value added

We have also reviewed the individual and consolidated statements of value added (SVA)for the year ended December 31, 2010, whose presentation is required by Brazilian Corporation Law for publicly-held companies, and as supplementary information under IFRS, which require no SVA presentation. These statements were submitted to the same procedures described above and, in our opinion, are presented fairly, in all material respects, in relation to the overall financial statements.

São Paulo, March 16, 2011

ERNST & YOUNG TERCO
Auditores Independentes S.S.
CRC-2SP015199/O-6

Luiz Carlos Passetti
Accountant CRC 1SP144343/O-3

ISA Capital do Brasil S.A. and Subsidiary

Management Report – Financial Year 2010

Dear Shareholders,

Management of ISA Capital do Brasil, in compliance with legal and statutory provisions, submits to you the Management Report and the related Financial Statements, with the opinion of Independent Auditors for the year ended December 31, 2010.

Message from Management

ISA Capital do Brasil is a Brazilian holding, whose controlling equity interest is held by Internexión Elétrica S.A. E.S.P, a Colombian mixed-capital company under Colombia Government control, and its main business purpose is to operate and maintain an energy transmission network.

Parent company of CTEEP – Companhia de Transmissão de Energia Elétrica Paulista since July 26, 2006, ISA Capital holds 57,093,404 common shares issued by CTEEP, which represents 89.40% of voting capital and 37.60% of total capital. At December 31, 2010, this equity interest held in CTEEP is recorded as investments in the region of R$ 2.1 billion in the financial statements of ISA Capital financial statements.

In 2010, in accordance with ISA Group strategy of leveraging business in Brazil, the Company restructured its foreign-currency-denominated debt contracts (bonds) so as to reduce cost of such indebtedness, while creating conditions favorable to escalating activities of the Company and its subsidiaries.

ISA Capital and its parent company Interconexión Elétrica S.A. E.S.P. are committed to ensuring, promoting and improving the quality of energy transmission services provided by subsidiary CTEEP, so as to improve its financial and economic performance by applying international best practices and management models to the benefit of all shareholders and the community.

1. Company's profile

ISA Capital do Brasil S/A ("ISA Capital" or "Company") is a Brazilian holding company, organized as a limited liability company on April 28, 2006 and then incorporated into a corporation on September 19, 2006. Then, on January 4, 2007, it was listed by Brazilian Securities and Exchange Commission (CVM) and, on May 27, 2010, it was unlisted, as decided by the Company's shareholders.

The Company's business purpose includes holding equity interest in other entities or ventures, as a member, shareholder, joint venturer, consortium member or otherwise.

ISA Capital is a subsidiary of Interconexión Eléctrica S.A. E.S.P. ("ISA"), a Colombian mixed capital company, controlled by Colombia government, whose business purpose is operating and maintaining an energy transmission network, in addition to energy service rendering related activities.

Since July 26, 2006 ISA Capital is the Parent Company of CTEEP - Companhia de Transmissão de Energia Elétrica Paulista ("Subsidiary" or "CTEEP"), which is the date on which the public auction for sale of CTEEP controlling stock performed by the São Paulo (SP) State Government at the São Paulo Stock Exchange – BOVESPA on June 28, 2006 was financially settled.

For the acquisition of 31,341,890,064 common shares, which represent 50.1% of common shares issued by CTEEP and 21.0% of total capital, the Company paid R$1.2 billion to São Paulo State Government, corresponding to R$ 38.09 per thousand shares. In addition to this payment, ISA Capital paid R$ 19.4 million to São Paulo State Government as additional price to those shares acquired at auction, so as to offset premium offered to CTEEP employees for the acquisition of a certain share lot. This amount paid to acquire equity control of CTEEP is subject to adjustments, as set forth in CTEEP share purchase and sale agreement, to be determined based on amounts effectively paid by CTEEP for benefit and pension plan supplementation purposes to former employees, in accordance with State Law No. 4819/58.

As part of the destatization process, on September 12, 2006, the Company purchased more 10,021,687 common shares of CTEEP, representing 0.016% of this type of shares for R$ 229 thousand. This purchase corresponds to the common shares which were not acquired by CTEEP employees under the SP state government offering directed to them under the terms of CTEEP Destatization Tender Notice No. SF/001/2006.

On January 9, 2007, by operation of article 254-A of the Brazilian Corporation Law and pursuant to referred to Tender Notice and the CTEEP Stock Purchase and Sale Agreement, ISA Capital conducted at the São Paulo Stock Exchange - BOVESPA a public offering auction ("OPA") of outstanding shares of CTEEP issue for an amount equivalent to 80% of the price paid for CTEEP controlling stock. As a result of this Auction, the Company acquired 24,572,554,070 common shares of CTEEP issue, representing 39.28% of total common shares, at the price of R$ 30.74 per thousand shares, thus totaling R$ 755.4 million.

Accordingly, ISA Capital became the holder, in the aggregate, of 55,924,465,821 common shares of CTEEP, representing 89.40% of the voting capital and 37.46% of the total capital of CTEEP. After CTEEP's reverse split carried out in August 2007, the number of common shares held by the Company corresponded to 55,924,465.

Later, the Company paid in CTEEP capital equivalent to 1,169,404 common shares – 574,927 shares on August 24, 2009 and 594,477 shares on April 23, 2010. Such capital payment arises from the tax benefit granted to CTEEP with partial amortization of special goodwill reserve for financial years 2008 and 2009. Accordingly, as of December 31, 2010, the Company held 57,093,404 common shares, equivalent to 37.60% of total capital and 89.40% of CTEEP voting capital.

2. Restructuring foreign-currency-denominated debt contracts (bonds)

In 2010, in accordance with ISA Group strategy of leveraging its business in Brazil, ISA Capital management implemented the restructuring of its foreign-currency-denominated debt contracts (bonds) so as to reduce cost of such indebtedness while creating conditions favorable to escalating activities of the Company and its subsidiaries.

Debt, previously amounting to US$ 554 million, US$ 200.0 million payable in 2012 and US$ 345.0 million in 2017, amounted to US$ 31.6 million after said restructuring. As a result of this restructuring, derivative financial instruments (swap) were settled and, currently, remaining bonds are not covered.

In order to enable such restructuring, in March 2010, the Company increased capital twice by issuing redeemable preferred shares amounting to R$ 1,200,000 thousand. R$ 600 thousand thereof was allocated to Capital and R$ 1,199,400 thousand to Capital Reserve. Accordingly, after both capital increases, at December 31, 2010, the Company's fully subscribed and paid in capital amounted to R$ 840,378 thousand (R$ 839,778 thousand at December 31, 2009), comprising 840,625,000 common shares and 593,844,504 preferred shares.

See restructuring details in Notes 1 and 18 a. to the financial statements.

3. Obligations assumed

The process to acquire CTEEP control, the Company assumed several commitments and obligations, in virtue of Public Notice No. SF/001/2006, which have been or are being met as the case may be. CTEEP share purchase and sale agreement executed on July 26, 2006 also imposed some obligations to the Company and its Parent Company to be observed in managing CTEEP as regards meeting former agreements, corporate governance rules, preservation of CTEEP employees' rights, maintenance and continuity of energy transmission service quality, among others. With respect to financial commitments, in 2010, ISA Capital paid R$ 8.4 million and R$5.1 million to São Paulo State Government and shareholders who took part in the tender offer, respectively, for the purpose to adjust the auction price arising from Law No. 4819/54 obligations.

According to market practice, the Company then also assumed commitments and obligations before financing banks and those acquiring bonds, which limited availability and possibility of Company's equity commitment in other transactions. By restructuring debt, major existing commitments, referred to as "Covenants", which made implementing certain operating activities of the Company difficult, were eliminated. Accordingly, in addition to better managing its business, the Company has been effectively meeting all other commitments assumed.

Nevertheless, it is worth pointing out that the Company should consider new commitments provided for in the Shareholders' Agreement arising from new redeemable preferred shares issued in March 2010.

4. Receipts from subsidiary

Over 2010, given its holding 37.60% interest in CTEEP, ISA Capital recognized equity pickup amounting to R$ 306.3 million and received proceeds totaling R$ 288.0 million, R$ 217.1 million of which as Dividends and R$ 70.9 million as Interest on Equity Capital.

5. Performance metrics

ISA Capital revenue is directly associated with equity pickup gains from subsidiary CTEEP, whose revenue is related to the availability of its key assets: transmission lines and transformers. Therefore, CTEEP makes permanent investments so as to ensure efficiency and quality in maintenance and operations. Furthermore, increase in non-availability of its assets may generate a discount a discount to its revenues (variable portion).

6. Economic and financial performance - Consolidated

Gross operating revenue increased by 3.9%, reaching R$ 2,551,542 thousand in 2010, in comparison to R$ 2,455,811 thousand in 2009, arising from a 22.7% increase in construction revenues and 2.0% increase in financial income, partially offset against the 11.5% decrease in operating and maintenance revenues.

Construction revenues totaled R$ 693,803 thousand in 2010, in comparison to R$ 565,468 thousand in 2009, arising from progress in IEMadeira construction, offset against decrease in CTEEP reinforcement and expansion work and completion of works of subsidiaries IEMG, IENNE and Pinheiros, or even their starting up their activities.

Financial income totaled R$ 1,398,245 thousand in 2010, in comparison to R$ 1,371,068 thousand in 2009, substantially for the increase in accounts receivable for construction, which reflects progress of CTEEP and its subsidiaries work stage.

Operating and maintenance revenues totaled R$ 442,469 thousand in 2010, in comparison to R$ 500,001 thousand in 2009, arising from decrease in Annual Revenue Allowed (RAP), resulting from the second CTEEP periodic tax review cycle, partially offset against subsidiary Pinheiros's starting up its activities.

Operating revenue deductions decreased by 3.8%, reaching R$ 295,257 thousand in 2010 in comparison to R$ 306,799 thousand in 2009, arising from a 14.6% decrease in regulatory charges, which reflects reduced consumption by free consumers and increase in funds to be invested in Research & Development projects in 2009, partially offset against a 8.3% increase in taxes on revenues.

As a result of the abovementioned factors, **net operating revenue** increased by 5.0%, totaling R$ 2,256,286 thousand in 2010 in comparison to R$ 2,149,012 thousand in 2009.

General and administrative expenses decreased by 33%, reaching R$ 155,358 thousand in 2010, in comparison to R$ 230,690 thousand in 2009.

EBITDA margin was 51.4%, totaling R$ 1,158,726 thousand in 2010, in comparison to 56.2%, R$ 1,208,043 thousand in 2009.

Financial expenses reached R$ 595,979 thousand in 2010, an increase by 68.9% in relation to R$ 352,888 thousand in 2009, which is substantially represented by financial expense paid for foreign currency debt restructuring, as well as increase in subsidiary CTEEP debt charges.

Income and social contribution tax expenses decreased by 18.0%, totaling R$ 277,360 thousand in 2010, in comparison to R$ 222,921 thousand in 2009. The effective income and social contribution tax rate was 28.5% in 2010 and 31.2% in 2009.

As a result of the abovementioned factors, and considering non-controlling interest amounting to R$ 505,906 thousand, the Company recorded R$ 104,534 thousand loss in 2010, basically arising from recognition of debt restructuring financial expenses.

7. Independent auditors

For the purposes set forth in CVM Rule No. 381, of January 14, 2003, ISA CAPITAL states that its individual and consolidated financial statements for the years ended December 31, 2010 and 2009 were audited by Ernst & Young Terco Auditores Independentes S.S. ("Ernst & Young Terco") who has been providing only independent audit-related services to the Company since April 2009.

With respect to services not related to independent audits, ISA Capital adopts principles that preserve the independence of its auditor, who is not to audit their own work, or perform management roles or even advocate for its client.

8. Policies and procedures

Policies of the Company and its subsidiary forbid engaging its independent auditors to provide services which may generate conflict of interest or loss of objectivity thereof.

The Management

A free translation from Portuguese into English of individual financial statements in accordance with accounting practices adopted in Brazil and of consolidated financial statements in accordance with IFRS and also with accounting practices adopted in Brazil

ISA Capital do Brasil S.A. and subsidiary

Balance sheets
December 31, 2010 and 2009 and January 1, 2009
(In thousands of reais, unless otherwise indicated)

		Company			Consolidated		
	Nota	**2010**	**2009**	**01.01.2009**	**2010**	**2009**	**01.01.2009**
Assets			**(Restated)**	**(Restated)**		**(Restated)**	**(Restated)**
Current assets							
Cash and cash equivalents	7	**257,261**	30,004	1,593	**312,243**	73,238	124,617
Trade accounts receivable	8	**-**	-	-	**1,424,390**	1,430,606	1,343,671
Inventories		**-**	-	-	**44,791**	43,328	31,952
Interest on equity capital and dividends receivable – Subsidiary		**65,844**	-	-	**-**	-	-
Receivables from state finance department	9	**-**	-	-	**22,938**	19,439	19,786
Taxes recoverable	10	**36,806**	32,148	24,633	**48,036**	245,465,00	27,873
Pledges and restricted deposits	13	**2,320**	40,857	55,209	**2,320**	40,857	55,209
Prepaid expenses		**-**	2,871	2,871	**2,611**	6,639	5,788
Other		**59**	22	65	**35,815**	17,197	22,143
		362,290	105,902	84,371	**1,893,144**	1,876,769	1,631,039
Non-current assets							
Long-term receivables							
Trade accounts receivable	8	**-**	-	-	**4,225,309**	3,656,679	3,243,022
Receivables from state finance department	9	**-**	-	-	**681,129**	557,027	454,639
Tax benefit – merged goodwill	11	**-**	-	-	**147,911**	176,743	205,575
Deferred income and social contribution taxes	30	**-**	-	-	**28,050**	28,420	27,125
Pledges and restricted deposits	13	**-**	-	-	**42,248**	43,946	51,860
Prepaid expenses		**-**	9,881	12,752	**0**	9,881	12,752
Loans receivable	12	**39,663**	41,448	64,131	**39,663**	41,448	64,131
Inventories		**-**	-	-	**184,264**	126,854	70,557
Other		**-**	-	-	**6,624**	4,382	2,407
		39,663	51,329	76,883	**5,355,198**	4,645,380	4,132,068
Investment	14	**2,113,593**	2,220,298	2,195,122	**-**	-	-
Property, plant and equipment	15	**37**	46	52	**9,231**	10,306	8,026
Intangible assets	16	**-**	-	-	**297,066**	355,972	409,552
		2,113,630	2,220,344	2,195,174	**306,297**	366,278	417,578
		2,153,293	2,271,673	2,272,057	**5,661,495**	5,011,658	4,549,646
Total assets		**2,515,583**	2,377,575	2,356,428	**7,554,639**	6,888,427	6,180,685

	Nota	Company			Consolidated		
		2010	2009	01.01.2009	2010	2009	01.01.2009
Liabilities and equity			(Restated)	(Restated)		(Restated)	(Restated)
Current liabilities							
Trade accounts payable		**147**	252	219	**94,064**	71,043	36,497
Loans and financing	17	**1,934**	52,819	105,777	**334,347**	644,948	451,279
Debentures	18	**-**	-	-	**2,154**	-	-
Taxes and social charges payable	19	**2,533**	7,350	8,787	**91,277**	95,855	28,263
Taxes in installments – Law No.11941	20	**-**	-	-	**10,353**	9,853	-
Salaries payable		**9**	-	-	**10**	-	-
Regulatory charges payable	21	**-**	-	-	**49,559**	40,018	36,528
Interest on equity capital and dividends payable		**-**	-	-	**127,978**	6,116	4,882
Provisions	22	**11**	-	-	**22,674**	27,688	34,895
Payables – Law No. 4819/58 – State finance department	6	**8,423**	6,891	6,153	**8,423**	6,891	6,153
Payables – Law No. 4819/58 - OPA	6	**4,946**	4,322	3,840	**4,946**	4,322	3,840
Payables – Fundação CESP	23	**-**	-	-	**6,503**	6,917	6,210
Other		**-**	-	-	**13,873**	29,313	6,806
		18,005	71,634	124,776	**766,161**	942,964	615,353
Non-current liabilities							
Long-term payables							
Loans and financing	17	**52,737**	964,997	981,306	**592,769**	1,422,278	1,492,592
Debentures	18	**-**	-	-	**553,639**	-	-
Regulatory charges	21	**-**	-	-	**2,174**	3,269	2,805
Provisions	22	**-**	-	-	**161,688**	167,953	174,152
Taxes in installments – Law No. 11941	20	**-**	-	-	**144,964**	137,885	-
Deferred income and social contribution taxes	30	**-**	-	-	**9,352**	3,060	637
Deferred PIS and COFINS		**-**	-	-	**117,632**	60,218	9,697
Payables – Law No. 4819/58 – State finance department	6	**215,498**	210,522	206,127	**215,498**	210,522	206,127
Payables – Law No. 4819/58 - OPA	6	**135,456**	131,999	129,263	**135,456**	131,999	129,263
Special obligations – reversion and amortization	24	**-**	-	-	**24,053**	24,053	24,053
Total liabilities		**403,691**	1,307,518	1,316,696	**1,957,225**	2,161,237	2,039,326
Non-controlling interest					**2,737,364**	2,785,803	2,611,050
Equity							
Capital	25.a	**840,378**	839,778	839,778	**840,378**	839,778	839,778
Capital reserves	25.b	**1,199,400**	-	-	**1,199,400**	-	-
Legal reserves	25.i	**5,881**	5,881	2,346	**5,881**	5,881	2,346
Income reserve	25.c	**48,230**	152,764	72,832	**48,230**	152,764	72,832
Total equity		**2,093,889**	998,423	914,956	**2,093,889**	998,423	914,956
Total liabilities and equity		**2.515.583**	2,377,575	2,356,428	**7,554,639**	6,888,427	6,180,685

See accompanying notes.

ISA Capital do Brasil S.A. and subsidiary

Statements of operations and comprehensive income
Years ended December 31, 2010 and 2009
(In thousands of reais, unless otherwise indicated)

		Company		Consolidated	
		2010	**2009 (Restated)**	**2010**	**2009 (Restated)**
Net operating revenue	26.1	-	-	2,256,286	2,149,012
Cost of operating services	27	-	-	(948,270)	(714,992)
Gross profit		-	-	1,308,016	1,434,020
Operating (expenses) income					
General and administrative	27	(16,712)	(6,465)	(146,228)	(220,106)
Management fees	27	(1,048)	(1,222)	(9,130)	(10,584)
Financial expenses	28	(586,729)	(353,616)	(896,029)	(687,431)
Financial income	28	347,374	272,449	300,050	334,543
Other expenses	29	(55,969)	(55,968)	(79,808)	(104,114)
Equity pickup	14	306,266	322,222	-	-
		(6,818)	177,400	(831,145)	(687,692)
Operating income/(loss)		(6,818)	177,400	476,871	746,328
Income loss from discontinued operations					
Capital gains/losses		(3,170)	-	(3,170)	-
Income/(loss) before taxation/participation		(9,988)	177,400	473,700	746,328
Income and social contribution taxes					
Current	30	-	-	(222,630)	(278,654)
Deferred	30	-	-	(6,746)	(1,131)
Income/(loss) before non-controlling interest and reversal of interest on equity capital		(9,988)	177,400	244,324	466,543
Non-controlling interest		-	-	(505,906)	(539,753)
Reversal of interest on equity capital		(94,546)	(93,933)	157,047	156,677
Net income/(loss) for the period		(104,534)	83,467	(104,534)	83,467
Basic and diluted earnings/(loss) per share		(0.072873)	0.099292	(0.072873)	0.099292

The Company computed no other items qualifying as “comprehensive income” under CPC 26 for the periods presented and, therefore, it is not presenting a statement of comprehensive income.

See accompanying notes.

ISA Capital do Brasil S.A. and subsidiary

Statements of changes in equity
Years ended December 31, 2010 and 2009
(In thousands of reais, unless otherwise indicated)

Changes in equity	Capital	Capital reserve	Legal reserve	Retained profit	Retained earnings/ accumulated losses	Total
Balances at January 1 , 2009 (restated)	**839,778**	**-**	**2,346**	**72,832**	**-**	**914,956**
Net income for the year (restated)	-	-	-	-	83,467	83,467
Retained legal reserve (5%)	-	-	3,535	-	(3,535)	-
Retained profit	-	-	-	79,932	(79,932)	-
Balances at December 31, 2009 (restated)	**839,778**	**-**	**5,881**	**152,764**	**-**	**998,423**
Capital payment in cash, contribution from shareholder HSBC on March 9, 2010	**420**	**-**	**-**	**-**	**-**	**420**
Capital reserve establishment in cash, contribution from shareholder HSBC on March 9, 2010	**-**	**839,580**	**-**	**-**	**-**	**839,580**
Capital payment in cash, contribution from shareholder HSBC on March 19, 2010	**180**	**-**	**-**	**-**	**-**	**180**
Capital reserve establishment in cash, contribution from shareholder HSBC on March 19, 2010	**-**	**359,820**	**-**	**-**	**-**	**359,820**
Loss for the year	**-**	**-**	**-**	**-**	**(104,534)**	**(104,534)**
Transfer to retained profit reserve	**-**	**-**	**-**	**(104,534)**	**104,534**	
Balances at December 31, 2010	**840,378**	**1,199,400**	**5,881**	**48,230**	**-**	**2,093,889**

The Company computed no other comprehensive income for the periods reported.

See accompanying notes.

ISA Capital do Brasil S.A. and subsidiary

Cash flow statements
Years ended December 31, 2010 and 2009
(In thousands of reais, unless otherwise indicated)

	Company		Consolidated	
	2010	2009	2010	2009
		(Restated)		(Restated)
Cash flows from operating activities				
Net income (loss) for the period	(104,534)	83,467	(104,534)	83,467
Adjustments to reconcile net income to cash generated by (used in) operating activities				
Non-controlling interest	-	-	505,906	539,753
Depreciation and amortization	12,763	2,882	18,810	7,595
Deferred income and social contribution taxes	-	-	6,746	1,131
Deferred PIS and COFINS	-	-	60,023	50,521
Provision for contingencies	-	-	1,042	3,087
Residual value of permanent assets written off	-	-	1,563	175
Equity pickup	(306,266)	(322,222)	-	-
Amortization and goodwill	55,968	55,968	84,800	84,800
Capital gains/losses	3,251	-	3,411	-
Interest, monetary and exchange variation on assets and liabilities	304,329	150,425	431,391	215,948
	(34,489)	(29,480)	1,009,158	986,477
(Increase) decrease in assets				
Trade accounts receivable	-	-	(582,470)	(470,589)
Inventories	-	-	(58,873)	(67,673)
Receivables	1,484	10,186	(120,772)	(92,013)
Taxes recoverable	(10,901)	(14,178)	191,154	(224,255)
Pledges and restricted deposits	37,852	8,790	39,556	16,732
Other	(37)	43	(76,151)	8,621
Increase (decrease) in liabilities				
Trade accounts payable	(105)	33	22,641	34,546
Taxes and charges payable	(1,285)	(5,245)	(889)	63,785
Taxes in installments – Law No. 11941	-	-	-	147,738
Regulatory charges payable	-	-	8,445	3,955
Provisions	-	-	(12,307)	(19,425)
Payables	2,156	(11,039)	1,742	(10,335)
Other	-	-	47,730	19,997
Net cash generated by (used in) operating activities	(5,325)	(40,890)	468,964	397,561

ISA Capital do Brasil S.A. and subsidiary

Cash flow statements--Continued
Years ended December 31, 2010 and 2009
(In thousands of reais, unless otherwise indicated)

	Company		Consolidated	
	2010	**2009**	**2010**	**2009**
Cash flows from investing activities				
Property, plant and equipment	**(2)**	(5)	**(3,607)**	(5,243)
Intangible assets	**-**	-	**-**	(4,342)
Interest on equity capital and dividends received	**287,908**	241,078	**-**	-
Net cash generated by (used in) investing activities	**287,906**	241,073	**(3,607)**	(9,585)
Cash flows from financing activities				
New loans	**-**	-	**993,458**	581,009
Loan payment (including interest)	**(1,255,324)**	(175,822)	**(1,984,071)**	(656,607)
Dividends paid	**-**	-	**(463,767)**	(400,377)
Capital payment	**-**	-	**600**	36,620
New loans	**-**	4,050	**-**	-
Capital increase	**600**	-	**28,030**	-
Establishment of capital reserve	**1,199,400**	-	**1,199,400**	-
Net cash used in financing activities	**(55,324)**	(171,772)	**(226,350)**	(439,355)
Net increase (decrease) in cash and cash equivalents	**227,257**	28,411	**239,006**	(51,379)
Cash and cash equivalents at end of period	**257,261**	30,004	**312,244**	73,238
Cash and cash equivalents at beginning of period	**30,004**	1,593	**73,238**	124,617
Changes in cash and cash equivalents	**227,257**	28,411	**239,006**	(51,379)

See accompanying notes.

ISA Capital do Brasil S.A. and subsidiary

Statements of value added
Years ended December 31, 2010 and 2009
(In thousands of reais, unless otherwise indicated)

	Company		Consolidated	
Description	**2010**	**2009**	**2010**	**2009**
1 - Revenues	**-**	-	**2,557,573**	2,456,093
1.1) Sales of goods, products and services	**-**	-	**2,551,543**	2,455,811
1.2) Other (non-operating) revenues	**-**	-	**6,030**	282
1.3) Revenues from construction of own assets	**-**	-	**-**	-
1.4) Allowance for doubtful accounts – Reversion/Establishment	**-**	-	**-**	-
		-		
2 – Inputs acquired from third parties (including taxes - ICMS and IPI)	**(2,983)**	(2,936)	**(880,573)**	(767,988)
2.1) Cost of products, goods and services sold	**-**		**(484,786)**	(281,206)
2.2) Materials, energy, third-party services and others	**(2,983)**	(2,936)	**(395,787)**	(486,782)
2.3) Impairment of assets / asset recovery	**-**	-		-
2.4) Other	**-**	-	**-**	-
3 – Gross value added (1-2)	**(2,983)**	(2,936)	**1,677,000**	1,688,105
4 – Depreciation, amortization and depletion	**(68,731)**	(58,850)	**(74,777)**	(63,562)
5 – Net value added generated by the entity (3-4)	**(71,714)**	(61,786)	**1,602,223**	1,624,543
6 – Value added received in transfer	**559.094**	500,738	**(205,520)**	(205,240)
6.1) Equity pickup	**306,266**	322,222	**-**	-
6.2) Financial income	**252,828**	178,516	**300,385**	334,544
6.3) Other, non-controlling interest	**-**	-	**(505,905)**	(539,784)
7 – Total value added to be distributed (5+6)	**487,380**	438,952	**1,396,702**	1,419,302
8 – Value added distribution	**(487,380)**	(438,952)	**(1,396,702)**	(1,419,302)
8.1) Personnel	**(1,447)**	(1,378)	**(165,373)**	(160,202)
8.1.1) Direct compensation (including management fees)	**(1,034)**	(933)	**(122,580)**	(122,685)
8.1.2) Benefits	**(409)**	(440)	**(32,483)**	(29,122)
8.1.3) FGTS	**-**	(5)	**(10,306)**	(8,395)
8.1.4) Other	**(4)**	-	**(4)**	
8.2) Taxes, charges and contributions	**(12,194)**	(22,879)	**(595,435)**	(659,369)
8.2.1) Federal	**(12,176)**	(22,831)	**(582,246)**	(648,035)
8.2.2) State	**(18)**	(48)	**(613)**	(802)
8.2.3) Local	**-**		**(12,576)**	(10,532)
8.3) Debt remuneration	**(578,273)**	(331,228)	**(740,428)**	(516,295)
8.3.1) Interest	**(574,854)**	(331,028)	**(726,348)**	(269,924)
8.3.2) Rent	**(249)**	(200)	**(10,910)**	(9,177)
8.3.3) Other	**(3,170)**	-	**(3,170)**	(237,194)
8.4) Equity remuneration	**(104,534)**	83,467	**(104,534)**	83,436
8.4.1) Interest on equity capital	**-**	-	**-**	-
8.4.2) Dividends	**-**	-	**-**	-
8.4.3) Loss for the period / retained profit	**(104,534)**	83,467	**(104,534)**	83,436

See accompanying notes.

1. Operations

1.1 Corporate purpose

The corporate purpose of ISA Capital do Brasil S.A. ("ISA Capital" or the "Company") includes holding equity interest in other companies or ventures, as a member or stockholder, partnership in joint ventures, membership in consortiums, or any type of business cooperation.

In a privatization auction held on June 28, 2006 on the São Paulo Stock Exchange (BOVESPA), pursuant to Notice SF/001/2006, the São Paulo State Government, which was the majority stockholder of CTEEP - Companhia de Transmissão de Energia Elétrica Paulista ("CTEEP") up to then, sold 31,341,890,064 of its common shares, which account for 50.10% of the common shares issued by CTEEP. The winner of the auction was Interconexión Eléctrica S.A. E.S.P. ("ISA").

The financial settlement of the transaction took place on July 26, 2006 with the resulting transfer of the ownership of the aforementioned shares to ISA Capital, a Brazilian company controlled by Interconexión Eléctrica S.A., E.S.P., established to operate in Brazil, thus becoming CTEEP's controlling stockholder. This transaction was approved by the National Agency of Electric Energy (ANEEL) on July 25, 2006, pursuant to Authorizing Resolution No. 642/06, published in the Official Gazette on July 26, 2006.

On September 12, 2006 the Company purchased another 10,021,687 common shares issued by CTEEP, held by the Government of the State of São Paulo, and became the holder of 31,351,911,751 common shares.

On January 9, 2007 the Company acquired, through a public offering auction (OPA) for the acquisition of shares held on BOVESPA, 24,572,554,070 common shares issued by CTEEP, corresponding to 39.28% of the total of this type of shares, pursuant to the public offering notice published on December 4, 2006.

As a result of this acquisition the Company became the holder of 89.40% of the voting capital and 37.46% of the total capital of CTEEP. Thus, after the CTEEP's reverse stock split on July 12, 2007, the Company became the holder of 55,924,465 common shares.

1. **Operations**--Continued

1.1 **Corporate purpose**--Continued

Later, the Company paid in CTEEP capital equivalent to 1,169,404 common shares – 574,927 shares on August 24, 2009 and 594,477 shares on April 23, 2010. Such capitalization arises from CTEEP's tax benefit resulting from the partial amortization of the special reserve for merged goodwill for financial years 2008 and 2009. Accordingly, at December 31, 2010, the Company held 57,093,404 common shares, which are equivalent to 37.60% of CTEEP total capital 89.40% of its voting capital.

On March 9 and 19, 2010, in order to restructure its foreign-currency-denominated debt contracts (bonds), the Company increased capital twice by issuing preferred shares at the price of R$ 2.020731 per share, fully subscribed by HSBC Finance (Brazil) S.A. Multiple Bank, as follows:

(i) In Special Shareholders' Meeting held on March 9, 2010, under Board of Directors' Proposal terms dated March 8, 2010, Company's capital increase by R$ 840,000 was approved, R$ 420 of which was allocated to capital and R$ 839,580 allocated to capital reserve, by creating and issuing 415,691,162 redeemable preferred shares distributed into 13 classes, entitled fixed cumulative dividends, which were subscribed and paid-in on the same date. Accordingly, Company's capital increased from R$ 839,778 to R$ 840,198, comprising 1,256,316,162 shares. In the same meeting, mandatory dividend reduction was approved, which decreased from 25% to 1%, and amendment of the Company's Articles of Incorporation; and

(ii) In Board of Directors' meeting held on March 19, 2010, a new capital increase was approved within authorized capital limit, with issue of 178,153,342 redeemable preferred shares, into 13 classes, entitled to cumulative fixed dividends, amounting to R$ 360,000 which was fully subscribed and paid in on the same date, R$ 180 of which were allocated to Company's capital and R$ 359,820 to capital reserve.

(In thousands of reais, unless otherwise indicated)

1. **Operations**--Continued

1.1 **Corporate**--Continued

Accordingly, after both capital increases, as of December 31, 2010, the Company's subscribed and paid-in capital amounts to R$ 840,378 (R$ 839,778 as of December 31, 2009) and comprises 840,625,000 common shares and 593,844,504 preferred shares. On May 27, 2010, as decided by the shareholders, the Company unlisted from CVM.

CTEEP shares are traded on BOVESPA. In addition, CTEEP has a Rule 144 A American Depositary Receipts (ADRs) program in the United States. The depositary bank for the ADRs is the Bank of New York, and the custodian bank is Banco Itaú S.A.

CTEEP has its preferred shares included in BOVESPA Index (IBOVESPA), in the Corporate Governance Index (IGC) and the Electric Energy Index (IEE).

1.2 **Concessions**

The Company is entitled to explore indirectly the following Public Utility Concession Agreements for Electric Power Transmission:

					Annual Revenue Allowed (RAP)	
Concessionaire	**Agreement**	**Interest (%)**	**Term (years)**	**Maturity**	**R$**	**Monthly base (mm/yy)**
CTEEP	059/2001	37.6041	20	07.07.15	1,746,374	06/10
CTEEP	143/2001	37.6041	30	20.12.31	14,384	06/10
IEMG	004/2007	22.5625	30	23.04.37	12,873	06/10
IENNE	001/2008	9.4010	30	16.03.38	33,327	06/10
Pinheiros	012/2008	37.6041	30	15.10.38	6,756	06/10
Pinheiros	015/2008	37.6041	30	15.10.38	11,383	06/10
Pinheiros	018/2008	37.6041	30	15.10.38	2,903	06/10
IESul	013/2008	18.8021	30	15.10.38	4,068	06/10
IESul	016/2008	18.8021	30	15.10.38	7,323	06/10
IEMadeira	013/2009	19.1781	30	25.02.39	176,249	11/08
IEMadeira	015/2009	19.1781	30	25.02.39	151,788	11/08
Serra do Japi	026/2009	37.6041	30	18.11.39	21,804	05/09

1. **Operations**--Continued

1.2 **Concessions**--Continued

Due to acquisition of the shareholding control of CTEEP, an amendment to concession agreement 059/2001 - ANEEL of CTEEP was signed on January 29, 2007, in order to reflect this reality of the new controlling stockholder. In this amendment, the conditions initially negotiated were maintained and a clause was added defining that the goodwill paid in the auction, as well as the special obligations and the amounts arising from State Law No. 4819/58 determined in Sale Notice SF/001/2006, will not be considered by ANEEL for evaluation of the financial and economic balance of the concession.

On May 8, 2009, through ANEEL auction No. 001/2009, on Rio de Janeiro Stock Exchange, in public session conducted by BM&F BOVESPA, CTEEP took part in consortia that purchased C, D and E batches, as follows:

<u>Batch C - Porto Velho – Jauru Transmission Line</u>

Batch C refers to the third 230 kV transmission line circuit between Jauru (Mato Grosso) and Porto Velho (Rondônia), totaling 987 km. Linha Verde Transmissora de Energia S.A. was incorporated on July 2, 2009 to develop this venture. On May 19, 2010, Linha Verde filed a request with ANEEL for early approval to transfer shares held by CTEEP to Abengoa Concessões Brasil Holding S.A.

This project involves an investment estimated at R$ 380 million and Annual Revenue Allowed (RAP) of R$ 42.7 million, based on data for May 2009. CTEEP holds 25.5% interest in the venture, and operations are expected to start in November 2011.

<u>Batch D - Porto Velho – Rio Branco Transmission Line</u>

This batch refers to the second 230 kV transmission line circuit between Porto Velho (Rondônia), Abunã and Rio Branco (Acre), totaling 487 km. Rio Branco Transmissora de Energia S.A. was incorporated on July 2, 2009, to develop this transmission line. On October 29, 2010, Rio Branco filed a request with ANEEL for early approval to transfer shares held by CTEEP to Centrais Elétricas do Norte do Brasil S.A. - Eletronorte.

1. Operations--Continued

1.2 Concessions--Continued

Batch D - Porto Velho – Rio Branco Transmission Line --Continued

On February 15, 2011, ANEEL, through Authorization Decision No. 2774, approved the request for transfer of shares held by CTEEP to Centrais Elétricas do Norte do Brasil S.A. - Eletronorte.

Batch E –Jauru – Cuiabá Transmission Line and Jauru substation

This batch refers to the 500 kV transmission line between Jauru and Cuiabá (Mato Grosso), totaling 348 km, and the Jauru 500/230 kV substation. Transmissora Matogrossense de Energia S.A was incorporated on July 2, 2009, to develop these installations. On May 14, 2010, CTEEP transferred shares it held in Matogrossense to Mavi Engenharia e Contruções Ltda.

1.3 Corporate restructuring

The Board of Directors, in meeting held on February 11, 2008, approved the corporate restructuring involving CTEEP, ISA Capital and ISA Participações do Brasil Ltda. ("ISA Participações"). ANEEL authorized this restructuring through ANEEL Resolution No. 1164, of December 18, 2007.

This corporate restructuring was to improve the capitalization and cash flow conditions resulting from the use of the tax benefit in CTEEP, amounting to R$ 232,005, referring to the goodwill paid by ISA Brasil in the process of acquiring the share control of CTEEP and included the following stages:

Capital subscription of ISA Brasil in a vehicle company, ISA Participações, with the conveyance of shares held in the capital of CTEEP to the capital of ISA Participações.

Recording of a provision amounting to R$ 450,363 in ISA Participações, corresponding to the difference between the goodwill paid of R$ 682,368 and the tax benefit of R$ 232,005.

CTEEP merger of ISA Participações net assets, amounting to R$ 232,005, represented by the tax benefit amount previously mentioned which, in accordance with the requirements of CVM Rule No. 319/99, was recorded as a counterparty entry to special goodwill on merger reserve, in equity.

2. Presentation of financial statements

2.1 Basis for preparation and presentation

The individual financial statements, identified as “Company” and “BR GAAP”, were prepared and are presented in accordance with accounting practices adopted in Brazil, which comprise provisions contained in Brazilian Corporation Law, pronouncements, interpretations and guidance issued by Brazilian Financial Accounting Standards Board (“CPC”) and approved by Brazilian Securities and Exchange Commission (“CVM”). In compliance with current Brazilian legislation, these individual financial statements present an assessment of investments in subsidiaries under the equity method.

The preparation of these financial statements considered changes in accounting practices introduced by technical pronouncements CPC 15 to 40. Effects of adopting IFRS and the new pronouncements issued by CPC are presented in Note 5.

The consolidated financial statements, identified as “Consolidated”, “BR GAAP” and “IFRS”, were prepared and are presented in accordance with accounting practices adopted in Brazil, which comprise provisions contained in Brazilian Corporation Law, pronouncements, interpretations and guidance issued by CPC and approved by CVM, which are in compliance with IFRS issued by the International Accounting Standards Board (IASB).

The consolidated financial statements are the first to be prepared under IFRS.

As there is no difference between consolidated equity and consolidated P&L attributable to the Company’s shareholders included in the consolidated financial statements prepared in accordance with IFRS and accounting practices adopted in Brazil, and Company’s equity and P&L included in the individual financial statements prepared in accordance with accounting practices adopted in Brazil, the Company decided to present these individual and consolidated financial statements in a single set, side by side.

Both individual and consolidated financial statements were prepared based on historical cost, unless otherwise stated, as described in the following accounting practices. Historical cost is usually based on fair value of considerations paid in exchange for assets.

2. Presentation of financial statements--Continued

2.2 Functional and reporting currency

The financial statements of the Company and its subsidiary included in the consolidated financial statements are stated in reais, which is the currency of the main economic environment where those companies operate ("functional currency").

2.3 Significant accounting judgment, estimates and assumptions

Preparing the individual and consolidated financial statements requires that management make judgment, use estimates and adopt assumptions based on objective and subjective factors, to determine the appropriate amounts to record certain transactions affecting assets, liabilities, revenues and expenses. Actual figures of such transactions may be different from those estimates.

These judgments, estimates and assumptions are reviewed at least on an annual basis and any adjustments are recognized for the period for which those estimates are reviewed.

Critical judgments, estimates and assumptions are related to the following aspects: recording concession agreements, time of recognition of financial assets, determining construction, operating and maintenance revenues, defining the effective interest rate of financial assets, reviewing credit and other risks in determining required provisions, including the provision for tax, civil and labor contingencies.

<u>Recording of concession agreements</u>

When recording concession agreements, CTEEP performed analyses involving management's judgment, substantially related to: concession agreement interpretation relevance, determining and classifying expenses with construction, expansion and reinforcement as financial assets. The accounting treatment for each CTEEP concession agreement, as well as its characteristics, is described in Notes 5.2 (a) and 8.

2. Presentation of financial statements--Continued

2.3 Significant accounting judgment, estimates and assumptions--Continued

Time of financial asset recognition

Through its subsidiary CTEEP, management assesses time of financial asset recognition based on economic characteristics of each concession agreement. Subsequent additions to financial assets are recognized only when the construction service related to expansion/improvement/reinforcement of its infrastructure, which represents potential additional revenue generation, is performed. In these cases, the construction obligation is not recognized upon contract execution, but in the construction phase, having financial assets as per contra entry. Indemnification financial assets are recognized when construction is completed, and are included as construction service compensation.

Determining the effective interest rate of the financial asset

The effective interest rate is the rate that discounts exactly estimated future cash flow receipts or payments over the instrument estimated life. If an entity reviews its estimated revenues or payments, the financial asset amount recorded is adjusted so as to reflect estimated effective and reviewed cash flows, and the adjustment is recognized as revenue or expenses in P&L.

Determination of construction revenues

When the concessionaire renders construction services, related revenue is recognized at fair value and corresponding costs are turned into expenses with construction services rendered, thus enabling profit margin computation. In recording construction revenues, management, through its subsidiary CTEEP, assesses issues related to primary responsibility for construction service rendering, even when services are outsourced, work monitoring and/or management costs, considering that projects include sufficient margin to cover construction costs plus certain expenses for the construction period. All assumptions described herein are used for construction activity fair value determination purposes.

2. Presentation of financial statements--Continued

2.3 Significant accounting judgment, estimates and assumptions--Continued

Asset value subject to indemnification

As set forth in the contracts, if the concession ceases to exist, service-related assets will be reversed by operation of law to the grantor, by identifying, assessing and determining the indemnification payable to the concessionaire, considering the amounts and dates of its addition to the electrical system. Through its subsidiary CTEEP, management considers that the indemnification to which it is entitled corresponds to the New Replacement Value adjusted by accumulated depreciation of each item. Considering the uncertainties existing in today’s energy market, the Company estimated the indemnification value of its assets based on their corresponding book values, which is the minimum amount management understands as guaranteed by current regulation. Considering that management monitors industry regulation on an ongoing basis, should there be changes thereto that might change estimates on assets indemnification, the accounting effects thereof will be addressed on a prospective basis in the financial statements. However, management reiterates its commitment to continue defending the Company’s shareholders’ interests in realizing these assets, so as to leverage return on capital invested in concession, within legal limits.

Determining maintenance and operating revenues

When the concessionaire provides maintenance and operating services, revenue is recognized at fair value and corresponding costs, according to the work completion status.

Property, plant and equipment value and useful life

The Company considers that its PP&E balance is not material and, therefore, decided not to adopt the deemed cost practice, as set forth in ICPC 10 – Interpretation of First-time Adoption of Technical Pronouncements for Property, Plant and Equipment and Investment Property.

In addition, depreciation effects arising from first periodic analysis of PP&E remaining useful life as determined by ICPC 10 were not considered material by management.

(In thousands of reais, unless otherwise indicated)

2. Presentation of financial statements--Continued

2.4 Consolidation procedures

The consolidated financial statements include the financial statements of ISA CAPITAL and its subsidiary CTEEP.

Equity control is obtained when a Company has the power to control an entity's operating and financial policies so as to receive benefits from its activities.

Subsidiaries and joint ventures of CTEEP are fully and proportionally consolidated, respectively, as from the date control, joint control, begins through the date such control, joint control, ceases to exist.

At December 31, 2010, interest held in subsidiaries was as follows:

	Financial statements reporting date	Interest %	
		2010	2009
Direct			
CTEEP	12.31.2010	**37.6041**	37.5021
Indirect			
Interligação Elétrica Pinheiros S.A. (Pinheiros)	12.31.2010	**37.6041**	37.5021
Interligação Elétrica Serra do Japi S.A. (Serra do Japi)	12.31.2010	**37.6041**	37.5021
Interligação Elétrica de Minas Gerais S.A. (IEMG)	12.31.2010	**22.5625**	22.5175
Interligação Elétrica Norte e Nordeste S.A. (IENNE)	12.31.2010	**9.4010**	9.4054
Interligação Elétrica do Sul S.A. (IESUL)	12.31.2010	**18.8021**	37.5021
Interligação Elétrica do Madeira S.A. (IEMADEIRA)	12.31.2010	**19.1781**	19.1454

Linha Verde Transmissora de Energia S.A., Rio Branco Transmissora de Energia S.A. and Transmissora Matogrossense de Energia S.A. are not included in the consolidation, for CTEEP has not yet paid up its interest in capital of these companies.

The following procedures were adopted in the preparation of these consolidated financial statements:

- eliminating subsidiaries' equity;
- eliminating equity pickup; and
- eliminating consolidation intercompany assets and liabilities, revenues and expenses.

Accounting practices were uniformly applied to the Company and its subsidiaries.

3. Significant accounting practices

3.1 Determination of P&L

Revenues and expenses are recorded on an accrual basis.

3.2 Revenue recognition

Revenues are recognized as established by ICPC 01. Concessionaires should record and measure revenues from services it renders in compliance with technical pronouncements CPC 17 – Construction Contracts and CPC 30 – Revenues (maintenance and operating services), even when such services are performed under a single concession agreement. Revenues of subsidiary CTEEP are:

a) Construction revenue

This refers to construction, expansion and reinforcement services for energy transmission facilities. Such revenues are recognized according to work completion status and are calculated by adding PIS and COFINS rates to investment value, since projects embed sufficient margin to cover construction costs plus expenses for the construction period, considering that a great number of its facilities comprise outsourced agreements with unrelated parties.

b) Financial income

This refers to interest recognized under the straight-line method based on the effective interest rate on construction revenues receivable. The effective interest rate is computed by discounting estimated future cash flows over the expected financial asset life on initial book value of this financial asset.

c) Maintenance and operating revenue

This refers to maintenance and operating services of energy transmission facilities so as not to interrupt availability of such facilities.

3. Significant accounting practices--Continued

3.3 Current and deferred income and social contribution taxes

Company

The Company decided to adopt the Annual Taxable Profit regime.

Consolidated

The subsidiary computes such taxes in light of applicable legislation provisions, based on net income, adjusted by the inclusion of non-deductible expenses, exclusion of non-taxable profit and inclusion and/or exclusion of temporary differences. Beginning 2009, CTEEP decided to adopt the Quarterly Taxable Profit regime. Up until 2008, it had adopted the Annual Taxable Profit regime.

Current and deferred income and social contribution taxes are calculated based on the rate of 15%, plus 10% surtax on taxable profit exceeding R$ 240 for income tax, and 9% on taxable profit for social contribution tax, considering income and social contribution tax loss offsetting, limited to 30% of taxable profit. Except for Interligação Elétrica de Minas Gerais S.A. ("IEMG"), Interligação Elétrica Pinheiros S.A. ("Pinheiros") and Interligação Elétrica do Sul S.A. ("IESUL"), who opted for the Taxable Profit regime, other subsidiaries are considered to be in their pre-operating phase for tax purposes.

Deferred taxes arising from temporary differences were set up in compliance with CVM Rule No. 371, of June 27, 2002, and CPC 32 – Income Taxes, and consider historical profitability and expected future taxable profit generation based on a technical study on feasibility approved by management bodies.

Recovery of deferred tax assets is reviewed at each year end and, when future taxable profit is no longer likely to be available for total or partial asset recovery, the asset balance is adjusted to the amount expected to be recovered.

Deferred tax assets and liabilities are measured at applicable rates for the period such liabilities are expected to be settled or such assets are expected to be realized, based on rates set forth in tax legislation effective at each year end, or when an new legislation is substantially approved.

3. Significant accounting practices--Continued

3.3 Current and deferred income and social contribution taxes--Continued

Consolidated--Continued

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

3.4 Financial instruments

a) Financial assets

(i) *Classification and measurement*

Financial assets are classified into the following specific categories: financial assets at fair value through P&L, investments held to maturity, financial assets available for sale and lending and receivables. When an equity instrument is not quoted in an active market and its fair value cannot be reliably measured, such instrument is recorded at cost and tested for impairment.

Classification depends on financial assets purpose and is determined upon initial recognition. All regular financial asset acquisitions or sales are recognized or written off based on trade date. Regular acquisitions or sales correspond to financial asset acquisition or sale requiring assets delivery within the term established through a market practice or standard.

The effective interest rate is used to calculate amortized cost of a debt instrument and allocate interest gains over the corresponding period. The effective interest rate is the rate that exactly discounts estimated future cash received during the estimated debt instrument life or, when appropriate, for a shorter period of time, to net book value as of initial recognition date. Revenue is recognized based on the effective interest rate for debt instruments not classified as financial assets at fair value through P&L.

3. Significant accounting practices--Continued

3.4 Financial instruments--Continued

a) Financial assets--Continued

(i) *Classification and measurement*--Continued

Financial assets and liabilities are offset and net amount is reported on the balance sheet when there is a legally applicable right to offset recognized amounts and the Company intends to settle them on a net basis, or realize the asset and settle the liability simultaneously.

- Financial assets at fair value through P&L

  Financial assets are classified at fair value through P&L when they are recorded as trading or at fair value through P&L. Financial assets at fair value through P&L are carried at fair value and any gains or losses are recognized in P&L. Net gains or losses recognized in P&L include dividends or interest gains from the financial asset, and are included in "Other gains and losses", under the statement of comprehensive income.

  A financial asset is classified as trading if (i) it is especially acquired for short-term sale; or (ii) upon initial recognition it is part of an identified financial instrument portfolio jointly managed by the Company and has an actual recent framework for gains in the short term; or (iii) it is a derivative not recognized as an effective hedge instrument.

3. Significant accounting practices--Continued

3.4 Financial instruments--Continued

a) Financial assets--Continued

(i) *Classification and measurement*--Continued

- Financial assets at fair value through P&L--Continued

  A financial asset other than trading may be recorded at fair value through P&L upon initial recognition if (i) such recognition eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise, or (ii) the financial asset is part of a group of managed financial assets or liabilities or both, and their performance is assessed based on fair value in accordance with the Company's documented risk management or investment strategy, and when information on grouping is internally provided on the same basis; or (iii) is part of a contract containing one or more embedded derivatives and CPC 38 and IAS 39 allow the combined contract to be fully recognized at fair value through P&L.

  At December 31, 2010 and 2009 and January 1, 2009, financial assets classified under this category are related to cash and cash equivalents.

- Financial assets held to maturity

  Investments held to maturity are non-derivative financial assets with fixed payments or payments subject to determination and fixed maturity date which the Company intends or has the capacity to hold to maturity. After initial recognition, investments held to maturity are measured at amortized cost under the effective interest rate method, less any impairment losses.

  At December 31, 2010 and 2009 and January 1, 2009, CTEEP had no financial assets classified as held to maturity.

3. **Significant accounting practices**--Continued

3.4 **Financial instruments**--Continued

a) Financial assets--Continued

(i) *Classification and measurement*--Continued

- Financial assets available for sale

  Financial assets available for sale correspond to non-derivative financial assets recognized as "available for sale" or not classified as (a) lending and receivables, (b) investments held to maturity, or (c) financial assets at fair value through P&L.

  Gains or losses arising from changes in fair value of financial assets classified as available for sale, where applicable, are recorded in "Other comprehensive income" under equity, until the financial asset is settled, when they are eventually reclassified to P&L for the period.

  At December 31, 2010 and 2009 and January 1, 2009, the Company had no financial asset classified as available for sale.

- Lending and receivables

  This classification includes non-derivative financial assets with fixed receipts or receipts subject to determination, which are not quoted in an active market. Except where applicable, those assets with maturities over 12 months after the balance sheet date are recorded under current assets, which are classified as non-current assets.

  Lending and receivables are measured at amortized cost under the effective interest rate method, less any impairment losses. Interest income is recognized by applying the effective interest rate, except for short-term loans whose interest recognition would be immaterial.

  At December 31, 2010 and 2009 and January 1, 2009, the Company's financial assets classified under this category corresponded to trade accounts receivable and receivables from the State Finance Department.

3. Significant accounting practices--Continued

3.4 Financial instruments--Continued

a) Financial assets--Continued

(ii) *Impairment of financial assets*

Financial assets, except for those recognized at fair value through P&L, are measured by impairment indicators at the end of each reporting period. Impairment losses are recognized if, and only if, there is objective evidence of the impairment of financial assets as a result of one or more events that taken place after initial recognition, with impact on estimated future cash flows thereof.

Carrying value of financial assets is reduced directly by impairment loss for all financial assets, except for trade accounts receivable, whose carrying value is reduced by using a provision. Subsequent recoveries of amounts previously written off are credited to provision. Changes in carrying value of allowance are recognized in P&L.

(iii) Financial assets write-off

CTEEP writes off financial assets only when the contractual rights to cash flows from such asset expire, or when it transfers the asset, and substantially all risks and rewards of ownership to another company. If CTEEP neither transfers nor retains substantially all risks and rewards of ownership of financial assets, but continues to control the transferred asset, retained interest and corresponding liabilities in amounts payable are recognized. If it retains substantially all risks and benefits of the transferred financial asset item ownership, the Company continues to recognize this asset, in addition to a loan secured by revenues received.

In writing off all financial assets, the difference between the asset book value and the matched-against sum received and receivable and accrued gain or loss recognized in "Other comprehensive income" and accumulated in equity, is recognized in P&.

3. Significant accounting practices--Continued

3.4 Financial instruments--Continued

b) Financial liabilities

Financial liabilities are classified at fair value through P&L when they are for trading or recognized at fair value through P&L. The other financial liabilities (including loans) are measured at amortized cost using amortized cost under the effective interest rate method.

c) Derivative instruments and hedging activities

Derivatives are initially recognized at fair value on the date the derivative agreement is signed and are once again measured at fair value, including fair value changes matched against P&L, except when the derivative is recognized as a hedge instrument.

The Company, pursuant to CVM Rule No. 566, of December 17, 2008, which approved technical pronouncement CPC 14, later substituted for by CPC 38 and CPC 39, considered derivatives as “hedging derivative financial instruments” and foreign-currency-denominated debt contracts (bonds) as “hedged items”, both recorded through February 2010 at fair value. In March 2010, the Company implemented its foreign-currency-denominated debt contracts (bonds) restructuring, which resulted in settlement of the referred to hedging derivative financial instruments (Notes 14 (a)).

Subsidiary CTEEP does not have a policy addressing the use of derivative financial instruments, or any agreements which may be considered as derivative financial instruments.

3. Significant accounting practices--Continued

3.5 Cash and cash equivalents

Cash and cash equivalents include cash, bank deposits and short-term investments.

For an investment to be qualified as cash equivalent, it needs to be readily convertible at known cash amount and should be subject to insignificant risk of changes in value. Therefore, an investment normally qualifies as cash equivalent only when it has short-term maturity, for example, three months or less from acquisition date.

3.6 Accounts receivable

Financial assets classified as lending and receivables include receivables relating to construction services, financial income and operating and maintenance services, as well as asset indemnification value.

Assets subject to indemnification, recorded when construction is completed, refer to the estimated portion of unamortized investments made to the end of the concession period and to which the Company will be entitled to receive cash or other financial assets, while the concession contract remains effective. As defined in the agreements, upon concession’s ceasing to exist, service-related assets will be reversed to the grantor by operation of law. Then indemnification payable to the concessionaire is identified, measured and determined, considering amounts and dates it was merged to the electrical system. The Company believes that the indemnification amount to which it is entitled corresponds to the New Replacement Value adjusted to accumulated depreciation for each item. Considering currently existing uncertainties in the energy market, subsidiary CTEEP estimated indemnification of its assets based on their corresponding book values, which is the amount management believes to be the minimum guaranteed by regulation in force. Considering that management monitors industry regulation on an ongoing basis, should there be changes thereto that might change estimates on assets indemnification, the accounting effects thereof will be addressed on a prospective basis in the financial statements. However, management reiterates its commitment to continue defending the Company’s shareholders’ interests in realizing these assets, so as to leverage return on capital invested in concession, within legal limits.

3. Significant accounting practices--Continued

3.6 Accounts receivable--Continued

Based on recovery tests conducted by the Company, no allowance for doubtful accounts were set up.

3.7 Inventories

Inventories are stated for the lower between cost and net realizable values. Inventory costs are determined under the average cost method. Net realizable value corresponds to the estimated inventory sale price, less estimated conclusion costs and those costs required to complete the sale.

3.8 Investments

The Company recognizes and states investments in subsidiaries in its individual financial statements under the equity method.

(i) Goodwill

Goodwill or negative goodwill determined upon acquisition of an investment is calculated as the difference between purchase and book value of the acquired company’s net assets. Goodwill is based on: (i) inherent goodwill of assets, represented by the difference between acquired company’s book value and fair value o assets and liabilities (recorded under investments) and (ii) future profitability, represented by the difference between fair value of assets and liabilities and purchase value (recorded under intangible assets). Goodwill computed upon CTEEP acquisition is amortized according to concession contractual effective term.

3.9 Property, plant and equipment

These are basically represented by administrative assets. Depreciation is calculated under the straight-line method considering the assets estimated useful lives.

Other expenses are only capitalized when economic benefits of its fixed assets increase. Any other expenses are recognized in P&L as expenses, when incurred.

3. Significant accounting practices--Continued

3.9 Property, plant and equipment--Continued

Subsidiary CTEEP considers that its PP&E balance is not material and, therefore, decided not to adopt the deemed cost practice, as set forth in ICPC 10 – Interpretation of First-time Adoption of Technical Pronouncements for Property, Plant and Equipment and Investment Property.

In addition, depreciation effects arising from first periodic analysis of PP&E remaining useful life as determined by ICPC 10 were not considered material by management.

3.10 Intangible assets

These are basically represented by expenses with ERP SAP system implementation. Amortization is calculated under the straight-line method, considering the estimated useful life of the referred to system.

In addition, amortization effects arising from the first periodic analysis of the remaining economic useful life of the intangible assets, as set forth in ICPC 10, were not considered material by management. .

3.11 Lease agreements

a) CTEEP as the leaseholder

Operating lease

Operating lease payments are recognized as expenses under the straight-line method over the agreement effective term, except when other systematic base is more representative to reflect the time leasehold asset economic benefits are consumed. Contingent payment arising from operating lease agreements is recognized as expenses for the period they are incurred.

3. Significant accounting practices--Continued

3.11 Lease agreements--Continued

a) CTEEP as the leaseholder--Continued

Finance lease

At the beginning of the lease agreement, finance lease is recognized as assets and liabilities on the balance sheet at amounts equivalent to leasehold item fair value or, if lower, at present value of minimum lease payments.

The discount rate used in calculating present value of minimum lease payments is the implied lease agreement interest rate, should such rates be subject to determination; if lower, an additional leaseholder financing rate is used. Any initial direct costs to leaseholder are added to the amount recognized as assets.

b) CTEEP as the lessor

Revenues arising from operating lease agreements are recognized under the straight-line method over the lease agreement effective term. Direct initial costs incurred in negotiating and preparing the operating lease are added to leasehold items book value and also recognized under the straight-line method along the lease agreement effective term.

3.12 Other current and non-current assets

These are stated at their net realizable value.

An allowance for doubtful accounts is set up at amounts whose realization is not considered probable as of the balance sheet date.

3.13 Current and non-current liabilities

These are stated at amounts that are known or subject to calculation, where applicable, plus corresponding charges, monetary and/or foreign exchange incurred through the balance sheet date.

3. Significant accounting practices--Continued

3.14 Provisions

Provisions are recognized for present obligations (either legal or constructive) arising from past events, as long as their amounts can be reliably estimated and whose settlement is likely to take place.

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

When economic benefits required to settle a provision are expected to be partially or fully recovered from a third party, an asset is recognized if, and only if, the reimbursement therefor is likely to take place and if such amount can be reliably measured.

Provisions for lawsuits are recognized when the Company and its subsidiary have a present or non-formalized obligation arising from past events, the settlement of which is expected to generate an outflow of economic benefits and whose amount can be reliably measured. Provisions are measured at present value of the outflow expected to settle the corresponding obligation, at an appropriate discount rate according to the liabilities-related risks.

They are restated through the balance sheet dates at an amount estimated considering the likelihood of an unfavorable outcome, based on the opinion of the Company's and its subsidiary's legal advisors. Rationale and type of provision for tax, civil and labor claims are detailed in Note 22 (b).

3.15 Pension plans and other employee benefits

Subsidiary CTEEP sponsors pension and health care plans to its employees, which is managed by Fundação CESP.

Defined contribution pension plan payments are recorded as expenses when services vesting these payouts are provided.

3. Significant accounting practices--Continued

3.15 Pension plans and other employee benefits--Continued

As regards defined benefit pension plans, benefit granting cost is determined under the Projected Credit Unit Method, based on annual actuarial assessment, carried out at each reporting period end. Actuarial gains and losses exceeding 10% of the higher of present value of defined plan obligations or fair value of plan assets recorded for the previous year are amortized over the average labor life expected for the employees joining the plan. Cost of past services is recognized immediately, to the extent benefits are granted, or amortized under the straight-line method over the average period until benefits are acquired.

Any private pension plan obligations recognized in the balance sheet represents the present value of the defined benefit obligation, adjusted by unrecognized actuarial gains and losses and by unrecognized cost of past services, less fair value of the plan assets. Any asset arising from this calculation is limited to the amount of unrecognized actuarial losses and the cost of past services, plus present value of refund available and decrease in future plan contributions.

3.16 Dividends and interest on equity capital of subsidiary CTEEP

The dividend recognition policy is in compliance with CPC 24 and ICPC 08, which determine that proposed dividends based on statutory obligations are to be recorded under current liabilities.

The Company’s by-laws establish minimum mandatory dividends of 1% on net income pursuant to Law.

Subsidiary CTEEP’s by-laws establish minimum mandatory dividends equivalent to 10% of capital.

Dividends exceeding minimum mandatory dividend recorded by management after the reporting period to which the financial statements refer, but before the date such financial statements are authorized to be issued, are recorded under “Additional Proposed Dividends”, under equity.

3. Significant accounting practices--Continued

3.16 Dividends and interest on equity capital of subsidiary CTEEP--Continued

Subsidiary CTEEP distributes interest on equity capital, which is deductible for tax purposes and considered part of mandatory dividends and are directly allocated from P&L to equity.

3.17 Business segment

Operating segments are defined as business activities from which revenues can be earned and expenses incurred, with individual accounting information, and whose operating revenues and expenses are regularly reviewed by management in the decision-taking process.

Management understands that, while it recognized revenues for its construction, operating and maintenance activities, considering that such revenues arise from a single significant utility concession agreement regarding electric energy transmission, the Company has only one business segment: electric energy transmission.

3.18 Statement of value added (“SVA”)

This statement aims to evidence the wealth created by the Company and its distribution over a given period, and is presented by the Company as required by Brazilian Corporation Law, as part of its individual financial statements and as additional information to the consolidated financial statements, since it is not an expected or mandatory statement according to the IFRS.

3. Significant accounting practices--Continued

3.18 Statement of value added ("SVA")--Continued

SVA was prepared based on information obtained from accounting records supporting the financial statements preparation and in light of CPC 09 – Statement of Value Added. The first part introduces the wealth created by the Company, represented by revenue (gross sales, including taxes levied thereon, other revenues and effects of allowance for doubtful accounts), inputs acquired from third parties (cost of sales and purchases of materials, power and services from third parties, including taxes added upon acquisition, effects of loss and recovery of assets, as well as depreciation and amortization) and the value added received from third parties (equity pickup, financial income and other revenues). The second part of SVA states the distribution of wealth between staff, taxes and contributions, and equity and debt remuneration.

4 New standards and interpretations reviewed but not yet adopted

New pronouncements, changes to existing pronouncements and new interpretations listed below have been published and are mandatory for years beginning January 1, 2001 and thereafter.

CPC has not yet issued the corresponding pronouncements and changes related to new and reviewed IFRS reported under this Note. Given CPC and CVM commitment to keep the set of issued standards updated based on IASB updates, these pronouncements and changes are expected to be issued by CPC and approved by CVM through their mandatory application date.

The Company and its subsidiary did not early adopt such changes in its consolidated financial statements as of December 31, 2010.

4. New standards and interpretations reviewed but not yet adopted--Continued

a) Amendment to IFRS 1 on elimination of a fixed date for IFRS-first-time adopters

On December 20, 2010, IASB issued an amendment to IFRS 1 – First-time Adoption of International Financial Reporting Standards (IFRS) addressing the elimination of fixed dates for IFRS-first-time adopters. Such amendments substitute January 1, 2004 as a fixed prospective application date with the transition date to IFRS, so that IFRS-first-time adopters are not required to apply IAS 39 write-off requirements on a retrospective basis.

Said amendment has no effects on the Company and its subsidiary as both adopted IFRS for the first time as of December 31, 2010, with the opening balance sheet dated January 1, 2009.

This amendment is to be mandatorily adopted for years beginning July 1, 2011 or thereafter, and early adoption is allowed.

b) Amendment to IFRS 7 for improvements in reporting requirements for financial asset transfers

On October 7, 2010, IASB issued an amendment to IFRS 7 – Financial Instruments: Disclosures containing improvements which increase reporting requirements for financial asset transfers. No changes have been made to guidance on financial asset write-off contained in IAS 39 – Financial Instruments: Recognition and Measurement, which was included in the reviewed version of IFRS 9 – Financial Instruments.

At current reporting level, improvements are required by amendments to IFRS 7 when an asset is transferred but not written off, and introduce new disclosures to written-off assets to which the company is still exposed after it is sold. These amendments aim to improve the understanding of the relation between financial assets transferred and financial liabilities and risks related to such assets.

No significant impacts are expected on the financial statements of the Company and its subsidiary upon adoption of such amendments.

Amendments are to be mandatorily adopted for years beginning July 1, 2011 and thereafter and early adoption is allowed. No disclosures are required for any period reported beginning before mandatory adoption of such amendments.

4. New standards and interpretations reviewed but not yet adopted--Continued

c) IFRS 9 – Financial instruments (reviewed in 2010)

In November 2009, IFRS – Financial Instruments was issued and, on October 28, 2010, IASB issued a reviewed version of such standard, maintaining requirements for financial asset classification and measurement according to the version published in November 2009 and including guidance on financial liability classification and measurement. As part of IFRS 9 restructuring, IASB also included some guidance on financial instrument write-off and the corresponding implementation guidance contained in IAS 39 – Financial Instruments: Recognition and Measurement in the reviewed standard.

IFRS 9 requires that all recognized financial assets included in the scope of IAS 39 – Financial Instruments: Recognition and Measurement (equivalent to CPC 38) be subsequently measured at amortized cost or fair value. More specifically, debt instruments held under a business model aiming to receive contractual cash flows and with contractual cash flows related solely to payment of principal and interest on principal payable, are usually measured at amortized cost at the end of subsequent accounting periods. All other debt instruments and investments in equity instruments are measured at fair value at the end of subsequent accounting periods.

The most significant effect of IFRS 9 related to financial liability classification and measurement refers to accounting of changes in fair value of a financial liability (recognized at fair value through P&L) attributable to changes in credit risk thereof. More specifically, pursuant to IFRS 9, as regards financial liabilities recognized at fair value through P&L, the difference in fair value of the financial liability attributable changes in credit risk thereof is recognized in “Other comprehensive income”, unless recognizing the effects of changes in liability credit risk in “Other comprehensive income” results in increased accounting mismatching for the period. Changes in fair value attributed to credit risk of a financial liability are not reclassified to P&L. previously, pursuant to IAS 39 and CPC 38, total change in fair value recognized at fair value through P&L was recorded in P&L.

4. New standards and interpretations reviewed but not yet adopted--Continued

c) IFRS 9 – Financial instruments (reviewed in 2010)--Continued

No significant impacts on the financial statements of the Company and its subsidiaries are expected upon adoption of such standard.

The reviewed version of IFRS 9 has the same mandatory adoption date of its previous version, January 1, 2013. The reviewed version allows early adoption, but if an entity decides to early apply the guidance related to the financial liability classification and measurement, it should also apply any other IFRS 9 requirement previously completed by then. The reviewed standard should be retrospectively applied in accordance with IAS 8.

d) Amendment to IAS 12 on deferred tax: recovery of underlying assets

On December 20, 2010, IASB issued an amendment to IAS 12 – Income Taxes named Deferred Tax: Recovery of Underlying Assets. IAS 12 requires that an entity measure deferred tax related to an asset item depending on whether said entity expects to recover the asset book value through use or sale thereof.

No significant impacts on the financial statements of the Company and its subsidiary are expected upon adoption of such amendment.

Amendments are to be mandatorily adopted for years beginning on or after January 1, 2012, and early adoption is allowed.

e) IAS 24 – Related-Party Disclosures (reviewed in 2009)

In 2009, IASB issued an amendment to IAS 24 – Related Party Disclosures. The reviewed standard simplifies the disclosure requirements for subsidiary companies, joint ventures or entities that are significantly influenced by the government (referred to as government-related entities) and changes the related-party definition. The standard requires retroactive application. Accordingly, disclosures for a comparative period are to be restated for the initial requirement year.

4. New standards and interpretations reviewed but not yet adopted--Continued

e) IAS 24 – Related-Party Disclosures (reviewed in 2009)--Continued

The Company is assessing impacts, if any, since it has government-related parties.

Amendments are to be mandatorily adopted for years beginning on or after January 1, 2011, and early adoption is allowed.

f) Amendment to IAS 32 on right, option and guarantee classification

Amendments to IAS 32 – Financial Instruments: Disclosure and Presentation addresses the classification criteria for certain foreign-currency-denominated instruments as an equity instrument or a financial liability.

No significant impacts on the financial statements of the Company and its subsidiary are expected upon adoption of the amendment to such interpretation.

Amendments are to be mandatorily adopted for years beginning on or after February 1, 2010, and early adoption is allowed.

g) Amendment to IFRIC 14 on early minimum financing requirement payment

Interpretation IFRIC 14 – Limit on a Defined Benefit Asset/Minimum Funding Requirements was amended in November 2009 to address situations where an entity pays contributions in advance so as to meet financing requirements. These early payments allow the benefit of such advances to be recognized as an asset.

No material impacts on the financial statements of the Company and its subsidiary are expected upon adoption of the amendment of such interpretation.

The amendment is to be mandatorily adopted for years beginning on or after January 1, 2011, and early adoption is allowed.

(In thousands of reais, unless otherwise indicated)

4. New standards and interpretations reviewed but not yet adopted--Continued

h) IFRIC 19 – Extinguishing financial liabilities with equity instruments

This interpretation was issued on November 26, 2009 and refers to when an entity issues an equity instrument so as to extinguish a financial liability.

No material impacts on the financial statements of the Company and its subsidiary are expected upon adoption of the amendment to such interpretation.

This interpretation is to be mandatorily adopted for years beginning on or after July 1, 2010, and early adoption is allowed.

i) Improvements to IFRS 2010

On May 6, 2010, IASB issued a document entitled Improvements to IFRS 2010, which included amendments to seven standards. This is the third set of amendments issued through an annual improvement process, which is expected to conduct improvements that are required but not urgent to IFRS.

The Company and its subsidiary are reviewing potential impacts on the financial statements arising from adoption of such improvements, but no significant impacts are expected thereon.

The following table summarizes all improvements made to existing standards and interpretations:

Standard	Subject-matter of amendment	Adoption and transition
IFRS 1 – First-time Adoption of International Financial Reporting Standards	Changes in accounting practices for the year of adoption	Mandatory adoption for years beginning on or after January 1, 2011. Early adoption permitted.
	Reassessment as deemed cost	Mandatory adoption for years beginning on or after January 1, 2011. Early adoption permitted.
	Use of deemed cost for transactions subject to regulated prices	Mandatory adoption for years beginning on or after January 1, 2011. Early adoption permitted.

(In thousands of reais, unless otherwise indicated)

4. New standards and interpretations reviewed but not yet adopted--Continued

i) Improvements to IFRS 2010--Continued

Standard	Subject-matter of amendment	Adoption and transition
IFRS 3 – Business Combinations (2008)	Measurement of non-controlling interest	Mandatory adoption for years beginning on or after July 1, 2010. It is to be applied on a prospective basis beginning the date on which the entity adopts IFRS 3 (2008). Early adoption permitted.
	Payment of share-based bonus not substituted or voluntarily substituted	Mandatory adoption for years beginning on or after July 1, 2010. It is to be applied on a prospective basis beginning the date on which the entity adopts IFRS 3 (2008). Early adoption permitted.
	Transition requirements for contingent counterparts of a business combination taking place before IFRS 3 mandatory adoption date (2008)	Mandatory adoption for years beginning on or after July 1, 2010. Early adoption permitted.
IFRS 7 – Financial Instruments: Disclosures	Clarification on disclosures	Mandatory adoption for years beginning on or after January 1, 2011. Early adoption permitted.
IAS 1 – Presentation of Financial Statements	Clarification on the statement of changes in equity	Mandatory adoption for years beginning on or after January 1, 2011. Early adoption permitted.
IAS 27 – Consolidated and Separate Financial Statements (2008)	Transition requirements arising from changes introduced by IAS 27 (2008)	Mandatory adoption for years beginning on or after July 1, 2010. Early adoption permitted.
IAS 34 – Interim Financial Reporting	Significant events and transitions	Mandatory adoption for years beginning on or after January 1, 2011. Early adoption permitted.
IFRIC 13 – Customer Loyalty Programs	Fair value of bonus credits	Mandatory adoption for years beginning on or after January 1, 2011. Early adoption permitted.

5. Effects of IFRS adoption and new pronouncements issued by CPC

26.4 Effect on financial statements

a) Company

In preparing its individual financial statements (Company), the Company adopted all pronouncements and corresponding technical interpretations and guidance issued by CPC and approved by CVM, which, in conjunction with accounting practices included in Brazilian Corporation Law, are stated as accounting practices adopted in Brazil (BR GAAP).

The Company has applied the accounting practices defined in Note 3 to all stated periods, which includes the opening balance sheet as of January 1, 2009. In measuring adjustments and preparing this opening balance sheet, the Company has applied those requirements contained in CPC 43(R1) – First-Time Adoption of Technical Pronouncements CPC 15 to 40, by adjusting its individual financial statements so that they produced, upon consolidation, the same equity amounts attributed to the Company's equity holders, an P&L vis-à-vis consolidation prepared under IFRS by applying IFRS 1 and CPC 37(R1) – First-Time Adoption of International Financial Reporting Standards. Therefore, the Company adjusted both individual financial statements for adoption of IFRS on the consolidated financial statements, in accordance with Note 2 above. Such procedure was adopted so as to reach the same P&L and equity attributable to the Company's equity holders in both individual and consolidated financial statements.

b) Consolidated

The consolidated financial statements for the year ended December 31, 2010 are the first to be presented under IFRS. The Company applied the accounting practices defined in Note 3 to all stated periods, which includes the balance sheet as of transition date, January 1, 2009. In measuring adjustments to opening balance sheet and preparing the balance sheet as of transition date, the Company applied mandatory exceptions and elective exemptions of retrospective application set forth in IFRS 1 and CPC 37(R1) – First-Time Adoption of International Financial Reporting Standards, as mentioned in the following Notes.

Reconciliations to previous accounting practices are as follows:

(In thousands of reais, unless otherwise indicated)

5. Effects of IFRS adoption and new pronouncements issued by CPC--Continued

5.1 Effect on financial statements--Continued

b) Consolidated--Continued

(i) *Balance sheet – Consolidated*

	Item 5.2	December 31, 2009 BR GAAP	December 31, 2009 Effect of transition to IFRS	December 31, 2009 IFRS	January 1, 2009 BR GAAP	January 1, 2009 Effect of transition to IFRS	January 1, 2009 IFRS
Assets							
Current assets							
Cash and cash equivalents		73,238	-	73,238	124,617	-	124,617
Trade accounts receivable	(a)	289,536	1,141,070	1,430,606	299,329	1,044,342	1,343,671
Inventories		43,328	-	43,328	31,952	-	31,952
Receivables from State Finance Department		19,439	-	19,439	19,786	-	19,786
Taxes recoverable		245,465	-	245,465	27,873	-	27,873
Tax benefit – merged goodwill	(b)	28,832	(28,832)	-	28,832	(28,832)	-
Deferred taxes	(c)	31,472	(31,472)	-	11,315	(11,315)	-
Pledges and restricted deposits		40,857	-	40,857	55,209	-	55,209
Prepaid expenses		5,532	1,107	6,639	5,788	-	5,788
Other		17,297	(100)	17,197	31,992	(9,849)	22,143
		794,996	1,081,773	1,876,769	636,693	994,346	1,631,039
Non-current assets							
Long-term receivables							
Trade accounts receivable	(a)	62,074	3,594,605	3,656,679	45,088	3,197,934	3,243,022
Receivables from State Finance Department		557,027	-	557,027	454,639	-	454,639
Tax benefit – merged goodwill	(b)	147,911	28,832	176,743	176,743	28,832	205,575
Deferred taxes	(c)	67,078	(38,658)	28,420	76,648	(49,523)	27,125
Pledges and restricted deposits		43,946	-	43,946	51,860	-	51,860
Prepaid expenses		9,881	-	9,881	12,752	-	12,752
Loans receivable		41,448	-	41,448	64,131	-	64,131
Inventories	(a(	-	126,854	126,854	-	70,557	70,557
Other		4,382	-	4,382	2,407	-	2,407
		933,747	3,711,633	4,645,380	884,268	3,247,800	4,132,068
Property, plant and equipment	(a)	4,676,620	(4,666,314)	10,306	4,234,666	(4,226,640)	8,026
Intangible assets	(a)	416,094	(60,122)	355,972	474,326	(64,774)	409,552
		5,092,714	(4,726,436)	366,278	4,708,992	(4,291,414)	417,578
		6,026,461	(1,014,803)	5,011,658	5,593,260	(1,043,614)	4,549,646
Total assets		**6,821,457**	**66,970**	**6,888,427**	**6,229,953**	**(49,268)**	**6,180,685**

(In thousands of reais, unless otherwise indicated)

5. Effects of IFRS adoption and new pronouncements issued by CPC--Continued

5.1 Effect on financial statements--Continued

b) Consolidated--Continued

(i) *Balance sheet – Consolidated*--Continued

Liabilities and equity	Item 5.2	December 31, 2009 BR GAAP	December 31, 2009 Effect of transition to IFRS	December 31, 2009 IFRS	January 1, 2009 BR GAAP	January 1, 2009 Effect of transition to IFRS	January 1, 2009 IFRS
Current liabilities							
Loans and financing		644,948	-	644,948	451,279	-	451,279
Trade accounts payable		71,043	-	71,043	36,497	-	36,497
Taxes and social charges payable		95,855	-	95,855	28,263	-	28,263
Taxes in installments – Law No. 11941		9,853	-	9,853	-	-	-
Regulatory charges payable		40,018	-	40,018	36,528	-	36,528
Interest on equity and dividends payable	(e)	236,285	(230,169)	6,116	147,714	(142,832)	4,882
Provisions	(a)	27,688	-	27,688	34,922	(26)	34,896
Payables – Law No. 4819/58 – State Finance Department		6,891	-	6,891	6,153	-	6,153
Payables – Law No. 4819/58 - OPA		4,322	-	4,322	3,840	-	3,840
Payables – Fundação CESP		6,917	-	6,917	6,210	-	6,210
Adjusted portion	(a)	21,277	(21,277)	-	-	-	-
Other		29,309	4	29,313	6,780	25	6,806
		1,194,408	(251,442)	942,964	758,186	(142,833)	615,353
Non-current liabilities							
Long-term payables							
Loans and financing		1,422,278	-	1,422,278	1,492,592	-	1,492,592
Taxes in installments – Law No. 11941		137,885	-	137,885	-	-	-
Deferred PIS and COFINS	(a)	-	60,218	60,218		9,697	9,697
Deferred taxes	(c)	-	3,060	3,060	-	637	637
Regulatory charges payable		3,269	-	3,269	2,805	-	2,805
Provisions		167,953	-	167,953	174,152	-	174,152
Payables - Fundação CESP	(f)	13,601	(13,601)	-	68,503	(68,503)	-
Payables - Law No. 4819/58 – State Finance Department		210,522	-	210,522	206,127	-	206,127
Payables – Law No. 4819/58 - OPA		131,999	-	131,999	129,263	-	129,263
Special reversion/amortization obligations		24,053	-	24,053	24,053	-	24,053
Adjusted portion	(a)	21,277	(21,277)	-	-		-
Discount	(g)	49,540	(49,540)	-	66,525	(66,525)	-
Other		-	-	-	-	-	-
		2,182,377	(21,140)	2,161,237	2,164,020	(124,694)	2,039,326
Non-controlling interest		2,487,272	298,531	**2,785,803**	2,421,047	190,003	2,611,050
Equity							
Capital		839,778	-	839,778	839,778	-	839,778
Capital reserves		5,881	-	5,881	2,346	-	2,346
Income reserves		111,743	41,021	152,764	44,576	28,256	72,832
		957,401	41,021	998,423	886,700	28,256	914,956
Total liabilities and equity		**6,821,458**	**66,970**	**6,888,427**	**6,229,953**	**(49,268)**	**6,180,685**

(In thousands of reais, unless otherwise indicated)

5. Effects of IFRS adoption and new pronouncements issued by CPC--Continued

5.1 Effect on financial statements--Continued

b) Consolidated--Continued

(ii) *Income statement for the year ended December 31, 2009 - Consolidated*

	Item 5.2	BR GAAP	Effect of transition to IFRS	IFRS
Net operating revenues	(a)	1,656,478	492,534	2,149,012
Cost of operating services	(a) (f)	(350,991)	(364,001)	(714,992)
Gross profit		1,305,487	128,533	1,434,020
Operating income (expenses)				
General and administrative	(f)	(156,464)	(63,642)	(220,106)
Management fees	(a)	(9,327)	(1,257)	(10,584)
Financial expenses	(a)	(684,578)	(2,853)	(687,431)
Financial income	(a)	332,666	1,877	334,543
Other expenses, net	(g)	(87,130)	(16,984)	(104,114)
Equity pickup		-	-	-
Operating income		700,654	45,674	746,328
Income and social contribution taxes				
Current		(278,654)	-	(278,654)
Deferred	(c)	10,587	(11,718)	(1,131)
Income before reversion of interest on equity capital		432,587	33,956	466,543
Non-controlling interest		(518,562)	(21,222)	(539,753)
Reversion of interest on equity capital		156,677	-	156,677
Net income for the year		**70,702**	**12,734**	**83,467**

(In thousands of reais, unless otherwise indicated)

5. Effects of IFRS adoption and new pronouncements issued by CPC--Continued

5.1 Effect on financial statements--Continued

b) Consolidated--Continued

(iii) *Cash flows for the year ended December 31, 2009 - Consolidated*

	Item 5.2	BR GAAP	Effect of transition to IFRS	IFRS
Cash flows from operating activities	(a) (c)	1,058,512	(660,951)	397,561
Cash flows from investing activities	(d)(f)(g)	(670,536)	660,951	(9,585)
Cash flows from financing activities	(a)	(439,355)	-	(439,355)

5.2 Description of adjustments

We describe below the key adjustments arising from new accounting pronouncements which affected the Company's financial statements:

a) Concession agreements (ICPC 01 and OCPC 05)

Beginning January 1, 2010 (January 1, 2009 opening balance sheet effects for comparison purposes), subsidiary CTEEP has adopted and used provisions contained in interpretation ICPC 01 issued by CPC (equivalent to IFRIC 12 of the international financial reporting standards issued by IASB) to classify and measure concession activities. Said interpretation guides concessionaires on how to account for concessions from utility to private entities, when:

- the granting party controls or regulates which services are to be provided, to whom such services are to be provided and the price to be charged; and

- the granting party controls – through ownership, usufruct or otherwise – any significant residual interest in infrastructure by the end of the concession term.

5. Effects of IFRS adoption and new pronouncements issued by CPC--Continued

5.2 Description of adjustments--Continued

a) Concession agreements (ICPC 01 and OCPC 05)--Continued

For concession agreements qualified for ICPC 01 application, infrastructure built, expanded, reinforced or improved by the operator is not recorded as the operator's fixed assets, for the concession agreement does not transfer the control right (let alone ownership) of the utility infrastructure used to the concessionaire. Only the possession of such assets is set to be assigned for utility service provision, and these (fixed assets) are to be returned to the granting party upon termination of the corresponding agreement. The concessionaire has the right to operate the infrastructure to render utility services on behalf of the granting party, under conditions set forth in the agreement.

Accordingly, pursuant to concession agreements under ICPC 01, the concessionaire performs as a service provider. The concessionaire builds, expands, reinforces or improves the infrastructure (construction services) used to render utility services, in addition to operating and maintaining such infrastructure (operating and maintenance services) over a fixed period of time. The concessionaire shall then record and measure revenues from services rendered pursuant to Technical Pronouncement CPC 17 – Construction Contracts (equivalent to IAS 11, as issued by IASB) and CPC 30 – Revenues (equivalent to IAS 18, as issued by IASB). Should the concessionaire renders more than one service (e.g., construction, improvement or operating services) regulated by one single agreement, revenues received or receivable are to be allocated based on fair value related to services rendered should such amounts be separately identifiable. Thus, concession assets construction or improvement service should have as per contra financial assets, intangible assets or both accounts.

5. Effects of IFRS adoption and new pronouncements issued by CPC--Continued

5.2 Description of adjustments--Continued

a) Concession agreements (ICPC 01 and OCPC 05)--Continued

Financial assets are generated to the extent the operator has the unconditional contractual right to receive cash or other financial assets from the granting party for the construction services; the granting party has limited or no option to avoid payment, usually because the agreement is enforceable by law. The concessionaire has the unconditional right to receive cash if the granting party contractually ensures payment (a) of amounts previously established or subject to determination or (b) insufficiency, as the case may be, of amounts received from utility service users in relation to amounts previously established or subject to determination, even if payment is subject to a guarantee provided by the concessionaire that the infrastructure meets specific quality and efficiency requirements. Intangible assets are generated to the extent the operator has the right (is authorized) to charge utility service users. This is not an unconditional right to receive cash for amounts are subject to utility service use by users. If concessionaire's construction services are paid through financial assets and part of it is paid through intangible assets, each concessionaire's revenue component is required to be recorded separately. Revenue received or receivable from both components is to be initially recorded at fair value received or receivable.

The criteria used by CTEEP concession to adopt said interpretation and the impact of such first-time adoption are detailed below:

Interpretation ICPC 01 was considered applicable to all private and utility service agreements the Company is party to.

All concessions were classified as financial assets, and construction revenues and costs related to financial asset formation are recognized under the percentage-of-completion method. Indemnification financial assets are recognized when the construction is completed, and are recorded as revenue from construction services.

5. Effects of IFRS adoption and new pronouncements issued by CPC--Continued

5.2 Description of adjustments--Continued

a) Concession agreements (ICPC 01 and OCPC 05)--Continued

Provision of ICPC 01 were retroactively applied to concessions of subsidiaries IEMADEIRA, IESUL, IENNE, IEMG, Serra do Japi and Pinheiros, adoption effects as of January 1, 2009 (beginning for the earliest period used for comparison purposes) are recalculated, and accumulated effects are allocated to equity components. Because it is not possible to rebuild historical data, prospective application was adopted for concession agreements entered into by CTEEP.

As set forth in the contracts, if the concession ceases to exist, service-related assets will be reversed by operation of law to the grantor, by identifying, assessing and determining the indemnification payable to the concessionaire, considering the amounts and dates of its addition to the electrical system. The Company considers that the indemnification to which it is entitled corresponds to the New Replacement Value adjusted by accumulated depreciation of each item. Considering the uncertainties existing in today's energy market, CTEEP estimated the indemnification value of its assets based on their corresponding book values, which is the minimum amount management understands as guaranteed by current regulation. Considering that management monitors industry regulation on an ongoing basis, should there be changes thereto that might change estimates on assets indemnification, the accounting effects thereof will be addressed on a prospective basis in the financial statements. However, management reiterates its commitment to continue defending the CTEEP shareholders' interests in realizing these assets, so as to leverage return on capital invested in concession, within legal limits. This indemnification is part of the revenues from construction services and is recognized upon work completion.

CTEEP determined the fair value of construction services by considering that projects include sufficient margin to cover construction costs, plus certain expenses for the construction period. The effective interest rate remunerating financial assets arising from construction services was determined considering shareholders' expected return on an asset with such features.

5. Effects of IFRS adoption and new pronouncements issued by CPC--Continued

5.2 Description of adjustments--Continued

a) Concession agreements (ICPC 01 and OCPC 05)--Continued

Financial assets are classified as lending and receivables and monthly computed financial income is posted directly to P&L.

Revenues from construction and financial income computed on construction financial assets are subject to cumulative deferred Social Contribution Tax on Gross Revenue for Social Integration Program (PIS) and Social Contribution Tax on Gross Revenue for Social Security Financing (COFINS), recorded as Deferred Taxes under non-current liabilities.

b) Tax benefit – Company's merged goodwill (CPC 04)

Tax benefit – Company's merged goodwill previously stated under current assets was reclassified to non-current assets.

c) Deferred income and social contribution taxes (CPC 32)

These are recognized on temporary differences at each year end between assets and liabilities recognized in the financial statements and corresponding tax bases used in taxable profit calculation. Deferred tax assets and liabilities are measured at rates applicable for the period which liabilities are expected to be settled or assets are expected to be realized, based on rates set forth in prevailing tax legislation.

In addition, as established by CPC 26, deferred taxes originally stated under current assets were reclassified to non-current assets.

d) Investments

Equity pickup arising from concession agreement recognition in accordance with ICPC 01 and OCPC 05, as well as deferred income and social contribution taxes of Company's subsidiary.

5. Effects of IFRS adoption and new pronouncements issued by CPC--Continued

5.2 Description of adjustments--Continued

e) Recording dividend payment proposal (ICPC 08)

This interpretation clarifies that the statement of dividends exceeding minimum mandatory ones, after the reporting period to which the quarterly information is referred, is not to be recognized as liabilities, for it does not meet present obligation criteria as of financial statements date, as defined in CPC 25 – Provisions, Contingent Assets and Contingent Liabilities.

Unpaid dividends, exceeding minimum mandatory ones, reported after the reporting period to which the financial statements is referred, for years 2008 and 2009, were recognized as adjustments in the statement of changes in equity, and reversed under “Dividends Payable”, in the balance sheet, where they were originally presented.

f) Employee benefits - Fundação CESP (CPC 33)

This pronouncement provides guidance on how to recognize, measure and evidence benefits granted to employees by the subsidiary.

Since 2008, actuarial calculations of pension plans sponsored by the Company have resulted in surplus which, since the “corridor” method is used, generates unrecognized gains. However, computed gains do not exceed asset ceiling established by CPC 33 (IAS 19).

g) Discount (ICPC 09)

This is represented in the subsidiary by the discount received upon acquisition of 49% of EPTE - Empresa Paulista de Transmissão de Energia Elétrica S.A. common shares. Such shares were held by São Paulo State Finance Department and by Companhia Paulista de Administração de Ativos (CPA) and were acquired on March 26, 1999 by CESP - Companhia Energética de São Paulo. Upon CESP partial spin-off, the referred to shares and discount computed were reversed to CTEEP. EPTE was merged by the Company on November 10, 2001. Pursuant to ICPC 09, discount was recorded under retained earnings as an advantage purchase.

5. Effects of IFRS adoption and new pronouncements issued by CPC--Continued

5.3 Mandatory exceptions and elective exemptions upon adoption of new pronouncements (individual and consolidated)

Pursuant to CPC 37 (IFRS 1), applying voluntary procedures is allowed upon first-time adoption of new pronouncements should there be changes in relation to the previously adopted accounting practices. Such standard, however, also forbids the adjustment of certain transactions on a retrospective basis.

Management judgment as for the elective and mandatory exemptions upon first-time adoption of the new pronouncements is described as follows:

a) Elective exemptions

- Measuring PP&E at fair value: because CTEEP considers PP&E balance to be immaterial, it decided not to remeasure its PP&E at fair value ("deemed cost") as of transition date based on historical acquisition cost, as previously allowed.

- In addition, depreciation effects arising from first-time periodic analysis of the remaining useful life of PP&E assets as determined by ICPC 10 were not considered significant by CTEEP management.

- Measuring concession agreements: given that it is not possible to reliably rebuild historical costs, the Company adopted such pronouncement on a prospective basis as of the opening balance sheet date for concession agreements No. 059 and No. 143 of CTEEP.

b) Mandatory exemptions

Estimates used to determine accounting practices applied after the opening balance sheet are not to be adjusted as of transition date, unless they represent changes in accounting practices or there is any evidence of error. The Company maintained estimates used before the opening balance sheet.

5. Effects of IFRS adoption and new pronouncements issued by CPC--Continued

5.4 Effects on subsidiary CTEEP quarterly information (ITR) for periods ended March 31, June 30 and September 30, 2010 and 2009

On January 25, 2011, CVM issued CVM Rule No. 656 amending CVM Rule No. 603/09. Accordingly, CVM Rule No. 656/11 allows publicly-held companies to restate their 2010 quarterly information (ITR) de 2010, which had been stated without those changes introduced by accounting practices effective beginning 2010, until the quarterly information for the three-month period ended March 31, 2011 is presented.

Upon delisting at CVM on May 27, 2010, the Company is released from the obligation to restate 2010 ITR.

6. Liabilities assumed upon acquisition of subsidiary CTEEP

According to the share purchase and sale agreement, subject-matter of the privatization auction mentioned in Note 1, the Company is committed to supplementing payment for CTEEP share purchase price should CTEEP be released from the burden related to the supplementary pension plan payment set forth in Law No. 4819/58, currently discussed in court.

At December 31, 2010, the amount to supplement purchase price is composed of two different transactions, as follows:

a) The amount of R$ 223,921 (R$ 217,413 at December 31, 2009), computed upon acquisition of the first equity interest through privatization auction, held on June 28, 2006, recorded as “Payables – Law No. 4819/58 – State Finance Department”, and R$ 8,423 (R$ 6,891 at December 31, 2009) under current liabilities and R$ 215,498 (R$ 210,522 December 31, 2009) under non-current liabilities, was then matched against R$ 188,895 recorded as “Investments – goodwill upon acquisition of interest in subsidiary” (Note 14), the difference of which amounts to R$ 35,026 and is recognized as monetary restatement of the liability, in accordance with Brazil's Extended Consumer Price Index (IPCA) as from December 31, 2005.

(In thousands of reais, unless otherwise indicated)

6. Liabilities assumed upon acquisition of subsidiary CTEEP

b) R$ 140,402 (R$ 133,103 at December 31, 2009), computed upon acquisition of the third equity interest through tender offer auction (OPA), held on January 9, 2007, recorded as “Payables – Law No. 4819/59 - OPA”, of which R$ 4,946 (R$ 4,322 at December 31, 2009) under current liabilities and R$ 135,456 (R$ 131,999 at December 31, 2009) under non-current liabilities, was then matched against R$ 120,306 as “Investments – goodwill upon acquisition of interest in subsidiary” (Note 14), the difference of which amounts to R$ 20,096 and is recognized as monetary restatement of the liability, in accordance with Brazil's Extended Consumer Price Index (IPCA) as from December 31, 2005.

7. Cash and cash equivalents

	Company			Consolidated		
	2010	**2009**	**01.01.2009**	**2010**	**2009**	**01.01.2009**
Cash and banks	**70**	808	1,593	**697**	1,218	8,551
Short-term investments	**257,191**	29,196	-	**311,546**	72,020	116,066
	257,261	30,004	1,593	**312,243**	73,238	124,617

Short-term investments are measured at fair value through P&L and correspond to Bank Deposit Certificates pegged to profitability of the Interbank Deposit Certificate Index (CDI), with daily liquidity.

(In thousands of reais, unless otherwise indicated)

8. Trade accounts receivable - Consolidated

Breakdown of trade accounts receivable is as follows:

	Consolidated		
	2010	**2009**	**01.01.2009**
Acknowledgment of debt and payment agreement (c)	68,347	124,114	137,020
Accounts receivable from O&M services (b)	175,912	184,208	207,397
Accounts receivable from construction services (a)	5,405,440	4,778,963	4,242,276
	5,649,699	**5,087,285**	**4,586,693**
Current	**1,424,390**	**1,430,606**	**1,343,671**
Non-current	**4,225,309**	**3,656,679**	**3,243,022**

(a) It refers to the amount receivable for construction, expansion and reinforcement services of electric energy transmission facilities, and includes the estimated investments made and not amortized until the end of the concession and for which CTEEP will be entitled to receive cash or other financial assets, when concession agreement is no longer effective. They bear interest at the effective interest rate calculated for each concession agreement.

(b) It refers to the portion of monthly sales reported by ONS allocated to compensation of operating and maintenance services, receivable within no longer than 60 days, on average.

(c) On January 13, 2009, CTEEP signed an "acknowledgment of debt and payment agreement" with dealers with overdue accounts receivable. This agreement provides for balance receipt in 36 installments. By December 2010, all installments had been received as provided for the agreement.

These financial assets are classified as lending and receivables.

Subsidiary CTEEP has no history of losses in accounts receivable, which is secured by structures of bonds and/or access to current accounts operated by the National System Operator (ONS) or directly by the Company and therefore is not an allowance for doubtful accounts.

(In thousands of reais, unless otherwise indicated)

8. Trade accounts receivable - Consolidated--Continued

Trade accounts receivable are distributed as follows:

	Consolidated		
	2010	**2009**	**01.01.2009**
Falling due	**5,633,208**	5,082,235	4,525,817
Overdue			
Up to 30 days	**1,498**	1,084	3,315
From 31 to 60 days	**846**	859	3,191
Over 61 days	**14,147**	3,107	54,370
	16,491	5,050	60,876
	5,649,699	5,087,285	4,586,693

Key subsidiary's concession agreement characteristics are summarized below:

				Periodic tariff review		Construction revenue - R$ thousand	
Concessionaire	**Agreement**	**Annual Revenue Allowed (RAP) degree**	**Restatement index**	**Term**	**Following**	**2010**	**2009**
CTEEP	059 SE(*)	No	IGPM	n/a	n/a	**-**	-
CTEEP	059 NI(*)	No	IGPM	4 years	2013	**47,659**	210,954
CTEEP	143	Yes	IGPM	n/a	n/a	**-**	-
IEMG	004	Yes	IPCA	5 years	2012	**-**	9,433
IENNE	001	No	IPCA	5 years	2013	**96,149**	357,916
Pinheiros	012	No	IPCA	5 years	2014	**39,007**	25,973
Pinheiros	015	No	IPCA	5 years	2014	**14,881**	90,330
Pinheiros	018	No	IPCA	5 years	2014	**7,434**	33,401
IESul	013	No	IPCA	5 years	2014	**32,452**	17,762
IESul	016	No	IPCA	5 years	2014	**39,123**	37,244
IEMadeira	013	No	IPCA	5 years	2014	**13,188**	71,639
IEMadeira	015	No	IPCA	5 years	2014	**32,738**	26,500
Serra do Japi	026	No	IPCA	5 years	2015	**21,575**	4,615

(*) CTEEP concession agreement No. 059 is divided into: Existing Services (SE) regarding facilities build built through December 31, 1999; and New Investments (NI) regarding facilities built beginning January 1, 2000.

All concession agreements above set forth an indemnification right upon termination.

(In thousands of reais, unless otherwise indicated)

9. Receivables from State Finance Department – Consolidated

	2010			2009	01.01.2009
	Current	**Non-current**	**Total**	**Total**	**Total**
Acknowledgment and consolidated obligation agreement (a)	**18,991**	**11,078**	**30,069**	41,576	55,353
Disposal of properties (b)	**3,947**	**2,303**	**6,250**	8,642	11,506
`Payroll processing – Law No. 4819/58 (c)		**533,866**	**533,866**	410,127	309,811
Labor claims – Law No. 4819/58 (d)		**133,882**	**133,882**	116,121	97,755
Family allowance – Law No. 4819/58 (e)		**2,218**	**2,218**	2,218	2,218
Allowance for doubtful accounts		**(2,218)**	**(2,218)**	(2,218)	(2,218)
	22,938	**681,129**	**704,067**	**576,466**	**474,425**

(a) On May 2, 2002, an Acknowledgment and Consolidated Liability Agreement was entered into with the State Finance Department, whereby the State acknowledges and agrees to pay CTEEP the amounts corresponding to disbursements originally made by CESP, from 1990 to 1999, for supplementary retirement and pension payroll, arising from benefits under State Law No. 4819/58. The amount then acknowledged was restated through January 2002, according to São Paulo State Fiscal Unit (UFESP), and, as from February 2002, according to monthly IGP-M variation, plus 6% p.a. Repayment will be in made in 120 monthly installments, beginning August 1, 2002 and termination expected for July 1, 2012.

(b) On July 31, 2002, a Private Transaction Agreement was executed with the State Finance Department, with a real estate sale commitment, obligation recognition and payment commitment, whereby the State acknowledges that it owes to the Company an amount corresponding to the market value of the total real estate area occupied by the State, partially used for the construction of prisons.

The State is therefore committed to reimburse said amount to the Company within 120 monthly installments, beginning on August 1, 2002 and termination expected for July 1, 2012, restated by monthly IGP-M variation, plus interest of 6% p.a.

(c) R$ 533,866 refers to the remaining payroll processing balance related to the supplementary pension plan regulated by State Law No. 4819/58, of which R$ 1,426 through individual injunctions for the period between January and August 2005 and R$ 532,440 from September 2005 to March 2011 in virtue of judicial decision from 49th Labor Court in São Paulo, whose payments are made by Fundação CESP, through partial funds received from the State Government and partial funds transferred by CTEEP (Note 36 (c)). Such balance is not monetarily restated and no yields are recorded until they are approved by the State Government to be effectively paid to CTEEP.

(d) These refer to certain labor claims settled by CTEEP, relating to retired employees supported by State Law No. 4819/58, which are the responsibility of the State Government. Such balance is not monetarily restated and no yields are recorded until they are approved by the State Government to be effectively paid to the Company.

(e) CESP made payment advances for monthly expenses relating to family allowances, arising from State Law No. 4819/58 benefits, which were transferred to CTEEP upon CESP partial spin-off.

(In thousands of reais, unless otherwise indicated)

9. Receivables from State Finance Department – Consolidated

Considering the expected loss, management set up an allowance for doubtful accounts under non-current assets, amounting to R$ 2,218.

10. Taxes recoverable

	Company			Consolidated		
	2010	**2009**	**01.01.2009**	**2010**	**2009**	**01.01.2009**
COFINS	**-**	-	-	**3,273**	156,718	798
PIS	**-**	-	-	**803**	50,016	249
Income tax	**36,806**	32,148	24,633	**42,425**	35,712	25,393
Social contribution tax	**-**	-	-	**776**	863	486
Other	**-**	-	-	**759**	2,156	947
	36,806	32,148	24,633	**48,036**	245,465	27,873

Due to preparation-related issues, in October 2009, CTEEP adjusted the Federal Tax Debts and Credits statements (DCTFs) from 2004 to 2007 determining credits substantially related to the contributions to PIS and COFINS. Such tax credits were used for tax payment for the period from November 2009 to July 2010.

Changes for the year ended December 31, 2010 are as follows:

	Company and consolidated	
	2010	**2009**
Initial balance	**204,113**	-
Originally recognized tax credit value	**-**	193,139
Tax credit monetary restatement	**3,199**	99,403
Amount offset in October and December	**(207,312)**	(88,429)
	-	204,113

(In thousands of reais, unless otherwise indicated)

11. Tax benefit – Subsidiary's merged goodwill

Goodwill paid by the Company on acquisition of CTEEP shareholding control process is economically based on the expected profitability during the concession term, originating from the acquisition of the concession right granted by the Government, under sub item b, paragraph 2, article 14 of CVM Rule No. 247, of March 27, 1996, as amended by CVM Rule No. 285 of July 31, 1998.

In order for the amortization of goodwill not to adversely impact the dividend flow to stockholders, a provision to maintain the integrity of equity of its acquirer (PMIPL) was set up, in accordance with CVM Rule No. 349, of March 6, 2001.

Amortization of goodwill, net of reversal of the provision and of the corresponding tax credit, is neutral with respect to P&L for the year and, accordingly, to the mandatory minimum dividend calculation basis.
Goodwill totaled R$ 689,435 at December 31, 2007 and is currently amortized over the remaining concession period, in monthly installments according to the projected annual future profitability and as permitted by ANEEL Resolution No. 1164 of December 18, 2007, as follows:

	Amortization - % p.a.		
	Concession agreements		
Year	**059/2001**	**143/2001**	**Total**
2008 to 2012	12.20	0.10	12.30
2013 to 2015	12.73	0.02	12.75
2016 to 2031		0.25	0.25

To better present the Company's financial position in the financial statements, the net amount of R$ 147,911, which essentially represents the merged tax credit, was classified in the balance sheet under non-current assets as tax benefit – merged goodwill, based on expected realization.

(In thousands of reais, unless otherwise indicated)

11. Tax benefit – Subsidiary's merged goodwill--Continued

Changes for the year ended December 31, 2010 are as follows:

	Goodwill	Provision	Net
Balances at 12.31.2008	604,634	(399,059)	205,575
Realization for the period	(84,800)	55,968	(28,832)
Balances at 12.31.2009	**519,834**	**(343,091)**	**176,743**
Realization for the period	(84,800)	55,968	(28,832)
Balances at 12.31.2010	**435,034**	**(287,123)**	**147,911**

12. Loans receivable

Loans refer to full transfer of the loan the Company took out from ABN AMRO BANK in 2006 to its parent company ISA, stated in US dollars, originally amounting to US$ 23,800 thousand, whose payment in a lump sum was made on July 19, 2007 and whose interest was calculated at LIBOR rate, plus 3.00% p.a. the Company maintained the same restatements assumptions for such operation, with interest received on a semiannual basis. Nevertheless, amortization maturity of principal was agreed for an eight-year period in a lump sum.

Changes for the year ended December 31, 2010 are as follows:

	2010	2009
Principal	**51,146**	51,146
Interest	**8**	8
Foreign exchange variation	**(11,491)**	(9,706)
Total	**39,663**	41,448

(In thousands of reais, unless otherwise indicated)

13. Pledges and restricted deposits – Company and consolidated

Company

In January 2007 the Company raised the amount of US$ 554 million from issue of bonds with JP Morgan and ABN AMRO Bank as agents, divided into two tranches: the first, in the amount of US$ 200 million, with 5-year term, maturing 2012, and call option in 2010 and 2011 and the second, of US$ 354 million, maturing 2017 (Note 17 (a)).

As established in a contract, the Company made two deposits in Bank of New York worth US$ 7,875 thousand and US$ 15,576 thousand, as a guarantee for interest payable semiannually, in connection with the two aforesaid capital raises, respectively. Given that in March 2010 the Company repurchased 91.06% of bonds maturing 2017 and 100% of bonds maturing 2012, the amount to be kept in this account for semiannual interest payment of bonds remaining in the market is in the region of US$1.4 million. At December 31, 2010, the balance recorded under current assets amounts to R$ 2,320 (R$ 40,857 in 2009; R$ 55,209 at January 1, 2009).

Consolidated

Under non-current receivable, in view of the uncertainties regarding the outcome of the lawsuits to which the deposits refer, CTEEP's procedure is to maintain these deposits at their nominal value, not recording any type of monetary restatement or interest thereon. The balance is broken down as follows:

	2010	**2009**	**01.01.2009**
Judicial deposits (Nota 22 (b))			
Labor (Nota 22 (b) (i))	**27,914**	23,520	19,728
Tax – COFINS (b)	**5,668**	5,668	17,348
Social security – INSS (Nota 22 (b) (iii))	**2,745**	8,243	8,243
Notices – ANEEL (a)	**5,723**	6,317	6,317
Other	**198**	198	224
	42,248	43,946	51,860

(a) These refer to deposits aimed to annul notices served by ANEEL:

(i) Deposit made on January 17, 2000, amounting to R$ 3,040, in an annulment action filed by CTEEP against ANEEL, related to notice of violation 001/1999-SFE which had fined the Company under alleged violations for obstructing the inspection related to disturbances from interrupted electric power transmission and distribution over a large part of the Southeast, South and Middle West regions; non-compliance with the "inspection report" requirements; and non-compliance with the legal duty of rendering proper service.

13. Pledges and restricted deposits – Company and consolidated--Continued

Consolidated--Continued

(ii) Deposit made on June 17, 2003, amounting to R$ 3,277, arising from violation notice No. 005/2002-SFE, issued on May 7, 2002, resulting from a punitive administrative proceeding filed by ANEEL, for 440kV transmission line sub-conductor broken on January 21, 2002 between CTEEP substations in Ilha Solteira and Araraquara Hydropower Plants. In July 2010, a court-ordered deposit was approved and duly restated, considering such proceeding was awarded a favorable decision.

(iii) Deposit made on August 29, 2008, amounting to R$ 2,139, aimed to annul violation notice No. 062/2007 for not meeting the date established for installation of the 3rd 345/88kV transformers bank of SE Baixada Santista, authorized by ANEEL Rule No. 197 of May 4, 2004.

(iv) Deposit made on September 17, 2008, amounting to R$ 544, in order to annul violation notice No. 001/2008 for not meeting the date established for 345kV Guarulhos – Anhanguera Transmission Line starting up its activities, as authorized by ANEEL Authorizing Rule No. 064/2005 of January 31, 2005.

(b) Judicial deposits - COFINS

The Company challenged in court the constitutionality of the increased rate and increased COFINS tax base, respectively amounting to R$ 27,392 and R$ 11,132, and obtained a favorable decision as regards increased tax base but an unfavorable one regarding increase rate. In October 2009, the Company withdrew the amount originally deposited, and filed a processing regarding withdrawal of the restatement value.

(In thousands of reais, unless otherwise indicated)

14. Investments

a) Information on subsidiary CTEEP

	12.31.2010	12.31.2009
Number of shares		
Common - ON	**63,860,513**	63,199,250
Preferred - PN	**87,968,467**	87,457,309
Total	**151,828,980**	150,656,559
Equity		
Capital	**1,119,911**	1,063,049
Capital reserve	**2,054,369**	2,054,369
Special goodwill reserve	**176,743**	205,576
Income reserves	**1,014,124**	971,069
Proposed and additional dividends	**198,021**	368,282
Advances for future capital increase	**666**	666
Total	**4,563,834**	4,663,011
Net income for the period	**812,171**	861,975

b) Investment information

	12.31.2010	12.31.2009
Shares held - ON	**57,093,869**	56,499,392
Percentage of interest	**37,6041**	37,5021
Investment	**1,649,726**	1,671,632
Goodwill (Note 16)		
Unamortized goodwill	**287,122**	343,090
Goodwill – special reserve	**176,744**	205,576
Total goodwill (a)	**463,866**	548,666
Total investment	**2,113,592**	2,220,298

(In thousands of reais, unless otherwise indicated)

14. Investments--Continued

c) Changes in investment

Balance at December 31, 2008	**2,195,122**	**-**	**2,195,122**
Equity pickup	322,222	-	322,222
Dividends stated for the year	(147,145)	-	(147,145)
Interest on equity capital stated for the year	(93,933)	-	(93,933)
Amortization of goodwill	(55,968)	-	(55,968)
Balance at December 31, 2009	**2,220,298**	**-**	**2,220,298**
Capital payment			
Company merger			
Equity pickup adjustments	(3,171)		(3,171)
Equity pickup	306,266		306,266
Dividends stated for the period	(259,287)		(259,287)
Interest on equity capital for the period	(94,546)		(94,546)
Amortization of goodwill	(55,968)		(55,968)
Balance at December 31, 2010	**2,113,592**	**-**	**2,113,592**

(a) The total goodwill balance of R$ 463,866 is classified in intangible assets in the consolidated balance sheet, net of CTEEP's special goodwill reserve in the amount of R$ 176,744, as mentioned in Note 16. Studies conducted confirm that this goodwill will be able to be realized within the term of the concession contracts.

15. Property, plant and equipment – Consolidated

This substantially refers to chattel used by the Company, not related to the concession agreement.

	2010			**2009**	**2008**
	Cost	**Accumulated depreciation**	**Net**	**Net**	**Net**
In operation					
Leasehold improvements	**3,149**	**(2,331)**	**818**	1,530	2,278
Other	**1,292**	**(254)**	**1,038**	1,080	993
Machinery and equipment	**8,203**	**(3,505)**	**4,698**	5,165	2,325
Furniture and fixtures	**2,493**	**(759)**	**1,734**	2,195	2,210
Vehicles	**1,466**	**(523)**	**943**	336	220
	16,603	**(7,372)**	**9,231**	10,306	8,026

(In thousands of reais, unless otherwise indicated)

15. Property, plant and equipment – Consolidated--Continued

Subsidiary CTEEP considered its PP&E balance to be immaterial and, therefore, decided not to adopt the deemed cost practice, as established in ICPC 10 - Interpretation of First-time Adoption of Technical Pronouncements for Property, Plant and Equipment and Investment Property.

In addition, depreciation effects arising from the first periodic analysis of the remaining economic useful life of PP&E items as established by ICPC 10 were not considered material by subsidiary CTEEP management.

16. Intangible assets – Consolidated

This refers to Company's unamortized goodwill and expenses incurred by CTEEP in the process to implement/structure SAP-integrated system, except for training costs which were posted to P&L. The project began in April 2008 and was completed in February 2009, and has been amortized on a straight-line basis for a five-year period.

	2010	**2009**
Unamortized goodwill (Note 14)	**287,122**	343,090
Implementation of the integrated system and others	**9,944**	12,882
	297,066	355,972

(In thousands of reais, unless otherwise indicated)

17. Loans and financing

Breakdown of loan and financing balance is as follows:

	Consolidated		
	2010	**2009**	**01.01.2009**
Foreign currency			
Bonds (a)	**54,671**	1,017,816	1,045,746
Local currency			
BNDES (b) (i)	**421,146**	514,117	606,169
BNDES (b) (ii)	**160,605**	-	-
BNDES (c)	**37,630**	40,680	-
BNDES (d)	**185,134**	-	-
Promissory notes (e)			
1st issue	**-**	-	199,068
2nd issue	**-**	213,696	-
3rd issue	**-**	208,029	-
Banco Bradesco (f)	**1,396**	45,717	51,010
ABN amro Real (g)	**-**	-	41,337
Citibank (h)	**8,297**	24,537	-
Banco do Nordeste (i)	**56,094**	-	-
Eletrobras	**441**	491	541
Finance lease agreements	**1,702**	2,143	-
	927,116	2,067,226	1,943,871
Current	**334,347**	644,948	451,279
Non-current	**592,769**	1,422,278	1,492,592

(a) Bonds amounting to US$ 554 million issued on January 29, 2007.

This issue, represented by JP Morgan S.A. and ABN Amro Real S.A., was divided into two tranches: one amounting to US$ 200 million, maturing 2012, at the interest rate of 7.875% p.a., with call options in 2010 and 2011; the other tranche, amounts to US$ 354 million maturing 2017, a ten-year period, at the interest rate of 8.8% p.a.
At the time, the Company’s management entered into specific swap agreement to hedge against currency risks related to the abovementioned bond issue. Such swap transaction was initially segregated into two parts, one to cover bonds principal amounting to US$ 554.0 million, and another to cover semiannual interest maturing July 2007 and January 2008:

17. Loans and financing--Continued

Hedge of principal – swap agreements with banks ABN Amro Real S. A. and JP Morgan S.A relating to the hedge of the two tranches. The first tranche, amounting to US$ 200 million and with a five-year term maturing in 2012, was contracted at the exchange rate of R$ 2.1170, bearing General Market Price Index (IGP-M) plus 2.12% p.a. The second tranche amounting to US$ 354 million, with a ten-year term maturing in 2017, was also contracted at the exchange rate of R$ 2.1170, bearing IGP-M plus 1.68% p.a. Both contracts had a Recouponing partial payment clause, with maturity on February 12, 2008. Accordingly, the Company paid R$ 155 million to the referred to banks on maturity date. As a result of the Recouponing payment and in accordance with the rules established for the derivative transactions, these contracts were replaced by new ones containing new rates and conditions, as follows:

- ABN Amro Real S.A. (Santander): on February 12, 2008, a 50% hedge of both tranches was taken out, the first of which amounts to US$ 100 million, maturing 2012. Such hedge was taken out at the foreign exchange rate of R$ 1.7573, bearing IGP-M, plus 5.0709% p.a. The second tranche amounting to US$ 177 million and maturing 2017, was also taken out at the foreign exchange rate of R$ 1.7573, bearing IGP-M, plus 3.0203% p.a. The recouponing partial payment clause was excluded.

17. Loans and financing--Continued

- JP Morgan S.A.: on February 12, 2008, a 50% hedge of both tranches was taken out. The first tranche, amounting to US$ 100 million and maturing in 2012, was contracted at the exchange rate of R$ 1.7573, bearing IGP-M plus 4.8709% per annum. The second tranche, amounting to US$ 177 million and maturing in 2017, was also taken out at the foreign exchange rate of R$ 1.7573, bearing IGP-M plus 2.7003% p.a. The Recouponing partial payment clause was maintained under the same conditions of the previous contract. Because of the Company's wish to exclude the Recouponing clause from the contract, on July 28, 2008 the Company made a partial payment of R$ 62 million. As a result of such payment, a new contract was signed on the same date, under new conditions. The hedge that until then was 50% of the two tranches changed to 50% of the first tranche only, corresponding to US$ 100 million and maturing in 2012. This new contract was established at the exchange rate of R$ 1,5745, bearing IGP-M plus 5.052% p.a. The Recouponing partial payment clause was excluded.

- Deutsche Bank S.A.: on July 28, 2008, the other part of the hedge, related to 50% of the second tranche amounting to US$ 177 million, maturing in 2017, was, was taken out by the Company with Deutsche Bank, at the exchange rate of R$ 1.5745, bearing General Market Price Index (IGP-M) plus 3.99% p.a. This contract does not include the Recouponing partial payment clause.

Hedge of interest - a non-deliverable currency forward with JP Morgan related to the hedge of semiannual interest, with maturities in July 2007 and January 2008, corresponding to the two tranches. This hedge was contracted at the exchange rate of R$ 2.1190 for payment in July 2007 and R$ 2.1765 for payment in January 2008. Since then, the Company's management decided not to take out any hedge for the next semiannual interest. This situation has been constantly assessed within defined strategies and taking into consideration the economic and financial aspects and exposure limits.

17. Loans and financing--Continued

As allowed by technical pronouncement CPC 14, the Company, as from July 31, 2008, recognized its derivative financial instruments (swap) and its abovementioned foreign-currency-denominated debt contracts (bonds) under the fair value hedge accounting method.

Under this methodology, the impacts of changes in the fair value of derivatives used as hedge are recognized in P&L, based on the recognition of foreign-denominated debt contracts (bonds) which are hedged items. The fair values are calculated by projecting the future flows of the operations (assets and liabilities) using BM&F curves and discounting these flows to present value using the BM&F future DI rate. Given the debt restructuring, commented below, this methodology was applied through February 2010.

(a.ii) *Restructuring of foreign-currency-denominated debt (bonds)*

In accordance with ISA Group strategy, which assumes business expansion in Brazil, ISA Capital management conducted studies, named REDI project, to restructure its foreign-currency-denominated debt (bonus) so as to reduce the cost of such indebtedness, while creating favorable conditions to expand activities of the Company and its subsidiaries.

17. Loans and financing--Continued

- US$ 354.0 million bonds maturing in 2017

  On February 8, 2010, the Company started restructuring implementation by announcing abroad a public offer to repurchase in cash all bonds it issued maturing in 2017 up to outstanding total equivalent to US$ 354 million. As an integral part of the operation, in addition to market value payment of 108.25%, ISA Capital offered 2017 bond holders joining the public offer up to February 24, 2010 (early period) a consent fee of 3.50% on market value. From February 24 and March 8, 2010, bond holders joining the offer received amounts equivalent to 108.25% of market value. After the offer period, a 91.06% adhesion of total bond holders was identified. Accordingly, under conditions established, the Company, in March 2010, repurchased US$ 322.3 million, which is equivalent to 91.06% of the total US$ 354.0 million. Only 8.94% of total bonds maturing 2017 are outstanding in the market, which is equivalent to US$ 31.6 million.

  Total amount disbursed by the Company in repurchasing 91.06% of these bonds in March totaled US$ 371.8 million, which is equivalent to R$ 665.0 million, broken down as follows: (i) Principal of US$ 322.3 million, equivalent to R$ 577.4 million; (ii) Consent Fee of US$ 37.7 million, equivalent to R$ 66.6 million; (iii) pro-rata interest of US$ 3.2 million equivalent to R$ 5.7 million; and (iv) taxes levied on transfers of US$ 8.6 million, equivalent to R$ 15.3 million.

  For the US$ 31.6 million bonds remaining in the market, the same conditions agreed upon issue are kept, but without any type of covenants. The maturity term of the principal amount is still 2017 and interest is still paid on a semiannual basis, in January and July each year, at the rate of 8.8% p.a.

17. Loans and financing--Continued

- US$ 200.0 million bonds maturing in 2012

  As soon as the 2017 bond repurchase public offer was completed, the Company, based on the prerogative of the call option set forth in the agreement of bonds maturing in 2012, started the bond repurchase process and, within the period and conditions established, repurchased 100% thereof, which amounted to US$ 200 million. Considering that bonds were repurchased for the then effective market value of 103.938%, as stipulated in indentures for the call option year in 2010, ISA Capital disbursed US$ 212.6, equivalent to R$ 380.8 million, for bond repurchase, as follows: (i) Principal US$ 200.0 million, equivalent to R$ 358.2 million; (ii) Premium US$ 7.9 million, equivalent to R$ 14.1 million; (iii) Pro-rata interest US$ 2.4 million, equivalent to R$ 4.4 million; and (iv) Taxes on transfers US$ 2.3 million, equivalent to R$ 4.1 million.

- Swap contracts

  Concurrently with the bond repurchase process, and in line with the settlement clauses set forth in derivative financial instruments (swap), ISA Capital started negotiating with banks ABN Amro Real S.A. (Santander), JP Morgan S.A. and Deutsche Bank S.A., so as to settle the referred to swap contracts. Thus, also in March, the Company settled four (4) contracts whose amount was paid for R$ 182.4 million.

  Accordingly, considering that of total US$ 554.0 million bonds issued by the Company on January 29, 2007 only US$ 31.6 million bonds maturing in 2017 remain in the market, and considering the existence of a loan agreement receivable from parent Company amounting to US$ 3.8 million (Note 17), Company's management understands that currency exposure is fairly low, and therefore took out no derivative financial instrument (swap) for that purpose.

(In thousands of reais, unless otherwise indicated)

17. Loans and financing--Continued

	2010	2009
Current liabilities		
Bond issue - interest	**1,934**	34,027
Hedge operation – currency risk of principal amount	**-**	18,792
Total	**1,934**	52,819
Non-current liabilities		
Bond issue - interest	**52,737**	875,687
Hedge operation – currency risk of principal amount	**-**	89,310
	52,737	964,997
Total	**54,671**	1,017,816

(b) (i) On September 17, 2007, CTEEP entered into a loan agreement with Brazil's National Bank for Economic and Social Development (BNDES) amounting to R$ 764.2 million, reduced to R$ 602.2 million in December 2008. This amount accounts for 70% of the total investment, which includes system improvements, reinforcements, modernization of the current transmission system and new projects, and is part of the 2006/2008 Pluriannual Investment Plan. Repayment is in 78 monthly installments beginning January 2009. As a guarantee, the Company has given bank sureties taken out effective up to December 15, 2015, from banks Bradesco, Santander and Banco do Brasil, at the cost of 0.7% p.a., with quarterly maturities.

(ii) On November 18, 2008, the Company entered into a R$ 329.1 million loan agreement with BNDES. On January 27, 2010, R$ 160.0 million was drawn down, and the remaining amount will be released within the following quarters. The amount is intended to cover investments in reinforcement and modernization of the current system and in new connections to be made between Jan/09 and Dec/10. Repayment will take place in 54 monthly installments as from January 2011 and, until the beginning thereof, charges will be paid on a quarterly basis. As guarantee, the Company has given bank sureties taken out effective up to June 15, 2015 from banco Bradesco, at the cost of 1.2% p.a., with quarterly maturities.

17. Loans and financing--Continued

(c) On January 14, 2009 subsidiary IEMG entered into a R$ 70.6 million loan agreement with BNDES, drawn down on March 27, 2009. This amount is aimed to finance approximately 50% of the Transmission Line (LT) between Neves 1 and Mesquita substations. Repayment will take place in 168 monthly installments as from May 15, 2009. As guarantee, the Company has given bank sureties contracted effective up to March 18, 2010 from HSBC. On February 18, 2010, an amendment to the bank sureties was signed, extending the effectiveness to March 15, 2011.

(d) On August 11, 2010, subsidiary IEMADEIRA entered into loan agreement with BNDES, for R$ 292.6 and R$ 108.7 million. On August 30, 2010, R$ 163.0 million was drawn down, and the remaining amount will be released within the following quarters. The amount is intended to finance the construction of the Transmission Lines and Substations provided for in the concession agreements. Repayment will take place in a lump sum including charges. As guarantee, the Company has given bank sureties taken out from Banco Bradesco, Banco Espírito Santo - BES and Santander effective up to June 15, 2011.

(e) 2nd issue **–** issued on April 24, 2009, amounting to R$ 200.0 million and maturing April 19, 2010. Nominal charges corresponded to 119.5% of CDI. Issue costs of these promissory notes totaled R$ 1,692 and, pursuant to CPC 08, promissory notes issue costs were recorded net of fund raising value and allocated to P&L for the transaction period.

3rd issue **–** issued on July 17, 2009, amounting to R$ 200.0 million, its maturity was advanced to January 2010 given the issue of debentures (Note 16). Nominal charges correspond to 106.5% of CDI. Issue costs of these promissory notes totaled R$ 1,295.

(f) Bank credit notes of subsidiary IENNE from Banco Bradesco:

(i) Issued on July 13, 2009 with a R$ 180.0 million limit. Said transaction had charges thereon paid on a monthly basis, and settlement thereof took place on July 30, 2010. As guarantee, a “Standby Letter of Credit” (SBLC) was provided.

17. Loans and financing--Continued

(ii) issued on July 15, 2009 with a R$ 58.0 million limit. Said transaction had charges thereon paid on a monthly basis, and settlement thereof took place on July 30, 2010. As a guarantee a bank surety letter from HSBC was provided.

(iii) Overdraft facilities limited to R$ 20.0 million. Nominal charges correspond to 100.0% of CDI.

(g) Bank credit note – overdraft facilities with ABN Amro Real S.A, fund raising limit was US$ 25 million, with revolving maturity every six months and interest calculated based on 100% of CDI, plus 6.50% p.a.

(h) Bank credit notes of subsidiary IESUL from Banco Citibank S.A:

(i) On July 27, 2009, subsidiary IESUL entered into a bank credit note with banco Citibank S.A. with a R$ 40.0 million limit. Said transaction had charges thereon paid on a monthly basis, and settlement thereof took place on October 13, 2010. As guarantee, a comfort letter was provided by CTEEP.

(ii) On August 4, 2010, subsidiary IESUL entered into a bank credit note with banco Citibank S.A. with a R$ 17.0 million limit. Said transaction had charges thereon paid on a monthly basis. This fund was raised in order to finance construction of the transmission lines and substation s contained in the concession agreements. As guarantee a promissory note was provided.

(i) On May 19, 2010, subsidiary IENNE entered into a R$ 220.0 million financing agreement with Banco do Nordeste do Brasil S.A., drawn down on July 20 and 30, September 3 and October 11, 2010. The amount is intended to finance approximately 40% of the Transmission Line between Colinas (Tocantins state) and São João (Piauí state) substations. Repayment will take place in 216 monthly installments as from June 2012 and, until the beginning thereof, charges will be paid on a quarterly basis. As guarantee, the Company has given bank sureties contracted effective up to July 15, 2011 from Banco Bradesco.

(In thousands of reais, unless otherwise indicated)

17. Loans and financing--Continued

Maturities of non-current portions are set out as follows:

	Company			Consolidated		
	2010	**2009**	**01.01.2009**	**2010**	**2009**	**01.01.2009**
2011	**-**	-	-	**-**	96,989	92,940
2012	**52,737**	964,997	981,306	**185,186**	1,061,081	1,074,246
2013	**-**	-	-	**132,963**	96,071	92,940
2014	**-**	-	-	**133,201**	96,074	92,940
2015	**-**	-	-	**69,183**	49,571	92,940
After 2015	**-**	-	-	**72,236**	22,492	46,586
	52,737	964,997	981,306	**592,769**	1,422,278	1,492,592

18. Debentures –Consolidated

	Maturity	**Number of debentures**	**Charges**	**2010**	**2009**	**01.01.2009**
1st series	12.15.2014	49,100	CDI + 1.3% p.a.	**490,405**	-	-
2nd series	12.15.2017	5,760	IPCA + 8.1% p.a.	**65,388**	-	-
				555,793	-	-
Current				**2,154**	-	-
Non-current				**553,639**	-	-

In December 2009, CTEEP issued 54,860 debentures amounting to R$ 548.6 million, with settlement in January 2010. The 1st series will be amortized on December 15, 2012, 2013 and 2014, and remuneration will be paid on a half-yearly basis, on June and December 15 of each year, beginning June 15, 2010.

The 2nd series will be amortized on June 15, 2014, December 15, 2015, 2016 and 2017, and remuneration will be paid on June 15, 2011, 2012, 2013 and 2014, and December 15, 2015, 2016 and 2017.

Maturities of non-current portions are set out as follows:

(In thousands of reais, unless otherwise indicated)

18. Debentures – Consolidated--Continued

	2010	2009	01.01.2009
2011	-	-	-
2012	168,092	-	-
2013	163,206	-	-
2014	176,878	-	-
2015	15,153	-	-
After 2015	30,310	-	-
	553,639	**-**	**-**

19. Taxes and social charges payable

	Company			Consolidated		
	2010	**2009**	**01.01.2009**	**2010**	**2009**	**01.01.2009**
Income tax	**304**	4,902	6,546	**46,256**	57,191	7,306
Social contribution tax				**16,633**	15,923	338
COFINS	**1,801**	2,131	2,069	**9,011**	5,740	8,196
PIS	**391**			**1,955**	782	1,329
Scholarship program(i)				**1,542**	2,195	2,786
INSS	**20**	18	18	**6,226**	4,557	2,514
ISS				**3,936**	3,847	-
Other	**17**	299	154	**5,718**	5,620	5,794
	2,533	7,350	8,787	**91,277**	95,855	28,263

(i) Refers to obligations assumed by the Company under an agreement with the labor unions for reimbursement of elementary, high school and college education costs to its employees.

(In thousands of reais, unless otherwise indicated)

20. Taxes in installments – Law No. 11941 – Consolidated

Due to completion issues, CTEEP amended its Federal Tax Debt and Credit Returns (DCTFs) for the years 2004-2007, determining tax debts related mostly to PIS and COFINS. With a view to settling its tax debt, CTEEP opted to participate in the special tax installment payment program instituted by Law No. 11941, of May 27, 2009, and paid R$ 141,162 on November 30, 2009, using the benefit of reduced fine and interest rate, totaling R$ 42,257. The remainder will be paid over 180 months beginning November 2009. Upon approval of the tax installment payment arrangement by Brazil's IRS, the Company will recognize revenue from the reduced fine and interest rate on the tax debt paid in installments amounting to R$ 19,677.

Changes for the year ended December 31, 2010 are as follows:

	Consolidated	
	2010	**2009**
Initial balance	147,738	212,097
Fine and interest on debt	-	119,054
Reduced fine and interest (Law benefits)	-	(42,257)
Monetary restatement on debt	7,580	-
Payment in cash	-	(141,156)
Payments made (*)	(1)	-
	155,317	**147,738**
Current	**10,353**	**9,853**
Non-current	**144,964**	**137,885**

(*) Until the installment payment arrangement is approved by Brazil's IRS, the monthly payment will amount to R$ 100.00 (one hundred reais).

(In thousands of reais, unless otherwise indicated)

21. Regulatory charges payable

	Consolidated		
	2010	**2009**	**01.01.2009**
Research and development (R&D)	39,114	30,709	20,363
Energy development account (CDE)	2,179	2,561	3,041
Fuel consumption bill (CCC)	3,620	2,167	2,804
Global reversion reserve (RGR)	5,629	6,630	10,732
Alternative energy source program (PROINFA)	-	-	1,774
Inspection fee (ANEEL)	48	40	619
	50,590	42,107	39,333
Current	**49,559**	40,018	36,528
Non-current	**2,174**	3,269	2,805

22. Provisions

	Company			Consolidated		
	2010	**2009**	**01.01.2009**	**2010**	**2009**	**01.01.2009**
Vacation pay and social charges	11	-	-	16,807	15,806	12,040
Profit sharing (PLR)	-	-	-	5,786	8,035	7,991
Voluntary termination program (PDV) (a)	-	-	-	87	3,649	18,304
Sundry indemnification	-	-	-		309	313
Contingencies (b)	-	-	-	161,682	167,842	170,399
	11	-	-	184,362	195,641	209,047
Current	11	-	-	22,674	27,688	34,895
Non-current	-	-	-	161,688	167,953	174,152

a) Voluntary termination program (PDV)

CTEEP, which had 2,737 employees as of October 31, 2006, approved a Voluntary Termination Program (PDV), with an adhesion period from November 21 to November 30, 2006, and obtained participation of 1,534 employees.

At December 31, 2010, the remaining balance refers to a provision for health and dental care assistance to which terminated employees are entitled to receive 36 months after termination of their contracts.

(In thousands of reais, unless otherwise indicated)

22. Provisions--Continued

b) <u>Provision for contingencies – Consolidated</u>

Contingencies are assessed and classified on a quarterly basis as regards the likelihood of an unfavorable outcome for CTEEP, as follows:

	Consolidated		
	2010	**2009**	**01.01.2009**
Labor (i)	**145,993**	147,344	139,917
Civil	**3,844**	3,219	2,741
Tax – IPTU (ii)	**7,527**	8,239	16,677
Social security – INSS (iii)	**3,635**	5,398	8,197
ANEEL (iv)	**683**	3,642	2,867
	161,682	167,842	170,399

Judicial deposits are recorded as non-current assets, under “Pledges and restricted deposits”.

CTEEP is party to tax, labor and civil lawsuits, whose favorable outcomes are rated as probable by management, based on an assessment of its legal advisors, in the estimated amount of R$ 101,252 (R$ 89,385 at December 31, 2009), consisting mainly of labor claims, for which no provisions have been set up.

(i) *Labor*

CTEEP assumed responsibility for certain lawsuits at different courts, mainly arising from the partial spin-off of CESP and EPTE.

(ii) *Tax – Municipal Real Estate Tax (IPTU)*

CTEEP recognizes a provision to cover debts with several City Governments in the State of São Paulo, related to proceedings for rectification of areas amounting to R$ 7.527.

22. Provisions--Continued

b) Provision for contingencies – Consolidated

(iii) *Social security - INSS*

On August 10, 2001, the National Institute of Social Security (INSS) served CTEEP a delinquency notice for non-payment of social security tax on compensation paid to its employees in the form of meal tickets, morning snack and basket of food staples for the period from April 1999 to July 2001. Management began the defense procedures by making a judicial deposit amounting to R$ 8,243, recorded in non-current assets, under "Pledges and restricted deposits". In January 2010, an unfavorable final decision was handed regarding the meal tickets, morning snack and part of the basket of food staples. Consequently, the portion corresponding to the judicial deposits amounting to R$ 5,498 was reversed to the Federal Government and written off against P&L, considering that a provision had not been recorded for this contingency.

(iv) *ANEEL*

CTEEP was notified by ANEEL for not meeting the deadline for installation of the 3rd bank of transformers 345/88 kV of Baixada Santista substation, authorized by ANEEL Resolution No. 197 of May 4, 2004, with fine amounting to R$ 1,981, and for the non-compliance with the deadline for the start-up of the 345 kV Guarulhos – Anhanguera Transmission Line, authorized by ANEEL Resolution No. 064/2005 of January 31, 2005, with fine amounting to R$ 886, totaling R$ 2,867. At June 30, 2010, the provision was charged against P&L.

In addition, CTEEP records a provision for loss of suit expenses relating to ANEEL violation notice No. 001/1999-SFE, which imposed fine for interruption of electric energy transmission and distribution in a large part of the Southeast, South and Middle West regions, alleging the following violations: a) obstruction of the inspection work; b) non-compliance with the inspection report requirements; and c) non-compliance with the legal duty of rendering proper service.

23. Payables – Fundação CESP

CTEEP sponsors supplementary pension and health care plans maintained with Fundação CESP.

a) Plan "A" - supplementary pension plan

Regulated by State Law No. 4819/58, applied to employees hired up to May 13, 1974, it establishes supplementary pension plan benefits, additional leave entitlements and family allowance. Funds required to cover liabilities assumed in this plan are full responsibility of the applicable São Paulo State authorities, and therefore, with no risk and additional cost to CTEEP (Note 36).

b) Plan "B" and "B1" - supplementary pension plans

Plans "B" and "B1", regulated by Law No. 6435/77 and managed by Fundação CESP, are sponsored by CTEEP, providing supplementary pension plan benefits, the reserves of which are established under the fully-funded system.

Plan "B" refers to Vested Supplementary Benefit Payout (BSPS), calculated at December 31, 1997 (CTEEP) and March 31, 1998 (EPTE), in accordance with current regulations, and its asset-liability matching was duly adjusted at the time. CTEEP is fully liable for the annual actuarial result of this plan (deficit or surplus).

On January 1, 1998 (CTEEP) and April 1, 1998 (EPTE), CTEEP implemented Plan "B1", which defines contributions and related matching responsibilities between CTEEP and the participants, so as to ensure the plan's appropriate asset-liability management. This plan provides pension benefits to employees, former employees and related beneficiaries, in order to supplement the benefits provided by the official Social Security system. The main characteristic is the mixed model, composed of 70% as Defined Benefit (DB) and 30% as Defined Contribution (DC). At the date of retirement the Benefit Plan of Defined Contribution (DC) becomes Defined Benefit (DB).

c) Plan PSAP - Transmissão Paulista

On January 1, 2004, the plans sponsored by CTEEP, as well as those of the extinguished EPTE, were merged financially, and the individual characteristics of the related plans maintained, thus forming the PSAP Plan - Transmissão Paulista.

(In thousands of reais, unless otherwise indicated)

23. Payables – Fundação CESP--Continued

d) Actuarial assessment

The projected unit credit method was adopted in the actuarial assessment prepared by an independent actuary for the private pension plan PSAP sponsored by CTEEP. Key economic and financial information, pursuant to CPC 33 and CVM Rule No. 600, based on actuary reports, is as follows:

(i) *Reconciliation of assets and liabilities - Subsidiary*

	2010	2009	01.01.2009
Fair value of the asset	**2,515,067**	2,001,707	1,790,191
Present value of defined benefit obligation	**(1,800,653)**	(1,628,613)	(1,517,603)
Restricted recognition of the asset	**(714,414)**	(373,094)	(272,588)
Net liabilities	**-**	-	-

(ii) *Changes in plan assets - Subsidiary*

	2010	2009	01.01.2009
Fair value of assets at beginning of year	**2,001,707**	1,790,191	1,774,274
Employer contribution	**2,128**	1,782	1,697
Employee contribution	**2,707**	2,658	2,651
Investment returns	**612,858**	304,884	113,516
Benefits paid	**(104,333)**	(97,808)	(101,947)
Fair value of assets at end of year	**2,515,067**	2,001,707	1,790,191

(iii) *Changes in actuarial liabilities - Subsidiary*

	2010	2009	01.01.2009
Net present value of the actuarial obligation at beginning of year	1,628,613	1,517,603	1,506,892
Costs of current services	(200)	(397)	4,880
Costs of interest	178,110	162,154	154,306
Participant contributions	2,707	2,658	2,651
Actuarial gains/losses	95,756	44,403	(49,179)
Benefits paid	(104,333)	(97,808)	(101,947)
Net present value of the actuarial obligation at end of year	**1,800,653**	**1,628,613**	**1,517,603**

(In thousands of reais, unless otherwise indicated)

23. Payables – Fundação CESP--Continued

d) Actuarial assessment--Continued

(iv) *Plan participants - Subsidiary*

	2010	2009	01.01.2009
Active	**1,446**	1,458	1,403
Inactive			
Retired employees	**1,852**	1,774	1,719
Disability retirement	**40**	34	31
Pensioner	**85**	79	74
	1,977	1,887	1,824
	3,423	3,345	3,227

(v) *Actuarial assumptions used - Subsidiary*

	2010	2009	01.01.2009
Actuarial liability discount-to-present value rate	10.75%	11.25%	11.00%
Expected rate of return on plan assets	**12.00%**	11.50%	11.50%
Future salary increase rate	**7.64%**	7.64%	7.12%
Annuity benefit payouts adjustment index	**4.50%**	4.50%	4.00%
Mortality table	**AT-83**	AT-83	AT-83
Disability table	**Light-Medium**	Light-Medium	Light-Medium
Disable mortality table	**AT-49**	AT-49	AT-49

24. Special obligations – Reversion/Amortization – Consolidated

Refers to funds arising from the reversion reserve, amortization and portion held at the CTEEP, of the monthly shares of the Global Reversion Reserve (RGR), related to investments of funds for expansion of the electric public utility and amortization of loans obtained for the same purpose, occurred up to December 31, 1971. The manner for the settlement of these liabilities has not been defined by the Granting Authority.

25. Equity

a) Capital

The Company was organized on April 28, 2006, as a limited liability company. On September 19, 2006, the Company became a corporation.

On March 9 and 19, 2010, the Company increased capital twice by issuing preferred shares redeemable R$ 2.020731 each, fully subscribed and paid-in by HSBC Finance (Brazil) S.A. Multiple Bank, as follows:

(i) In the Special Shareholders' Meeting held on March 9, 2010, under the terms of Board of Directors' proposal dated March 8, 2010, Company's capital increase of R$ 840,000 was approved, of which R$ 420 was allocated to capital and R$ 839,580 allocated to capital reserve, through creation and issue of 415,691,162 redeemable preferred shares distributed into 13 classes, entitled to fixed cumulative dividends, which were subscribed and paid-in on the same date. Therefore, Company's capital increased from R$ 839,778 to R$840,198, comprising 1,256,316,162 shares. In the same meeting, mandatory dividend reduction from 25% to 1% and Company's by-laws amendment were approved; and

(ii) The Company's Board of Directors, in meeting held on March 19, 2010, approved an additional capital increase, within its authorized capital, through issue of 178,153,342 redeemable preferred shares, distributed into 13 classes, entitled to fixed cumulative dividends, amounting to R$ 360,000, which was subscribed and paid-in on the same date, of which R$ 180 was allocated to capital and R$ 359,820 allocated to Company's capital reserve. Therefore, Company's capital increased from R$ 840,198 to 840,378, comprising 1,434,469,504 shares.

Later, on May 147, 2010, HSBC Finance (Brazil) S.A. Multiple Bank, then holder of 593,844,504 preferred shares issued by the Company, sold 50% thereof to Banco Votorantim S.A.

(In thousands of reais, unless otherwise indicated)

25. Equity--Continued

a) Capital--Continued

Accordingly, at December 31, 2010, Company's subscribed and paid-in capital amounted to R$ 840,378 (R$ 839,778 at December 31, 2009), comprising 840,625,000 common shares and 593,844,504 preferred shares, distributed as follows:

Shareholders	Number of common shares	Number of preferred shares	Total
Interconexión Eléctrica S.A ESP	840,624,995	0	840,624,995
Luís Fernando Alarcón Mantilla	1	0	1
Fernando Augusto Rojas Pinto	1	0	1
Guido Alberto Nule Amin	1	0	1
Ana Mercedez Villegas Mejía	1	0	1
Alfonso Camilo Barco Muñoz	1	0	1
HSBC Finance (Brasil) S.A. Banco Múltiplo	0	296,922,252	296,922,252
Banco Votorantim	0	296,922,252	296,922,252
Total	**840,625,000**	**593,844,504**	**1,434,469,504**

As set forth in the Company's articles of incorporation, shareholders are entitled to annual dividends, calculated at 1% of net income, after 5% deduction for legal reserve establishment, limited to 20% of capital, in accordance with Brazilian Corporation Law requirements.

The Company recorded loss at end of 2010, and therefore no income allocation was proposed.

b) Capital reserves

After the abovementioned decisions, dated March 9 and 19, 2010, the Company's capital reserve account amounted to approximately R$ 1,199,400 as of December 31, 2010. As previously scheduled, this amount will be used to redeem redeemable shares distributed into 13 classes and, as established in shareholders' agreement and Brazilian Corporation Law (Law No. 6404/76), as amended, may also be used to pay dividends to which redeemable preferred shares are entitled.

(In thousands of reais, unless otherwise indicated)

25. Equity--Continued

c) Income reserves

	2010	2009	01.01.2009
Legal reserves (i)	**5,881**	5,881	2,346
Reserve for retained profit (ii)	**48,230**	152,764	72,832
	54,111	158,645	75,178

(i) *Legal reserve*

This is established at 5% of net income, limited to 20% of capital, before any allocations.

(ii) *Reserve for retained profit*

At December 31, 2010, the Company computed R$ 104,534 loss for the year, which partially absorbed the R$ 152,764 retained profit balance. This resulted in retained earnings amounting to R$ 48,230. This balance was allocated to retained profit reserve account and will be used to pay dividends to redeemable preferred shares under the Company's articles of incorporation.

d) Earnings per share

Based on the R$ 104,534 loss computed for the year, no earnings per share were calculated.

(In thousands of reais, unless otherwise indicated)

26. Net operating revenue – Consolidated

26.1 Breakdown of net operating revenue – Consolidated

	Consolidated	
	2010	**2009**
Gross revenue		
Construction (a)	**693,803**	565,468
Operating and maintenance (a)	**442,469**	500,001
Financial (b)	**1,398,245**	1,371,068
Rent	**12,797**	12,340
Services rendered	**4,229**	6,934
Total gross revenue	**2,551,543**	2,455,811
Taxes on gross revenue		
COFINS	**(128,896)**	(118,866)
PIS	**(27,967)**	(25,787)
ISS	**(212)**	(368)
	(157,075)	(145,021)
Regulatory charges		
Fuel consumption bill (CCC)	**(32,524)**	(31,578)
Energy development account (CDE)	**(27,197)**	(35,396)
Global reversion reserve (RGR)	**(46,972)**	(48,312)
Research and development (R&D)	**(16,202)**	(27,720)
Alternative energy source program (PROINFA)	**(15,287)**	(18,772)
	(138,182)	(161,778)
	2,256,286	2,149,012

(a) Construction, operating and maintenance services

Revenue related to construction or improvement services under the utility concession agreement is recognized based on percentage of work completion. Operating and maintenance service revenues are recognized for the period for which the services are rendered by CTEEP. When CTEEP renders more than one service under a utility concession agreement, revenue received is allocated in reference to fair value related to services delivered.

(b) Financial income

Financial income is recognized when future economic benefits are likely to be generated for CTEEP and amounts can be reliably measured. Interest income is recognized by the straight-line method based on time and effective interest rate on the outstanding principal, and the effective interest rate discounting exactly estimated future cash flow receipts over the financial asset estimated life vis-à-vis initial net book value of this asset.

26. Net operating revenue – Consolidated--Continued

26.2 Annual Revenue Allowed (RAP) of Miguel Reale substation

In December 2002, ANEEL authorized CTEEP to implement the “Expansion of Miguel Reale Substation” project, whose investment used for RAP portion calculation amounted to R$ 323,236.

In September 2004, ANEEL performed an inspection in order to validate the investments made in said project and concluded that the investment amounts should be reduced, for purposes of setting a new RAP amount, retroactively to July 2004, by R$ 232,164.

Due to the reduction in the investments in said project, the related annual amount of the RAP beginning July 2005 was then reduced by R$ 32,251. CTEEP considers this reduction invalid and filed with ANEEL Official Circular OF/F No. 2828, of July 8, 2005, requesting its recomposition.

On March 2, 2006, through Official Circular No. 321/2006 – ANEEL’s Economic and Financial Oversight Authority (SFF/ANEEL) issued its Inspection Monitoring Report (RAF) that assessed CTEEP’s claim and upheld the SFF’s original position.

On March 23, 2006, through Official Circular OF/F/1372/2006, CTEEP presented an appeal to ANEEL requesting a review of the position taken by the SFF.

Through Technical Note No. 130/2010 - SRE/ANEEL, of April 23, 2010, ANEEL maintained the amounts contained in Inspection Report No. 202/2004 - SFF/ANEEL, and reached a decision, unappealable at the administrative level, that CTEEP claim is not to be accepted.

26.3 Periodic review of Annual Revenue Allowed (RAP)

In accordance with Concession Agreement No. 59, executed with the Federal Government on June 20, 2001 as intermediated by ANEEL, every four years from the execution date, ANEEL will periodically review the Annual Revenue Allowed (RAP) of electric transmission related to the installations of authorized projects whose business operations commenced after December 31, 1999, for the purpose of promoting efficiency and reasonable rates.

26. Net operating revenue – Consolidated--Continued

26.3 Periodic review of Annual Revenue Allowed (RAP)--Continued

The review comprises revenue repositioning by determining:

a) the basis for regulatory remuneration to the Base Network - New Facilities (RBNI);
b) efficient operating costs;
c) the optimal capital structure and the transmission companies' remuneration; and
d) the amount to be deemed as tariff reducing component – Other Revenues.

- First periodic tariff review cycle

  Through Resolution No. 488 of June 26, 2007, the result of the first periodic rate review of CTEEP was approved, reducing the new Annual Revenue Allowed (RAP) by 26.15%, to be applied to the Base Network - New Facilities (RBNI) and Other Facilities - New Investments (RCDM) portions effective on July 1, 2005.

  The effects of this rate recomposition were backdated to July 1, 2005. The difference in the amounts collected from July 2005 to June 30, 2007, amounting to R$ 66,688, is being offset in 24 (twenty-four) months by means of the contractual instrument of an adjustment portion.

- Second periodic tariff review cycle

  The periodic tariff review as contractually provided for in July 2009 was postponed to July 2010. On December 21, 2009 ANEEL published Regulatory Resolution No. 386, which establishes overall concepts, related methodologies and procedures applicable to the Second Periodic Tariff Review Cycle – RTP of electric transmission public utility.

  As set forth by article 6 of Regulatory Resolution No. 386/09, the tariff review results will be effective from July 1, 2009 onwards. Taking into consideration this retroactive review and the capital cost reduction from 9.18% to 7.24% in this second cycle, the financial statements recognize a reduction in revenues by R$ 82.086, matched against current liabilities adjustment portion, as follows:

(In thousands of reais, unless otherwise indicated)

26. Net operating revenue – Consolidated--Continued

26.3 Periodic review of Annual Revenue Allowed (RAP)--Continued

4th quarter 2009	42,554
1st quarter 2010	21,277
2nd quarter 2010	18,255
	82,086

The second Periodic Tariff Review cycle was approved by ANEEL Resolution No. 994 of June 8, 2010, and CTEEP tariff repositioning was reduced by 20.4%, to be applied on RBNI and RCDM portion effective on June 1, 2009.

Given the new revenue retroactive effects, R$ 82,086 over-collected from July 1, 2009 to June 30, 2010, will be paid back in 12 monthly installments, through contractual adjustment portion.

26.4 Variable Deduction (PV) and Additional to RAP

Regulatory Resolution No. 270, of July 9, 2007, regulates Variable Deduction (PV) and additional to RAP. PV is the discount in RAP of transmission companies due to the unavailability or operating restrictions of Base Network facilities. Additional to RAP corresponds to the amount to added to transmission companies' revenue as an incentive to improve availability of transmission facilities. These are recognized as operating and maintenance revenue for the period the occur.

26.5 Annual revenue adjustment

On June 29, 2010, Authorizing Resolution No. 1021 was issued and established CTEEP's annual revenue allowed from the provision of base network and other transmission facilities for the twelve-month cycle comprising the period from July 1, 2010 to June 30, 2011.

In accordance with this Resolution, CTEEP's annual revenue allowed (RAP) that was R$ 1,829,752 on July 1, 2009, decreased to R$ 1,760,758 on July 1, 2010, a reduction of R$ 68,994, or 3.8%.

(In thousands of reais, unless otherwise indicated)

26. Net operating revenue – Consolidated--Continued

26.5 Annual revenue adjustment--Continued

Breakdown of CTEEP revenue effective from July 1, 2010 to June 30, 2011 is as follows:

	Concession agreement		
	059	143	Total
Base network			
Existing assets	1,131,045	-	1,131,045
New investments	286,255	-	286,255
Bidded	-	14,507	14,507
Annual revenue adjustment	(77,165)	(123)	(77,288)
	1,340,135	14,384	1,354,519
Other transmission facilities – DIT			
Existing assets	327,375	-	327,375
New investments	77,865	-	77,865
Annual revenue adjustment	999	-	999
	406,239	-	406,239
	1,746,374	**14,384**	**1,760,758**

27. Costs of operating and maintenance services and G&A expenses

	Company			Consolidated			
	2010		2009	2010			2009
	Expenses	Total	Total	Costs	Expenses	Total	Total
Personnel	**(1,713)**	**(1,713)**	(1,562)	**(163,564)**	**(39,741)**	**(203,305)**	(186,932)
Services	**(2,940)**	**(2,940)**	(2,868)	**(341,022)**	**(42,265)**	**(383,287)**	(352,732)
Depreciation	**(11)**	**(11)**	(11)	**-**	**(6,058)**	**(6,058)**	(4,724)
Materials	**-**	**-**	-	**(423,459)**	**(2,320)**	**(425,779)**	(332,887)
Leases and rental	**(249)**	**(249)**	(200)	**(6,933)**	**(3,977)**	**(10,910)**	(9,177)
Contingencies	**-**	**-**	-	**-**	**(31,522)**	**(31,522)**	(24,878)
Amortization of prepaid expenses	**(12,752)**	**(12,752)**	(2,871)	**-**	**(12,752)**	**(12,752)**	(2,871)
Other	**(95)**	**(95)**	(175)	**(13,292)**	**(16,723)**	**(30,015)**	(31,481)
	(17,760)	**(17,760)**	(7,687)	**(948,270)**	**(155,358)**	**(1,103,628)**	(945,682)

(In thousands of reais, unless otherwise indicated)

28. Financial income (expenses)

	Company		Consolidated	
	2010	**2009**	**2010**	**2009**
Revenues				
Short-term investment income	**13,572**	549	**41,809**	15,952
Adjustment to market value – debt (bonds)	**230,986**	173,676	**230,986**	173,676
Interest receivable	**1,502**	4,291	**10,953**	107,292
Interest on equity capital	**94,546**	93,933	**-**	
Interest Selic income tax (IR) recoverable	**2,440**		**2,440**	-
Monetary variation		-	**8,382**	36,832
Financial income – REDI project	**4,329**		**4,329**	-
Other		-	**1,151**	791
	347,375	272,449	**300,050**	334,543
Expenses				
Interest on equity capital	**-**	-	**(157,047)**	(156,677)
Interest payable	**(18,449)**	(93,835)	**(100,031)**	(230,109)
Charges on promissory notes	**-**	-	**(7,911)**	(34,496)
Charges on debentures	**-**	-	**(57,686)**	-
Withholding income tax (IRRF) on remittance of interest	**(2,867)**	(12,571)	**(2867)**	(12,571)
PIS on interest on equity capital	**(1,560)**	(1,550)	**(1,560)**	(1,550)
COFINS on interest on equity capital	**(7,186)**	(7,139)	**(7,186)**	(7,139)
Adjustment to market value – debt (bonds)	**(228,599)**	(173,676)	**(228,599)**	(173,676)
Monetary variation	**(23,995)**	(34,735)	**(23,995)**	(34,735)
Hedge operations	**(23,764)**	(21,384)	**(23,764)**	(21,384)
Financial expenses – REDI project	**(280,161)**	-	**(280,161)**	-
Consent Solicitation - Bonds premium		(7,390)		(7,390)
Other	**(148)**	(1,336)	**(5,222)**	(7,704)
	(586,729)	(353,616)	**(896,029)**	(687,431)
	(239,354)	(81,167)	**(595,979)**	(352,888)

29. Other operating revenues (expenses) - Consolidated

	Company		Consolidated	
	2010	**2009**	**2010**	**2009**
Revenues				
Indemnification of contingent events			**1,214**	-
Sale of land			**1,659**	-
Other			**3,157**	282
	-	-	**6,030**	282
Expenses				
Amortization of goodwill	**(55,968)**	(55,968)	**(84,800)**	(84,800)
Loss on joint venture variation			**(160)**	-
Provision for losses			**-**	(18,292)
Other			**(878)**	(1,304)
	(55,968)	(55,968)	**(85,838)**	(104,396)
	(55,968)	(55,968)	**(79,808)**	(104,114)

(In thousands of reais, unless otherwise indicated)

30. Income and social contribution taxes

Company

The Company has determined tax losses and has not recognized deferred income tax and social contribution on such losses.

Consolidated

CTEEP records monthly provisions for income and social contribution taxes on an accrual basis.

Because of the Transition Tax Regime (RTT), only CTEEP is stating P&L for tax purposes. Taxes are calculated under the taxable profit regime.

Income and social contribution tax expenses for the year may be reconciled to book income, as follows:

	Consolidated	
	2010	**2009**
Income before income and social contribution taxes	**473,700**	746,328
RTT-related adjustments		
Concession agreements - ICPC 01		
Subsidiary CTEEP	**(27,675)**	(110,428)
CTEEP subsidiaries	**(12,213)**	(4,707)
Retirement and private pension plans – CPC 33	**13,601**	54,902
Discount – CPC 09	**16,985**	16,985
Costs of bond issue - CPC 08	**(3,649)**	1,174
	460,749	704,254
Rates	**34%**	34%
Expected income and social contribution tax expenses	**(156,654)**	(239,446)
Income and social contribution taxes on:		
Company's P&L, net of equity pickup gains	**(107,527)**	(49,240)
Subsidiary's permanent differences	**34,805**	8,901
Effective income and social contribution tax expenses	**(229,376)**	(279,785)
Income and social contribution tax expenses		
Current	**(222,630)**	(278,654)
Deferred	**(6,746)**	(1,131)
	(229,376)	(279,785)

(In thousands of reais, unless otherwise indicated)

30. Income and social contribution taxes--Continued

Consolidated--Continued

The rate used in the abovementioned 2010 and 2009 reconciliations is 34%, payable by legal entities in Brazil on taxable profit, as set forth in this jurisdiction tax legislation.

Breakdown of deferred income and social contribution tax assets and liabilities is as follows:

	Consolidated		
Assets / (liabilities)	**2010**	**2009**	**01.01.2009**
Provision for contingencies	**55,307**	56,091	58,529
Concession agreement	**(56,307)**	(40,605)	(637)
Retirement and private pension plans	**-**	(4,624)	(23,291)
Other	**19,698**	14,498	(8,113)
Net	**18,698**	25,360	26,488
Assets	**28,050**	28,420	27,125
Liabilities	**9,352**	3,060	637

(In thousands of reais, unless otherwise indicated)

31. Related-party transactions

Key related-party transactions and balances for the year are as follows:

		2010			2009		
Relate party	**Type of operation**	**Assets**	**Liabilities**	**Income/ (expenses)**	**Assets**	**Liabilities**	**Income/ (expenses)**
Company							
Management key personnel	Short-term benefits	**-**	**-**	**(1551)**	-	-	(1,222)
CTEEP	Sublease	**-**	**(39)**	**(249)**		(15)	(200)
CTEEP	Provision of services	**-**	**(7)**	**(86)**	-	-	(83)
ISA	Loan	**39,663**	**-**	**3,309**	41,448	-	12,421
Consolidated							
Management key personnel	Short-term benefits	**-**	**-**	**(7,517)**		-	(9,211)
ISA	Loans	**39,663**	**-**	**3,309**	41,448	-	12,421

The Company's compensation policy does not provide for any post-employment benefits, other long-term benefits, employment termination benefits or share-based payments.

The sublease agreement comprises the area occupied by the Company at CTEEP's main building, as well as the apportionment of condominium and maintenance expenses, among others.

In 2008, a service agreement was entered into with CTEEP including, among others, delivery of bookkeeping, tax calculation and payroll processing services.

These operations were carried out on an arm's length basis.

(In thousands of reais, unless otherwise indicated)

32. Financial instruments

Company

Derivative financial instruments (Swap) used by the Company solely and exclusively to hedge against currency risk of foreign currency debt in connection with the issue of bonds were settled in March 2010 for R$ 182,390 (R$ 108,102 at December 31, 2009), given the aforementioned debt restructure, as mentioned in Note 17 (a.ii).

Consolidated

a) *Identification and measurement of financial instruments*

	Company			**Consolidated**		
	2010	**2009 (Restated)**	**01.01.2009 (Restated)**	**2010**	**2009 (Restated)**	**01.01.2009 (Restated)**
Financial assets						
Fair value through P&L						
Cash and cash equivalents	**257,261**	30,004	1,593	**312,243**	73,238	124,617
Lending and receivables						
Accounts receivable						
Current	**-**	-	-	**1,424,390**	1,430,606	1,343,671
Non-current				**4,225,309**	3,656,679	3,243,022
Receivables from State Finance Department						
Current	**-**	-	-	**22,938**	19,439	19,786
Non-current	**-**	-	-	**681,129**	557,027	454,639
Loans receivable						
Non-current	**39,663**	41,448	64,131	**39,663**	41,448	64,131
Receivables from subsidiaries	**65,844**	-	-	**-**	-	-
Pledges and restricted deposits						
Current	**2,320**	40,857	55,209	**2,320**	40,857	55,209
Non-current	**-**	-	-	**42,248**	43,946	51,860
Financial liabilities						
Amortized cost						
Loans and financing						
Current	**1,934**	52,819	105,777	**334,347**	644,948	451,279
Non-current	**52,737**	964,997	981,306	**592,769**	1,422,278	1,492,592
Debentures						
Current	**-**	-	-	**2,154**	-	-
Non-current	**-**	-	-	**553,639**	-	-
Trade accounts payable	**148**	252	219	**94,064**	71,043	36,497
Interest on equity capital and dividends payable	**-**	-	-	**127,978**	6,116	4,882

32. Financial instruments--Continued

Consolidated--Continued

a) *Identification and measurement of financial instruments*--Continued

Book value of financial assets and liabilities are close to their *corresponding market values*, in comparison to those amounts that could be obtained had such instruments been negotiated in an active market or, in lack thereof, at present value adjusted at the interest rate prevailing in the market.

b) *Financing*

Book value rates of loans, financing and debentures are pegged to foreign exchange variation, variation of TJLP, CDI and IPCA and are close to market value.

(In thousands of reais, unless otherwise indicated)

32. Financial instruments--Continued

<u>Consolidated</u>--Continued

b) *Financing*--Continued

- Debt-to-equity ratio

Debt-to-equity ratio at the end of the period was as follows:

	Company			Consolidated		
	2010	2009 (Restated)	01.01.2009 (Restated)	2010	2009 (Restated)	01.01.2009 (Restated)
Loans and financing						
Current	**1,934**	52,819	105,777	**334,347**	644,948	451,279
Non-current	**52,737**	964,997	981,306	**592,769**	1,422,278	1,492,592
Debentures						
Current	**-**	-	-	**2,154**	-	-
Non-current	**-**	-	-	**553,639**	-	-
Payables – Law No. 4819/58 – State Finance Department						
Current	**8,423**	6,891	6,153	**8,423**	6,891	6,153
Non-current	**215,498**	210,522	206,127	**215,498**	210,522	206,127
Payables – Law No. 4819/58 - OPA						
Current	**4,946**	4,322	3,840	**4,946**	4,322	3,840
Non-current	**135,456**	131,999	129,263	**135,456**	131,999	129,263
Total debt (i)	**418,994**	1,371,550	1,432,466	**1,847,232**	2,420,960	2,289,254
Cash and cash equivalents	**257,261**	30,004	1,593	**312,244**	73,238	124,617
Net debt	**161,733**	1,341,546	1,430,873	**1,534,988**	2,347,722	2,164,637
Equity (ii)	**2,093,889**	998,423	914,956	**2,093,889**	998,723	914,956
Net debt-to-equity	**7.72%**	134.37%	156.39%	**73.31%**	235.14%	236.56%

32. Financial instruments--Continued

Consolidated--Continued

c) *Risk management*

The main risk factors inherent in the operations of the Company and CTEEP may be identified as follows:

(i) *Credit risk* - CTEEP has agreements with the National Electric System Operator (ONS), concessionaires and other agents for regulating the provision of services related to the base network for 216 users, with a bank guarantee clause. Likewise, the Company has agreements regulating the provision of services in other transmission facilities – DIT with 30 concessionaires and other agents, also with a bank guarantee clause.

(ii) *Price risk* - Pursuant to the concession agreement, CTEEP's revenues are annually adjusted by ANEEL based on the variation of the General Market Price Index (IGP-M), and part of the revenues is subject to periodic review every four years (Note 26 (a)).

(iii) *Interest rate risk* – Financing agreements are restated based on TJLP, IPCA and CDI variation (Notes 17 and 18).

(iv) *Currency risk* – The Company has receivables and one accounts payable transaction in foreign currencies. Its exposure to foreign exchange fluctuation effects is immaterial.

(v) *Fund-raising risk* – CTEEP may face difficulties in the future regarding fund raising with costs and terms adjusted to its cash generating profile and/or its debt repayment obligations.

(vi) *Insurance risk* – CTEEP takes out insurance against operating and civil liability risks for its substations. However, given the difficulty in finding insurance companies willing to provide insurance coverage against any losses for transmission line damages, if any, arising from fire, lightning, explosions, short circuits and energy interruptions, such risks are not insured. Thus, any damages to transmission lines may result in significant additional costs and investments.

(In thousands of reais, unless otherwise indicated)

32. Financial instruments--Continued

Consolidated--Continued

c) Risk management--Continued

(vii) *Liquidity risk* – CTEEP's main source of cash lies in its operations, especially the use of energy transmission system by other concessionaires and industry agents. Its annual amount, represented by Annual Revenue Allowed (RAP) related to the base network facilities and Other Transmission Facilities (DIT), is defined by ANEEL under prevailing legislation terms. CTEEP manages liquidity risk by maintaining bank credit lines and credit lines to take out loans it deems required, by monitoring its expected and actual cash flows on an ongoing basis, and by combining financial asset and liability maturity profiles.

CTEEP management does not believe its exposure to the abovementioned risks is significant and, therefore, it has not presented a sensitivity analysis statement chart.

33. Commitments assumed – operating lease agreements - Consolidated

Key commitments assumed by CTEEP are related to operating lease agreements for vehicles and IT equipment, whose minimum future payments, total and for each period, are stated below:

	2010	2009
Up to one year	3,133	3,876
From one to five years	3,411	1,243
	6,544	**5,119**

Lease agreements involving the CTEEP as the leaseholder refer to sublease agreements with its parent company and subsidiaries, and are disclosed in Note 31 – related-party transactions.

(In thousands of reais, unless otherwise indicated)

34. Insurance - Consolidated

The specification by type of risk of CTEEP insurance is as follows:

Type	Period (dd/mm/yy)	Insured amount - R$ thousand	Premium - R$ thousand
Assets	01/09/10 to 01/09/11	2,211,112	2,754
Civil liability	01/09/10 to 01/09/11	20,000	249
National transport	30/09/10 to 30/09/11	44,830	5
Collective personal accidents	01/05/10 to 01/05/11	17,528	1
Vehicles	02/03/10 to 02/03/11	Market value	79
			3,088

a) Assets - Coverage against fire and electrical damage for key equipment installed in the transmission substations, buildings and their related contents, storage rooms and facilities, pursuant to Concession Agreement No. 059/2001, clause four, sub-clause eight, item II, letter D, whereby the transmission company must maintain insurance policies to ensure adequate coverage of the most important equipment in the transmission system facilities. It is incumbent upon the transmission company to define the assets and facilities to be insured.

b) Civil liability - Coverage of the repairs for involuntary damage, personal and/or material, to third parties as a consequence of the Company's operations.

c) National transport - Coverage of damage caused to CTEEP assets and equipment, transported within Brazil.

d) Collective personal accidents - Coverage against personal accidents to executives, interns and trainees.

e) Vehicles - Coverage against collision, fire, theft and third parties.

Given the nature of assumptions adopted to take out insurance coverage, these are not part of the financial statement audit scope. As a result, these were not reviewed by our independent auditors.

35. Collection lawsuit by Eletrobras against Eletropaulo and EPTE

In 1989, Centrais Elétricas Brasileiras S.A. - ELETROBRÁS filed a collection lawsuit against Eletropaulo - Eletricidade de São Paulo S.A. (currently Eletropaulo Metropolitana Eletricidade de São Paulo S.A. - "Eletropaulo") referring to the balance of a certain financing agreement. Eletropaulo did not agree with the criteria for monetarily adjusting said financing agreement and made escrow deposits for the amounts it understood to be due to ELETROBRÁS. In 1999 a judgment was issued on the aforementioned lawsuit, ordering Eletropaulo to pay the balance determined by ELETROBRÁS.

Under the partial spin-off explanatory record of Eletropaulo, made on December 31, 1997 and that resulted in the establishment of EPTE - Empresa Paulista de Transmissão de Energia Elétrica S.A. and other companies, Eletropaulo is solely liable for obligations of any kind referring to acts until the spin-off date, except for contingent liabilities whose provisions had been allocated to the acquirers. In the case in question, at the time of the spin-off, there was no allocation to EPTE of any provision for such purpose, leaving it clear to CTEEP management and its legal advisors that Eletropaulo was exclusively liable for said contingency. At the time of the spin-off there was only the transfer to EPTE assets of an escrow deposit in the historical amount of R$ 4.00, made in 1988 by Eletropaulo, corresponding to the amount that it understood to be owed to ELETROBRÁS regarding the balance of the aforementioned financing agreement, and allocation to EPTE's liabilities of the same amount referring to this debt.

Therefore, under the partial spin-off explanatory record of Eletropaulo, EPTE would be responsible for the transferred asset and Eletropaulo would be liable for the contingent liabilities referring to the difference between the amount demanded in court by ELETROBRÁS. In October 2001, ELETROBRÁS executed the sentence referring to the financing agreement, charging R$ 429 million to Eletropaulo and R$ 49 million to EPTE, on the understanding that EPTE would pay its part with the adjusted amounts of the escrow deposit. CTEEP merged EPTE on November 10, 2001, succeeding it in its rights and obligations.

On September 26, 2003 a decision of the Court of Justice of the State of Rio de Janeiro was published, excluding Eletropaulo from the execution of the aforementioned sentence. Due to these facts, ELETROBRÁS filed, on December 16, 2003, an Appeal to the Higher Court of Justice (STJ) and another one to the Federal Supreme Court (STF) to maintain the collection regarding Eletropaulo. Appeals similar to those of ELETROBRÁS were lodged by CTEEP.

35. Collection lawsuit by Eletrobras against Eletropaulo and EPTE--Continued

On June 29, 2006, the STJ accepted the appeal filed by CTEEP, with respect to reversing the decision of the Court of Justice of the State of Rio de Janeiro that had excluded Eletropaulo from the execution action filed by ELETROBRÁS.

Due to said acceptance by the STJ, on December 4, 2006 Eletropaulo filed a request for amendment of judgment, which was rejected, according to the decision published on April 16, 2007, as well as the Appeals to the STJ and the STF, which sustained the decision of the Higher Court of Justice, and which final and unappealable sentence was rendered on October 30, 2008. In view of these decisions, which understood that challenges prior to procedure to determine grounds for execution provided by Eletropaulo where not to considered, the execution of the decision filed by ELETROBRÁS follows its normal course as proposed.

With a view to requiring probative continuance to evidence the effective liability under said partial spin-off explanatory record , CTEEP proposed a declaratory judgment action in view of the other parties concerned in the collection lawsuit.

With respect to that debt and in view of the formal documents of the partial spin-off of Eletropaulo, CTEEP, according to the understanding of its management and legal advisors, holds only the escrow deposit which was received as an asset from 1988 to pay for a portion of the debt, and intends to proceed in the defense of such right. On the other hand, the Company has not recognized a reserve for the remaining contingency, which it understands to be the responsibility of Eletropaulo, to which the debt is being charged by ELETROBRÁS.

36. Supplementary pension plan regulated by Law No. 4819/58

a) Material fact notices

(i) *July 19, 2005*

In compliance with CVM Instruction No. 358/02, CTEEP - Companhia de Transmissão de Energia Elétrica Paulista clarifies aspects related to the supplementary pension plan regulated by State Law no. 4819/58. This plan applies to employees hired through May 13, 1974, as mentioned in Note 23.1 to the financial statements of the Company as of December 31, 2004.

36. Supplementary pension plan regulated by Law No. 4819/58--Continued

a) Material fact notices--Continued

(i) *July 19, 2005*--Continued

The necessary funds to cover the charges of the plan are the responsibility of the applicable agencies of the Government of the State of São Paulo. This was implemented according to an agreement made on December 10, 1999 between the São Paulo State Finance Department and the Company, effective until December 31, 2003.

Such procedure was regularly performed until December 2003 by Fundação CESP, with funds from the State Finance Department, transferred by CTEEP. From January 2004 onwards, the State Finance Department began to directly process those payments, without the participation of CTEEP and Fundação CESP.

An interim relief decision awarded by the 49th Labor Court of São Paulo was communicated to CTEEP on July 11, 2005 (lawsuit no. 1339/2005-1), authorizing Fundação CESP to resume processing the payment of benefits established by State Law no. 4819/58, according to the respective regulation, in the same manner that had been made until December 2003, with funds transferred by CTEEP. On July 13, 2005, the 49th Labor Court of São Paulo gave 60 days for enforcement of this decision. There is also on the website of the Regional Labor Court of São Paulo a summary of a similar decision (lawsuit SDC No. 20058200400002000) of June 30, 2005, determining that Fundação CESP, using the funds transferred by CTEEP, may process again the beneficiaries' retirement and pension payments established by State Law no. 4819/58.

To comply with said court decisions, CTEEP must require on a monthly basis the necessary funds from the São Paulo State Finance Department, to be transferred to Fundação CESP, which must process the payments to the beneficiaries. Said decisions apply to about 6,500 beneficiaries, with a monthly expense in the amount of R$ 23 million, which, in the understanding of CTEEP, is the responsibility of the State of São Paulo, as it was through December 2003. Consequently, CTEEP will object to said judicial decisions since it understands that the responsibility for the payment of the above-mentioned benefits befalls, under applicable legislation, the State of São Paulo.

36. Supplementary pension plan regulated by Law No. 4819/58--Continued

a) Material fact notices--Continued

(ii) *January 27, 2006*

CTEEP - Companhia de Transmissão de Energia Elétrica Paulista, in accordance with CVM Ruling No. 358/02, announces a change in procedure by the State Finance Department, due to a recent understanding of the State Attorney General regarding the transfer of funds to CTEEP for compliance with the decision of the 49th Labor Court of São Paulo, which authorized Fundação CESP to resume processing of pension plan benefit payments established by State Law No. 4819/58 using funds received from the State of São Paulo and transferred by CTEEP. This matter has been previously addressed in Note 21 of the quarterly information of CTEEP as of September 30, 2005.

The State Finance Department transferred to CTEEP, on January 27, 2006, an amount lower than necessary to comply with the decision of the 49th Labor Court. The effective expenditure of CTEEP this month for purposes of said court decision was R$ 19,725, transferred to Fundação CESP, having received R$ 14,976 from the State Finance Department for this purpose. As informed by the State Finance Department, certain expenses were disallowed in that month due to the recent understanding by the State Attorney General regarding the State's responsibility in this case. The decision of the 49th Labor Court currently applies to 5,528 beneficiaries. The State Finance Department continues directly paying 794 benefits established by State Law no. 4819/58.

CTEEP is still endeavoring to overturn the decision rendered by the 49th Labor Court so as to transfer the responsibility for the pension plan benefit payments established by State Law No. 4819/58 back to the State Finance Department. CTEEP confirms its legal advisors' understanding that expenses derived from State Law No. 4819/58 and respective regulation are the full responsibility of the State Finance Department, and is analyzing the applicable remedies to protect the Company's interests.

36. Supplementary pension plan regulated by Law No. 4819/58--Continued

a) Material fact notices--Continued

(iii) *February 24, 2006*

CTEEP - Companhia de Transmissão de Energia Elétrica Paulista, in accordance with CVM Instruction no. 358/2002, announces, in furtherance of the information included in the Material Fact Notice of January 27, 2006, that the State Finance Department transferred to CTEEP in February 2006 the amount of R$ 12,802 to comply with the decision of the 49th Labor Court of São Paulo, which ruled that Fundação CESP must process the pension plan benefit payments established by State Law No. 4819/58 using the funds received from the State of São Paulo and transferred by CTEEP. In February, CTEEP's total expenditure to comply with said court decision was R$ 19,652.

CTEEP continues its efforts to change the decision of the 49th Labor Court so as to transfer responsibility for the pension plan benefit payments established by State Law No. 4819/58 back to the State Finance Department, and to adopt other actions to protect the Company's interests.

b) Decision awarded by the 49th Labor Court of São Paulo

On May 2, 2006, the 49th Labor Court of São Paulo rendered a decision on the above-mentioned lawsuit, considering the claim at issue partially founded and maintaining the effects of the interim relief previously granted (Material Fact Notice of July 19, 2005), in addition to ordering the payment of amounts due. On May 8, 2006, CTEEP filed a request for clarifications and amendment of judgment in regard to the said decision.

The decision from the Higher Court of Justice (STJ) handed down on June 19, 2006, declaring that the State Court System has authority to judge the labor claims filed with the Labor Court directly seeking the amounts established by State Law No. 4819/58, annulled the decision of the 49th Labor Court of São Paulo and ordered that the case be submitted to an administrative court of the State Finance Department. As a result of the STJ decision, the amounts established by State Law No. 4819/58 will once again be paid directly by the São Paulo State Finance Department and no longer by Fundação CESP through transfer from CTEEP as occurred in accordance with the decision of the 49th Labor Court of São Paulo, thus made null and void.

36. Supplementary pension plan regulated by Law No. 4819/58--Continued

b) Decision awarded by the 49th Labor Court of São Paulo--Continued

On June 28, 2006, the STJ granted an injunction to suspend the effects of the decision rendered by the same court on the conflict of jurisdiction on June 19, 2006. According to the notification received by CTEEP on June 30, 2006, the decision of the 49th Labor Court of São Paulo, which ordered the payment of pension plan benefits as per State Law No. 4819/58 by Fundação CESP, using cash funds from the State of São Paulo transferred by CTEEP, shall prevail.

c) Current situation

As a result of the aforementioned facts and by force of said decision of the 49th Labor Court of São Paulo, as well as the decision of the STJ, CTEEP passed on R$ 1,585,333 to Fundação CESP, from September 2005 to December 2010, for payment of benefits under State Law No. 4819/58, having received R$ 1,052,893 from the State Finance Department for that purpose. The difference between the amount passed on to Fundação CESP and the amount reimbursed by the State Finance Department, of R$ 532,440 (Note 9 (c)), was originally claimed by CTEEP at the administrative level, and, in December 2010, a collection lawsuit was filed.

On October 20, 2005, CTEEP received from the State Attorney General Office (PGE) a copy of that agency's statement, dated October 6, 2005, regarding the consultation by the State Finance Department on the scope of said court decisions. In this statement, the PGE concludes that the decision of the 49th Labor Court of São Paulo applies subjectively to the State Finance Department, which is the defendant in the claim. Accordingly, the State Attorney General concluded that "in the current scenario, the State Finance Department is liable for the full reimbursement of the amounts disbursed by CTEEP for compliance with the court decision regarding labor claim No. 1145/2005-6, currently in progress at the 49th Labor Court of São Paulo”. On the other hand, in the same statement, the PGE concludes that the decision issued by the Regional Labor Court, whose effects are suspended by the injunction obtained as a result of the Claim for Correction, does not fully apply to the State Finance Department, which was removed from the lawsuit at the plaintiff union's request. In this case, the State Finance Department should, according to the PGE, reimburse CTEEP, observing the strict limits of State Law No. 4819/58, excluding possible benefits established by the related regulation, that surpass or that are in conflict with the specific legislation.

36. Supplementary pension plan regulated by Law No. 4819/58--Continued

c) Current situation--Continued

In view of the aforementioned, it is clear that the PGE understanding of the issue, formally stated through its PGE/SF Official Letter No. 01, dated February 10, 2006, and respective PGE/SF Technical Note No. 01/06, changed the prior understanding, which was in effect through December 2005 for purposes of transfer of funds to CTEEP to comply with the decision of the 49th Labor Court of São Paulo. According to PGE current understanding, the State Finance Department must disallow certain transfers to CTEEP for purposes of transfer to Fundação CESP to comply with said court decision.

In October 2008, STJ decided again for the jurisdiction of the Ordinary Courts in a Civil Class Action involving the same parties and matter, the sentence of which was subject to ruled out requests for amendment.

In October 2010, Fundação CESP claimed that STF had no applicable jurisdiction over the matter, No. 7706; therefore judgment of labor and civil proceedings are suspended until a decision on the referred to claim is awarded.

In January 2009, due to the inconclusive decision of the 49th Labor Court on 583 retirees, such retirees were transferred to receive direct payment by the State Finance Department, representing a non-disbursement of cash of R$ 1.9 million/month for the Company.

According to the Material Fact Notices mentioned above, CTEEP continues its efforts to make the decision awarded by the 49th Labor Court of São Paulo null and void so as to transfer the responsibility for the pension plan benefit payment established by State Law No. 4819/58 back to the State Finance Department. CTEEP also confirms its legal advisors' understanding that the expenses arising from State Law No. 4819/58 and respective regulation are the full responsibility of the State Finance Department and is analyzing additional actions to protect the Company's interests. The Company records these disallowances as "Receivables from São Paulo State Finance Department" (Note 9).

37. Subsequent events

a) CTEEP's acquiring 40% interest in IEMG capital previously held by Cymi Holding S.A.

On February 3, 2011, CTEEP paid R$ 15.2 million for the acquisition of 40% interest in IEMG capital previously held by Cymi Holding S.A.

The transaction was approved by Brazilian Antitrust Agency (CADE) on December 7, 2010, by BNDES on December 16, 2010 and by ANEEL on December 21, 2010, through Authorizing Resolution No. 2714.

b) Transfer of Rio Branco shares held by subsidiary CTEEP to Centrais Elétricas do Norte do Brasil S.A. – Eletronorte

On February 15, 2011, ANEEL, through Authorization Rule No. 2774, authorized the request for transfer of shares held by CTEEP to Centrais Elétricas do Norte do Brasil S.A. - Eletronorte.

c) Company's dividend distribution

On March 18, 2011 a ISA Capital paid the January 3, 2011 fixed cumulative dividends to preferred shareholders. Based on the calculation criterion set forth in article 6 of the Company's articles of incorporation, each preferred share was entitled to R$0.181254, totaling R$ 107,637 paid to total redeemable preferred shares.

38. Approval of the financial statements

These financial statements were approved and authorized to be published by the Board of Directors on March 17, 2011.

* * *

OFFICERS

FERNANDO AUGUSTO ROJAS PINTO
Chief Executive Officer

CRISTIAN RESTREPO HERNANDEZ
Chief Financial Officer

BOARD OF DIRECTORS

LUIS FERNANDO ALARCÓN MANTILLA
Chairman

FERNANDO AUGUSTO ROJAS PINTO
Vice-Chairman

GUIDO ALBERTO NULE AMIN

ALFONSO CAMILO BARCO MUÑOZ

ANA MERCEDES VILLEGAS MEJIA

ACCOUNTANT

GIRLENE PEREIRA DA SILVA
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