ISA Capital do Brasil S.A.

Individual (company) financial statements prepared in accordance with accounting practices adopted in Brazil, and consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS).

CONTENTS

Dear Shareholders,

Pursuant to legal and statutory provisions, management of ISA Capital do Brasil S.A. (“ISA Capital” or “Company”) submits the Management Report and the related individual and consolidated Financial Statements, and respective Independent Auditor’s Report referring to the year ended December 31, 2011.

MANAGEMENT REPORT

ISA Capital is a Brazilian holding owned by Internexión Elétrica S.A. E.S.P, a Colombian mixed-capital company owned by the Colombian government, which is mainly engaged in operating and maintaining electric power transmission lines.

ISA Capital is the parent company of CTEEP – Companhia de Transmissão de Energia Elétrica Paulista since July 26, 2006, holding 57,715,128 common shares issued by CTEEP, which represent 89.50% of voting capital and 37.81% of total capital. At December 31, 2011, the above controlling interest in CTEEP was recorded in ISA Capital’s Financial Statements investment account, and amounted to R$2.1 billion. Due to the referred to investment, the Company recorded gains amounting to R$337.2 million in 2011.

ISA Capital and its parent company, Interconexión Elétrica S.A. E.S.P., are committed with assuring, promoting and improving the quality of electric power transmission services provided by CTEEP, for the purpose of improving their financial performance as well, by resorting to best practices and world class management models for the benefit of their shareholders and the community.

1. COMPANY’S PROFILE

ISA Capital do Brasil S.A. (”ISA Capital” or “Company”) is a Brazilian holding incorporated as a limited liability company on April 28, 2006, and turned into a corporation on September 19, 2006. On January 4, 2007, the Brazilian Securities Exchange Commission (CVM) approved its registration as a publicly-held company. ISA Capital was a publicly-held company until May 27, 2010, when the Company’s shareholders decided to cancel its registration at CVM.

The Company’s business purpose 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.

ISA Capital is owned by Interconexión Eléctrica S.A. E.S.P. (“ISA”), a Colombian mixed-capital company owned by the Colombian government which is mainly engaged in operating and maintaining electric power transmission lines, in addition to taking part in activities in connection with provision of electric power-related services.

ISA Capital is the parent company of CTEEP - Companhia de Transmissão de Energia Elétrica Paulista (“Subsidiary” or “CTEEP”) since July 26, 2006, when the Company settled its purchase through a public tender organized by the São Paulo Government of CTEEP controlling interest on June 28, 2006, in the São Paulo Stock Exchange (BOVESPA).

For the acquisition of 31,341,890,064 common shares corresponding to 50.1% of common shares issued by CTEEP and 21.0% of its total capital, the Company paid R$1.2 billion – corresponding to R$38.09 per thousand shares – to the São Paulo State Government. In addition to that amount, ISA Capital paid R$19.4 million to the São Paulo State Government as an addition to price of shares acquired in the public tender, in order to offset goodwill offered to CTEEP’s employees for acquisition of certain lot of shares. Such amount paid for acquisition of CTEEP controlling interest is subject to adjustment, if any, as set forth in CTEEP shares purchase and sale agreement, to be determined based on amounts effectively paid by CTEEP in connection with supplementary benefit and pension to former employees, pursuant to State Law No. 4819/58.

As a part of the privatization process, on September 12, 2006, the Company purchased another 10,021,687 CTEEP’s common shares, corresponding to 0.016% of total common shares, for R$229 thousand. That share acquisition refers to excess CTEEP’s common shares from the public tender conducted by São Paulo government especially to CTEEP’s employees, under the Bid for Tender for CTEEP Privatization No. SF/001/2006.

On January 9, 2007, by virtue of article 254-A of the Corporation Law and as determined by the referred to Bid for Tender and CTEEP Shares Purchase and Sale Agreement, ISA Capital conducted a public offering auction (“OPA”) of shares issued by CTEEP on BOVESPA. These shares are still in circulation for a value corresponding to 80% of the amount paid for CTEEP’s controlling interest. In that public offer, the Company acquired 24,572,554,070 common shares issued by CTEEP, which correspond to 39.28% of total common shares, for R$30.74 per thousand shares, amounting to R$755.4 million.

As a result of that acquisition, ISA Capital now holds 55,924,465,821 common shares issued by CTEEP, corresponding to 89.40% of CTEEP’s voting capital and 37.46% of its total capital. After CTEEP's reverse stock split in August 2007, the Company became holder of 55,924,465 common shares.

The Company later contributed with 1,727,517 common shares to CTEEP’s capital, 574,927 of which on August 24, 2009, 594,477 on April 23, 2010 and 558,113 on December 21, 2011. That contribution results from the tax benefit granted to CTEEP and referring to partial amortization of the special goodwill reserve for the years 2008, 2009 and 2010. Following management’s decision, the Company further purchased 63,146 common shares at R$51.66 per share. Consequently, at December 31, 2011, the Company held 57,715,128 common shares, which are equivalent to 37.81% of CTEEP’s total capital and 89.50% of its voting capital.

2. DEBT IN FOREIGN CURRENCY - "BONDS"

Currently, the Company has a debt in foreign currency – “bonds” – amounting to US$31.6 million (equivalent to R$61.5 million) maturing in 2017. This amount refers to balance remaining after the restructuring conducted in 2010, when ISA Capital repurchased US$522.4 million, equivalent to R$935.6 million and 94.3% of total bonus traded.

3. COMMITMENTS

While acquiring CTEEP’s controlling interest, the Company undertook commitments and obligations under Bid for Tender No. SF/001/2006, which were or have been fulfilled, as the case may be. CTEEP’s purchase and sale agreement entered into on July 26, 2006 has also subjected the Company and its Parent Company to certain obligations to be followed while managing CTEEP, in connection with previous agreements, corporate governance rules, CTEEP’s employees’ rights, maintenance and continuity of electric transmission services quality, among others. In 2011, ISA Capital paid R$6.3 million and R$3.7 million (2010 - R$6.4 million and R$5.1 million) to the São Paulo State Government and the shareholders taking part of OPA, respectively, for the public offer price adjustment resulting from obligations set forth by Law No. 4819/54.

After restructuring of debt in foreign currency - "bonds" - in 2010, covenants that hindered implementation of certain operating activities were eliminated. Consequently, in addition to better manage its business, ISA Capital continues to strictly fulfill other covenants entered with the remaining bondholders.

In addition, it should be noted that the Company has complied with all new commitments set forth in the Shareholders’ Agreement arising from issuance of redeemable preferred shares in March 2010, such as cumulative fixed dividends payable to those shares. In 2011, such shares were entitled to R$220.1 million.

4. SUBSIDIARY’S EARNINGS

ISA Capital holds 37.81% of CTEEP’s capital and, in 2011, recognized an equity pickup amounting to R$345.8 million (2010 - R$306.3 million) and received earnings that totaled R$340.8 million, R$241.9 million of which as dividends and R$98.9 million as Interest on Equity.

5. PERFORMANCE INDICATORS

ISA Capital’s revenue is directly associated with revenue from equity pickup referring to investment in CTEEP, and the latter's revenue is associated with availability of key assets: transmission lines and transformers. Therefore, CTEEP invests permanently in order to assure maintenance and operations efficiency and quality. Considering that increase in assets availability may result in deduction in its revenue (variable portion).

6. FINANCIAL PERFORMANCE - Consolidated

Revenue from construction totaled R$1.1 billion in 2011 (R$693.8 million in 2010) due to the positive impact of construction works of CTEEP's Subsidiaries - Serra do Japi and IEMadeira -, as well as reinforcement works and extension of CTEEP's transmission system.

Revenue from operation and maintenance totaled R$555.1 million in 2011 (R$442.4 million in 2010) mainly due to restatement of CTEEP’s Annual Revenue Allowed (RAP) referring to 2010/2011 cycle through 2011/2012 cycle, according to accumulated General Market Price Index (IGPM) variation.

Financial revenue from CTEEP’s concession agreements amounted to R$1.6 billion in 2011 (R$1.4 billion in 2010) reflecting remuneration on balance of construction work receivables, which recorded a positive variation of 21%. In addition, in July 2011, CTEEP and its subsidiaries recognized positive adjustments from annual tariff repositioning, that affected its cash flows of R$246.9 million (R$86.4 million in 2010), such as adjustment in annual financial revenue, considering that financial assets from concession are classified as loans receivable.

Deductions from operating revenue amounted to R$367.8 million in 2011 and R$295.2 million in 2010, and they refer to tax and charges reflecting operating revenue growth.

Due to the factors mentioned above, **net operating revenue** increased by 28.6%, amounting to R$2.9 billion in 2011 (R$2.2 billion in 2010), due to increase of revenue from construction by 59.1%; revenue from operation and maintenance by 25.5%; financial revenue by 13.7%; deductions from operating revenue by 23.5%.

Construction and operation/maintenance costs increased by 39.6%, amounting to R$1.3 billion in 2011 (R$948.2 million in 2010), due to addition of R$ 366.5 million referring to expenses incurred from material and services used in CTEEP’s Serra do Japi and IEMadeira construction sites.

Net operating expenses did not present any total relevant variations - R$217.1 million in 2011 and R$238.3 million in 2010. Following are some important changes in the period: (i) gains from reversal of provision for contingencies, amounting to R$27.6 million due to partial success in labor proceedings, (ii) constitution of provision for losses with inventories totaling R$17.9 million, (iii) increase in service hiring expenses amounting to R$6.0 million, and (iv) increase in personnel expenses totaling R$3.2 million due to adjustment according to the collective bargaining index for the period.

EBITDA margin was 50.1%, totaling R$1.4 billion in 2011 (51.4%, R$1.1 billion in 2010).

Financial expenses amounted to R$215.9 million in 2011, a 50.8% decrease compared to R$438.6 million in 2010, due to decrease in expenses incurred from REDI project and higher financial leverage as compared to the last two years.

Income and social contribution taxes expenses increased by 20.9%, adding R$277.2 million in 2011 against R$229.3 million in 2010. The effective income and social contribution taxes rate was 24.2% in 2011, compared to 36.3% in 2010. Major permanent differences that address variation between effective rate and nominal rate are expenses from interest on equity resulting from equity pickup and reversal of provision for equity integrity maintenance.

In view of the above-mentioned factors, **net profit** for 2011 totaled R$297.5 million, whereas in 2010 the Company recorded R$104.5 million in loss.

7. INDEPENDENT AUDITORS

In compliance with the Brazilian Securities Exchange Commission (CVM) Rule No. 381 of January 14, 2003, ISA CAPITAL hereby notifies that its individual and consolidated financial statements for the years ended December 31, 2011 and 2010 were audited by Ernst & Young Terco Auditores Independents S.S. (“Ernst & Young Terco”). The latter has provided solely services related to external audit to the Company.

As regards services not related to external audit, ISA Capital follows principles that preserve independence of the auditor, who must not audit its own work nor perform managerial roles or even provide legal counseling to his/her client.

8. POLICIES AND PROCEDURES

The Company's policies and those of its subsidiary prohibit engaging independent auditors to provide services that may cause conflict of interests or loss of their objectivity.

Management

ISA CAPITAL DO BRASIL S.A.

Balance Sheets
At December 31, 2011 and 2010
In thousands of reais, except where otherwise stated

		Company		Consolidated	
	Note	**12.31.2011**	**12.31.2010**	**12.31.2011**	**12.31.2010**
Assets					
Current assets					
Cash and cash equivalents	6	351,567	257,261	558,862	312,244
Trade accounts receivable (concession assets)	7	-	-	1,474,794	1,424,390
Inventories		-	-	50,052	44,791
Loans receivable	11	9,393	-	9,393	-
Interest on equity and dividends receivable	24.h and 30	84,828	65,844	-	-
Receivables - State Finance Department	8	-	-	14,906	22,938
Taxes and contributions to offset	9	44,950	36,806	56,276	48,036
Pledges and restricted deposits	12	2,612	2,320	2,612	2,320
Prepaid expenses		-	-	3,190	2,611
Derivative financial instruments	31.a	-	-	1,673	-
Other		2	59	74,488	35,814
		493,352	362,290	2,246,246	1,893,144
Non-current assets					
Long-term receivables					
Trade accounts receivable (concession assets)	7	-	-	5,335,027	4,225,309
Receivables – State Finance Department	8	-	-	810,750	681,129
Tax benefit – merged goodwill	10	-	-	119,079	147,911
Deferred income and social contribution taxes	29.b	45,058	-	45,058	28,050
Pledges and restricted deposits	12	-	-	61,886	42,248
Derivative financial instruments	31.a	-	-	54,195	-
Loans receivable	11	44,653	39,663	44,653	39,663
Inventories		-	-	145,395	184,264
Other		-	-	27,617	6,624
		89,711	39,663	6,643,660	5,355,198
Investments	13	2,039,320	2,113,593	-	-
Property plant and equipment	14	52	37	8,836	9,231
Intangible assets	15	-	-	240,152	297,066
		2,039,372	2,113,630	248,988	306,297
		2,116,305	2,153,293	6,879,870	5,661,495
Total assets		**2,622,435**	**2,515,583**	**9,138,894**	**7,554,639**

ISA CAPITAL DO BRASIL S.A.

Balance Sheets
At December 31, 2011 and 2010
In thousands of reais, except where otherwise stated

Liabilities and equity		Company		Consolidated	
	Note	12.31.2011	12.31.2010	12.31.2011	12.31.2010
Current liabilities					
Trade accounts payable		325	147	83,338	94,064
Borrowings and financing	16	2,177	1,934	1,009,850	334,347
Debentures	17	-	-	389,825	2,154
Taxes and social charges payable	18	8,078	2,533	88,351	91,277
Taxes in installments – Law No. 11941	19	-	-	12,273	10,353
Regulatory charges payable	20	-	-	28,824	49,559
Cumulative fixed dividends payable	24.b	36,004	-	36,004	-
Derivative financial instruments	31.a	-	-	27,226	-
Interest on equity and dividends payable	24.h	-	-	147,328	127,978
Provisions	21	13	11	23,290	22,674
Payables – Law No. 4819/58 – State Finance Department	5.a	6,335	8,423	6,335	8,423
Payables – Law No. 4819/58 - OPA	5.a	3,715	4,946	3,715	4,946
Payables – Fundação CESP	22	-	-	6,244	6,503
Other		-	9	30,185	13,883
		56,647	18,003	1,892,788	766,161
Non-current liabilities					
Long-term payables					
Borrowings and financing	16	59,371	52,737	1,043,635	592,769
Debentures	17	-	-	389,636	553,639
Taxes in installments – Law No. 11941	19	-	-	145,236	144,964
Deferred Social Contribution Tax on Gross Revenue for Social Integration Program (PIS) and for Social Security Financing (COFINS)		-	-	229,519	117,632
Deferred income and social contribution taxes	29.b	-	-	42,176	9,352
Regulatory charges payable	20	-	-	32,334	2,174
Provisions	21	-	-	101,832	161,688
Payables – Law No. 4819/58 – State Finance Department	5.a	232,549	215,498	232,549	215,498
Payables – Law No. 4819/58 - OPA	5.b	146,068	135,456	146,068	135,456
Special obligations – reversion and amortization	23	-	-	24,053	24,053
		437,988	403,691	2,387,038	1,957,225
Equity					
Capital	24.a	840,378	840,378	840,378	840,378
Capital reserve	24.d	1,199,400	1,199,400	1,199,400	1,199,400
Goodwill on capital transaction	24.e	(7,488)	-	(7,488)	-
Income reserve	24.f	95,510	54,111	95,510	54,111
		2,127,800	2,093,889	2,127,800	2,093,889
Non-controlling shareholders		-	-	2,731,268	2,737,364
Equity		2,127,800	2,093,889	4,859,068	4,831,253
Total liabilities and equity		**2,622,435**	**2,515,583**	**9,138,894**	**7,554,639**

See accompanying notes.

ISA CAPITAL DO BRASIL S.A.

Income Statements
Years ended December 31, 2011 and 2010
In thousands of reais, except where otherwise stated

		Company		Consolidated	
	Note	12.31.2011	12.31.2010	12.31.2011	12.31.2010
Net operating revenue	25.1	-	-	2,900,805	2,256,286
Construction, operating and maintenance services cost	26	-	-	(1,323,409)	(948,270)
Gross profit		**-**	**-**	**1,577,396**	**1,308,016**
Operating (expenses) income					
General and administrative expenses	26	(3,408)	(17,760)	(130,425)	(155,693)
Other expenses, net	28	(55,969)	(59,139)	(86,724)	(82,978)
Equity pickup	13.c	345,777	306,266	-	-
		286,400	**229,367**	**(217,149)**	**(238,671)**
Income before financial income and expenses and taxes on profit		**286,400**	**229,367**	**1,360,247**	**1,069,345**
Financial expenses	27	(74,220)	(586,729)	(410,797)	(738,982)
Financial income	27	58,798	252,828	194,855	300,385
		(15,422)	(333,901)	(215,942)	(438,597)
Profit (loss) before income and social contribution taxes		**270,978**	**(104,534)**	**1,144,305**	**630,748**
Income and social contribution taxes					
Current	29	(18,507)	-	(262,713)	(222,630)
Deferred	29	45,058	-	(14,580)	(6,746)
		26,551	-	(277,293)	(229,376)
Profit (loss) before payment to non-controlling shareholders		**297,529**	**(104,534)**	**867,012**	**401,372**
Net profit for the year attributed to non-controlling shareholders		-	-	(569,483)	(505,906)
Net profit (loss) for the year attributed to controlling shareholders		**297,529**	**(104,534)**	**297,529**	**(104,534)**
Earnings (loss) per share – Base and Diluted	24.g	0.2074	(0.0809)	-	-
Average number of shares in the year		1,434,469,504	1,291,382,128		

ISA CAPITAL DO BRASIL S.A.

Statements of Changes in Equity
Years ended December 31, 2011 and 2010
In thousands of reais, except where otherwise stated

	Capital	Capital reserve	Goodwill on capital transaction	Income reserve		Retained earnings/accumulated losses	Total equity	Non-controlling shareholders	Total equity
				Legal reserve	Retained profit				
Balances at December 31, 2009	**839,778**	**-**		**5,881**	**152,764**	**-**	**998,423**	**2,785,803**	**3,784,226**
Capital payment in cash, contribution by shareholder HSBC on March 9, 2010 (note 24 a (i))	420	-	-	-	-	-	420	-	420
Establishment of capital reserve in cash, contribution by shareholder HSBC on March 3, 2010 (note 24 a (i))	-	839,580	-	-	-	-	839,580	-	839,580
Capital payment in cash, contribution by shareholder HSBC on March 9, 2010 (note 24 a (note 24 a (ii))	180	-	-	-	-	-	180	-	180
Establishment of capital reserve in cash, contribution by shareholder HSBC on March 3, 2010 (note 24 a (note 24 a (ii))	-	359,820	-	-	-	-	359,820	-	359,820
Capital increase in subsidiary	-	-	-	-	-	-	-	31,695	35,480
Net profit/(loss) for the year	-	-	-	-	-	(104,534)	(104,534)	505,906	401,372
Payment of dividends - subsidiaries	-	-	-	-	-	-	-	(429,632)	(429,632)
Interest on equity - subsidiaries	-	-	-	-	-	-	-	(156,408)	(156,408)
Recognition of accumulated loss	-	-	-	-	(104,534)	104,534	-	-	-
Balances at December 31, 2010	**840,378**	**1,199,400**	**-**	**5,881**	**48,230**	**-**	**2,093,889**	**2,737,364**	**4,831,253**
Capital increase in subsidiary	-	-	-	-	-	-	-	18,922	18,922
Payment of additional dividends proposed for 2010 (Note 24h)	-	-	-	-	-	-	-	(123,557)	(123,557)
Goodwill on capital transaction (Note 24e)	-	-	(7,488)	-	-	-	(7,488)	-	(7,488)
Profit for the year	-	-	-	-	-	297,529	297,529	569,483	867,012
Cumulative fixed dividends paid in the year (Note 24 c)	-	-	-	-	(48,230)	(171,896)	(220,126)	-	(220,126)
Cumulative fixed dividends payable (Note 24 b)	-	-	-	-	-	(36,004)	(36,004)	-	(36,004)
Payment of dividends - subsidiaries	-	-	-	-	-	-	-	(313,595)	(313,595)
Payment of dividends in arrears - subsidiaries	-	-	-	-	-	-	-	820	820
Interest on equity - subsidiaries	-	-	-	-	-	-	-	(158,693)	(158,693)
Interest on equity in arrears - subsidiaries	-	-	-	-	-	-	-	524	524
Retained earnings reserve	-	-	-	-	89,629	(89,629)	-	-	-
									-
Balances at December 31, 2011	**840,378**	**1,199,400**	**(7,488)**	**5,881**	**89,629**	**-**	**2,127,800**	**2,731,268**	**4,859,068**

See accompanying notes.

ISA CAPITAL DO BRASIL S.A.

Cash Flows Statements
Years ended December 31, 2011 and 2010
In thousands of reais, except where otherwise stated

	Company		Consolidated	
	12.31.2011	12.31.2010	12.31.2011	12.31.2010
Cash flow from operating activities				
Net profit (loss) for the year	297,529	(104,534)	297,529	(104,534)
Adjustments to reconcile net profit (loss) to cash generated by (used in) operating activities				
Non-controlling shareholders	-	-	569,483	505,906
Depreciation and amortization (Notes 14, 15 and 26)	13	11	6,151	6,058
Amortization of bonus - prepaid expenses (Note 16.a)	-	12,752	-	12,752
Loss in acquisition of joint subsidiary (Note 28)	-	-	28,490	-
Realization of loss in joint subsidiary	-	-	(2,445)	-
Deferred income and social contribution taxes	(45,058)	-	14,580	6,746
Deferred PIS and COFINS	-	-	105,754	60,023
Provision for contingencies	-	-	1,589	31,522
Withholding Income Tax (IRRF) recoverable (Note 6)	(3,931)	-	(3,931)	-
Residual cost of permanent assets written off	-	-	29	1,563
Equity pickup (Note 13.c)	(345,777)	(306,266)	-	-
Amortization of goodwill (Note 15)	55,968	55,968	84,800	84,800
Capital losses	-	3,251	-	3,411
Interest, inflation and foreign exchange adjustments on assets and liabilities	29,294	304,329	239,982	431,391
	(11,962)	**(34,489)**	**1,342,011**	**1,039,638**
(Increase) decrease in assets				
Trade accounts receivable (concession assets)	-	-	(1,145,961)	(582,470)
Inventories	-	-	33,584	(58,873)
Receivables	(7,944)	1,484	(129,533)	(120,772)
Taxes and contributions to offset	(998)	(10,901)	(876)	191,154
Pledges and restricted deposits	(178)	37,852	(19,816)	39,556
Derivative financial instruments	-	-	(2,088)	-
Other	58	(37)	(5,822)	(76,151)
	(9,062)	**28,398**	**(1,270,511)**	**(607,556)**
Increase (decrease) in liabilities				
Trade accounts payable	160	(105)	(8,175)	22,641
Taxes and social charges payable	5,295	(1,285)	(3,224)	(889)
Taxes in installments – Law No. 11941	-	-	(9,592)	-
Regulatory charges payable	250	-	9,502	8,445
Provisions	-	-	(60,843)	(42,787)
Payables – Law No. 4819 and Fundação CESP	(3,319)	2,156	(3,578)	1,742
Other	(13)	-	(39,637)	47,729
	2,372	**766**	**(115,548)**	**36,881**
Net cash generated by (used in) operating activities	**(18,652)**	**(5,325)**	**(44,048)**	**468,963**

See accompanying notes.

ISA CAPITAL DO BRASIL S.A.

Cash Flows Statements
Years ended December 31, 2011 and 2010
In thousands of reais, except where otherwise stated

	Company		Consolidated	
	12.31.2011	12.31.2010	12.31.2011	12.31.2010
Cash flow from investing activities				
Property, plant and equipment (Note 14)	(28)	(2)	(2,503)	(3,607)
Intangible assets (Note 15)	-	-	(2,336)	-
Investments (Notes 13.c and 13.d)	(3,262)	-	(18,544)	-
Opening balance of IEMG's cash and cash equivalents at the moment of controlling interest acquisition	-	-	2,174	-
Interest on equity and dividends received (note 13.c and 24.h)	340,872	287,908	-	-
Net cash used in investing activities	**337,582**	**287,906**	**(21,210)**	**(3,607)**
Cash flow from financing activities				
New loans	-	-	1,554,266	993,458
Loan payment (including interest)	(4,498)	(1,255,324)	(457,872)	(1,984,071)
Payment of derivative financial instruments	-	-	(3,931)	-
Dividends and interest on equity paid	(220,126)	-	(794,470)	(463,767)
Capital payment	-	600	13,883	600
Capital increase	-	-	-	28,030
Establishment of capital reserve	-	1,199,400	-	1,199,400
Net cash generated by (used in) financing activities	**(224,624)**	**(55,324)**	**311,876**	**(226,350)**
Net increase (decrease) in cash and cash equivalents	**94,306**	**227,257**	**246,618**	**239,006**
Cash and cash equivalents at the end of the year	351,567	257,261	558,862	312,244
Cash and cash equivalents at the beginning of the year	257,261	30,004	312,244	73,238
Changes in cash and cash equivalents	**94,306**	**227,257**	**246,618**	**239,006**

Company

Total interest paid by the Company was R$4,498 (R$55,958 in 2010) referring to borrowing and financing described in Note 16. The Company did not pay income and social contribution taxes for the year, and used tax credits to offset them instead.

Consolidated

Total interest paid by the Company and its subsidiary for the year was R$143,474 (R$191,463 in 2010), referring to borrowing and financing described in Note 16. Total income and social contribution taxes paid by CTEEP and its subsidiaries and joint subsidiaries for the year amounted to R$ 244,188 (R$76,230 in 2010).

See accompanying notes.

ISA CAPITAL DO BRASIL S.A.

Value Added Statements
Years ended December 31, 2011 and 2010
In thousands of reais, except where otherwise stated

	Company		Consolidated	
	2011	**2010**	**2011**	**2010**
Revenue				
Operating income	-	-	3,268,689	2,551,543
Other operating income	-	-	35,798	6,030
	-	**-**	**3,304,487**	**2,557,573**
Inputs acquired from third parties				
Cost of services provided	-	-	(17,485)	(484,786)
Materials, electric power, third party services and other	(1,190)	(2,983)	(1,219,533)	(395,787)
	(1,190)	**(2,983)**	**(1,237,018)**	**(880,573)**
Gross value added	**(1,190)**	**(2,983)**	**2,067,469**	**1,677,000**
Withholdings				
Depreciation and amortization	(55,982)	(68,731)	(62,120)	(74,777)
Value added generated by the entity, net	**(57,172)**	**(71,714)**	**2,005,349**	**1,602,223**
Received in a transfer				
Equity pickup	345,777	306,266	-	-
Financial income	58,798	252,828	194,855	300,385
	404,575	**559,094**	**194,855**	**300,385**
Total undistributed value added	**347,403**	**487,380**	**2,200,204**	**1,902,608**
Distribution of value added				
Personnel				
Direct compensation	(1,204)	(1,034)	(155,080)	(122,580)
Benefits	(434)	(409)	(36,073)	(32,483)
Government Severance and Indemnity Fund for Employees (FGTS)	(4)	-	(10,203)	(10,306)
Other	-	(4)	-	(4)
	(1,642)	**(1,447)**	**(201,356)**	**(165,373)**
Taxes, fees and contributions payable				
Federal	16,667	(12,176)	(698,755)	(582,246)
State	(13)	(18)	(709)	(613)
Local		-	(18,270)	(12,576)
	16,654	**(12,194)**	**(717,734)**	**(595,435)**
Compensation on third-party capital				
Rental	(252)	(249)	(13,428)	(10,910)
Interest, inflation and foreign exchange adjustments, net	(64,634)	(574,854)	(400,674)	(726,348)
Other	-	(3,170)	-	(3,170)
	(64,886)	(578,273)	(414,102)	(740,428)
Compensation on equity				
Cumulative fixed dividends distributed	(171,896)	-	(171,896)	-
Cumulative fixed dividends to be distributed	(36,004)	-	(36,004)	-
Non-controlling shareholders	-	-	(569,483)	(505,906)
Retained profit	**89,629**	**(104,534)**	**89,629**	**(104,534)**

1. Operations

1.1. Business purpose

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

At a privatization auction held on June 28, 2006 on 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 shareholder. 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 09, 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.

Later, the Company paid in CTEEP capital equivalent to 1,727,517 common shares – 574,927 shares on August 24, 2009, 594,477 shares on April 23, 2010 and 558,113 shares on December 21, 2011. Such capitalization arises from CTEEP's tax benefit resulting from the partial amortization of the special reserve for merged goodwill for financial years 2009, 2010 and 2011. ISA Capital acquired another 63,146 common shares in an auction of excess shares from CTEEP's capital increase. Consequently, at December 31, 2011, the Company held 57,715,128 common shares, which are equivalent to 37.81% of CTEEP's total capital and 89.50% 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 the 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 to 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

In thousands of reais, except where otherwise stated

(ii) In the 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 the Company's capital and R$ 359,820 to capital reserve.

Accordingly, after both capital increases, as of December 31, 2011, the Company's subscribed and paid-in capital amounts to R$ 840,378 (R$ 840,378 as of December 31, 2010) 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.

Subsidiary 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.

Subsidiary 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

CTEEP is entitled to explore, either directly or indirectly, the following Public Utility Concession Agreements for Electric Power Transmission:

					Periodic Tariff Review				Annual Revenue Allowed (RAP)	
Concessionaire	Agreement	Interest (%)	Term (years)	Maturity (dd/mm/yy)	Term	Next	RAP in step	Restatement index	R$ thousand	Base month
Directly										
CTEEP	059/2001 (*)	37.8059	20	07.07.15	4 years	2013	Non-	IGPM	1,992,484	06/11
CTEEP	143/2001	37.8059	30	20.12.31	n/a	n/a	Yes	IGPM	15,793	06/11
Indirectly										
IEMG	004/2007	37.8059	30	23.04.37	5 years	2012	Yes	(IPCA)	14,193	06/11
Pinheiros	012/2008	37.8059	30	15.10.38	5 years	2014	No	IPCA	7,386	06/11
Pinheiros	015/2008	37.8059	30	15.10.38	5 years	2014	No	IPCA	13,474	06/11
Pinheiros	018/2008	37.8059	30	15.10.38	5 years	2014	No	IPCA	3,174	06/11
Pinheiros	021/2011	37.8059	30	09.12.41	5 years	2017	No	IPCA	4,400	09/11
Serra do Japi	026/2009	37.8059	30	18.11.39	5 years	2015	No	IPCA	25,200	06/11
IENNE	001/2008	9.4514	30	16.03.38	5 years	2013	No	IPCA	36,435	06/11
IESul	013/2008	18.9029	30	15.10.38	5 years	2014	No	IPCA	4,447	06/11
IESul	016/2008	18.9029	30	15.10.38	5 years	2014	No	IPCA	8,006	06/11
IEMadeira	013/2009	19.2810	30	25.02.39	5 years	2014	No	IPCA	176,249	11/08(**)
IEMadeira	015/2009	19.2810	30	25.02.39	5 years	2014	No	IPCA	151,788	11/08(**)
IEGaranhuns	022/2011	19.2810	30	09.12.41	5 years	2017	No	IPCA	68,900	09/11

(*) Concession agreement No. 059 of Subsidiary CTEEP is subdivided into: SE (Existing Service) referring to the energized installations until December 31, 1999; and NI (New Investments) referring to energized installations as from January 1, 2000. Information related to periodic tariff review refers to concession agreement No. 059 NI.

(**) According to the concession agreement, RAP will be readjusted on an annual basis, after the venture starts up. Subsidiary CTEEP expects that IEMadeira starts up in mid-2012 (batch D) and 2013 (batch F).

Due to acquisition of the shareholding control of CTEEP by ISA Capital on June 28, 2006, 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. Further as a result of this amendment, ISA Capital and ISA agreed to make capital contributions to CTEEP

All concession agreements above provide for the right of indemnification at the end of the term thereof.

Participation in auctions

(i) Auction 001/2009

Batch C - Porto Velho – Jauru Transmission Line

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 prior approval to transfer shares held by Subsidiary CTEEP to Abengoa Concessões Brasil Holding S.A. On March 15, 2011, ANEEL, through Authorization Decision No. 2814, approved the request for transfer of shares held by Subsidiary CTEEP to Abengoa Concessões Brasil Holding S.A. On April 7, 2011, Subsidiary CTEEP transferred the shares it held in Linha Verde to Abengoa Concessões Brasil Holding S.A.

Batch D - Porto Velho – Rio Branco Transmission Line

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 venture.

On October 29, 2010, Rio Branco filed a request with ANEEL for prior approval to transfer shares held by Subsidiary CTEEP to Centrais Elétricas do Norte do Brasil S.A. – Eletronorte. On February 15, 2011, ANEEL, through Authorization Decision No. 2774, approved the request for transfer of shares held by Subsidiary CTEEP to Centrais Elétricas do Norte do Brasil S.A. – Eletronorte. On May 5, 2011, CTEEP transferred shares it held in Rio Branco to Centrais Elétricas do Norte do Brasil S.A.

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 substation of 500/230 kV. Transmissora Matogrossense de Energia S.A. was incorporated on July 2, 2009 to develop this venture. On May 14, 2010, Subsidiary CTEEP transferred shares it held in Matogrossense to Mavi Engenharia e Contruções Ltda.

(ii) Auction 001/2011

On June 10, 2011, through ANEEL auction No. 001/2011, in a public session on BM&FBOVESPA, Subsidiary CTEEP constituted, together with Companhia Hidro Elétrica do São Francisco - Chesf, the Extremoz consortium, which bought at the auction batch A, comprising LT Ceará-Mirim - João Câmara II, of 500 kV with 64 km; LT Ceará-Mirim - Campina Grande III, of 500 kV with 201 km; LT Ceará-Mirim - Extremoz II, of 230 kV with 26 km; LT Campina Grande III - Campina Grande II, with 8.5 km; SE João Câmara II of 500 kV, SE Campina Grande III of 500/230 kV and SE Ceará-Mirim of 500/230 kV.

This project involves estimated investment of R$ 622.0 million and Annual Revenue Allowed (RAP) of R$ 31.9 million, as of June 2011. Subsidiary CTEEP's ownership interest in the venture is 51%. Start up of operation is scheduled for August 2013.

2 Presentation of financial statements

2.1 Basis for preparation and presentation

The individual financial statements identified as “Company" 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 and in joint ventures by the equity pickup method. As such, these individual financial statements are not considered as in accordance with International Financial Reporting Standards (“IFRS”), under which such investments must be posted at fair value or cost.

The consolidated financial statements identified as “Consolidated” 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).

Considering that there is no difference between consolidated equity and consolidated P&L attributed to the Company's shareholders as stated in the consolidated financial statements prepared in accordance with IFRS and other accounting practices adopted in Brazil, and the Company's equity and P&L stated in individual financial statements prepared in accordance with accounting practices adopted in Brazil, the Company chose to present these individual and consolidated financial statements in one single statement, side by side.

Except for the P&L for the year, the Company has no other comprehensive income. Therefore, the statements of comprehensive income are not presented herein, since they are equivalent to the income statements for the year.

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.

2.2 Functional and reporting currency

The financial statements of the Company and each subsidiary are stated in reais, which is the currency of the main economic environment where those companies operate (“functional currency”).

2.3 Significant judgment, accounting 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.

- Record of concession agreements (ICPC 01 and OCPC 05)

When recording concession agreements, the Company 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 concession agreement and their respective characteristics are described in Notes 3.23 and 7.

- Time of financial asset recognition

Through its subsidiary CTEEP, the Company's 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. Such interest rate is determined by the concession agreement and it may be fixed or change according to new investments. If an entity reviews its estimated payment, revenue or interest rate, 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 revenue

When the concessionaire provides 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, the Company's 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.

- 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 subsidiary 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's shareholders' interests in realizing these assets, so as to leverage return on capital invested in concession, within legal limits.

In thousands of reais, except where otherwise stated

- 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.

2.4 Consolidation procedures

The consolidated financial statements include the financial statements of ISA Capital and its subsidiary CTEEP, as well as their direct, indirect and joint subsidiaries.

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, cease to exist.

At December 31, 2011, interest held in direct and indirect subsidiaries was as follows

		Interest %	
	Financial statements reporting date	**12.31.2011**	**12.31.2010**
Direct			
CTEEP	12.31.2011	37.8059	37.6041
Indirect			
Interligação Elétrica Pinheiros S.A. (Pinheiros)	12.31.2011	37.8059	37.6041
Interligação Elétrica Serra do Japi S.A. (Serra do Japi)	12.31.2011	37.8059	37.6041
Interligação Elétrica de Minas Gerais S.A. (IEMG)	12.31.2011	37.8059	22.5625
Indirect – jointly-controlled			
Interligação Elétrica Norte e Nordeste S.A. (IENNE)	12.31.2011	9.4515	9.4010
Interligação Elétrica do Sul S.A. (IESUL)	12.31.2011	18.9030	18.8021
Interligação Elétrica do Madeira S.A. (IEMADEIRA)	12.31.2011	19.2810	19.1781
Interligação Elétrica Garanhuns S.A. (IEGARANHUNS)	12.31.2011	19.2810	-

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 in all consolidated companies and their financial year matches that of the Company. All consolidated companies had their financial statements examined or reviewed by independent auditors for consolidation purposes.

2.5 Regulatory Financial Statements

Pursuant to Regulatory Decision No. 396 issued by ANEEL and published on February 23, 2010, Subsidiary CTEEP must disclose Regulatory Financial Statements (DCR), as from the year ended December 31, 2011.

DCR must contain reconciliation between income stated in the Income Statements for the Year (DRE) prepared for corporation law purposes and the income presented in the Regulatory Income Statements for the Year (DRE), as well as reconciliation between balances of accounts groups and subgroups contemplated in the company's balance sheets and regulatory balance sheets. ANEEL is still overseeing regulation details referring to preparation and review of regulatory financial statements. The date for completion and presentation thereof is April 30, 2012, but there is possibility of extension.

3 Significant accounting practices

3.1. Income and expense recognition

Income and expenses are recognized on an accrual basis.

3.2. Revenue recognition

Revenues are recognized as established by ICPC 01 (IFRIC 12 and OCPC 05 - see note 3.23). Concessionaires should record and measure revenues from services it renders in compliance with technical pronouncements CPC 17 (IAS 11) – Construction Contracts and CPC 30 (IAS 18) – Revenues (maintenance and operating services), even when such services are performed under a single concession agreement. Subsidiary CTEEP revenue comprises the following:

(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.

3.3. Income and social contribution taxes – current and deferred

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. The Company decided to adopt the Annual Taxable Profit regime and its subsidiary, CTEEP, as from 2009 chose the Quarterly Taxable Profit regime.

Current and deferred income and social contribution taxes are computed at a rate of 15%, plus 10% surtax on taxable profit exceeding R$240, whereas social contribution tax is computed at a rate of 9% on taxable profit. These consider offset of income and social contribution tax losses, limited to 30% of taxable profit, if any. Except for Interligação Elétrica de Minas Gerais S.A. (“IEMG”), Interligação Elétrica Pinheiros S.A. (“Pinheiros”), Interligação Elétrica do Sul S.A. (“IESUL”) and Interligação Elétrica Norte e Nordeste S.A. ("IENNE"), which chose the Taxable Profit regime, the other subsidiaries are in pre-operating phase for tax purposes, and do not compute current taxes on profit.

Deferred taxes arising from temporary differences were set up in compliance with CVM Ruling No. 371, of June 27, 2002, and CPC 32 (IAS 12) – 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.

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. Regulatory taxes and charges on revenue

(a) Taxes on sales

Revenues, expenses and assets are recognized net of taxes on sales, except when taxes on sales levied on the purchase of goods or services are not recoverable from the tax authorities. In such case, the taxes on sales are recognized as part of the acquisition cost of the asset or expense item, as applicable.

(b) Regulatory charges

The industry-related charges described below are part of the Government policy for the Electric Power Industry and are all defined by Law. Their amounts are set forth by decisions or orders issued by the National Electric Power (ANEEL), so that concessionaires may charge tariffs on electric power supply from consumers and are classified under regulatory charges payable account in the balance sheets.

(i) Fuel consumption account (CCC)

CCC was created by Decree No. 73102 of November 7, 1973. Its purpose is to reimburse part of total generation cost incurred with provision of electric power public service to isolated networks. Such cost comprises costs related to prices of electric power and associated power as agreed with distribution agents, charges and unrecovered taxes, electric power service provision in remote areas and engaging of capacity reserve to assure electric power supply safety.

(ii) Energy Development Account (CDE)

CDE was set forth by Law No. 10438 of April 26, 2002, for the purpose of providing resources to: i) energy development of States; ii) competitiveness of energy produced from eolic sources, small hydropower plants, biomass, natural gas and mineral coal, in areas served by the interconnected power networks; iii) promoting universalization of electric energy services in the whole Brazilian territory.

(iii) Alternative energy source program (PROINFA)

PROINFA was set forth by Law No. 10438 of April 26, 2002 and its objective is to increase the stake of renewable alternative sources in the electric power production in Brazil, such as: eolic power (wind), biomass and small hydropower plants.

(iv) Global reversion reserve (RGR)

RGR was instituted by Decree No. 41019 of February 26, 1957. It refers to an annual amount set forth by ANEEL, paid in twelve monthly installments by concessionaires, for the purpose of providing resources for reversal and/or takeover of electric power public services, as well as finance expansion and improvement of such services.

(v) Research and development (R&D)

Concessionaires of electric power public distribution, transmission or generation services, permitees of electric power public distribution services and companies authorized to generate electric power independently, except for those generating power exclusively through eolic, solar, biomass plants, performing qualified co-generation and small hydropower plants due to exemption, must apply a percentage of its net operating income in Technological Research and Development projects for the Electric Power Industry – R&D, in accordance with regulations set forth by ANEEL.

(vi) Inspection Charge (TFSEE)

TFSEE was set forth by Law No. 9427/1996 to be levied on electric power production, transmission, distribution and trading. It is set by ANEEL on an annual basis.

3.5. Financial instruments

(a) Financial assets

(vii) 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.

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 profit or loss*

Financial assets are classified at fair value through profit or loss when they are held for trading or recognized at fair value through profit or loss. 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 financial asset, and are included in "Other gains and losses" in 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.

A financial asset, other than those held for 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, 2011 and 2010, financial assets classified under this category are related to cash and cash equivalents and derivative financial instruments.

- *Held-to-maturity financial assets*

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 and 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, 2011 and 2010, the Company had no financial assets classified as held to maturity.

- *Available-for-sale financial assets*

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, 2011 and 2010, the Company had no financial asset classified as available for sale.

- *Loans 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, 2011 and 2010, the Company's financial assets classified under this category comprised accounts receivable (concession asset), receivables – State Finance Department and loans receivable.

(viii) 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 had 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. In

2011, CTEEP's management did not identify any objective evidence pointing to impairment of assets, and no provision was set up.

(ix) Financial assets write-off

The Subsidiary 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 Subsidiary 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, CTEEP 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 carrying amount and the matched-against sum received and receivable and accrued gain or loss will be recognized in "Other comprehensive income" and accumulated in equity. In 2011, no write-off of financial assets occurred that may impact contractual rights.

(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

In 2011, CTEEP and its subsidiary IEMadeira began to use derivative financial instruments.

Derivative financial instruments used in hedging operations are initially recognized at fair value on the date the derivative operation is engaged, and are subsequently revaluated also at fair value. Any gains or losses resulting from changes in derivatives fair value over the year are entered directly in income statements.

For a hedging transaction to qualify for *hedge accounting* purposes, the following requirements are required to be fulfilled:

- For the transaction initial date, there is formal documentation of the hedging transaction, specifying its classification as well as the objective and risk management strategy of company management to carry out the hedge. This documentation should include identification of the hedging instrument, the item or the hedged transaction, the nature of the risk hedged, the nature of the risks excluded from the hedge, the prospective demonstration of the effectiveness of the hedging relationship, and how the Company will evaluate the effectiveness of the hedging instrument to compensate for exposure to changes in fair value of the hedged item or cash flows related to the hedged risk;
- There is an expectation that the hedge is highly effective;
- The hedge effectiveness can be reliably measured; and
- The hedge is assessed on an ongoing basis and actually determined to be highly effective throughout the period of the life of the structure of hedge accounting.

At December 31, 2011, subsidiary CTEEP and its subsidiary IEMadeira had derivative instruments classified as fair value hedge.

An instrument is classified at fair value through profit or loss if held for trading or designated as such upon initial recognition. Financial instruments are recorded at fair value through profit or loss if the Company and/or its subsidiaries manage these investments and make the buying and selling decisions based on their fair value, according to the investment strategy and risk management documented by the Company and/or its subsidiaries. After initial recognition, changes in fair value of the hedging instrument and changes in fair value of the hedged item attributable to the hedged risk are recognized in the income statement line related to the hedged item.

3.6. 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.

3.7. Trade accounts receivable (concession assets)

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 CTEEP will be entitled to receive cash or other financial assets, while the concession contract remains effective. 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 subsidiary 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 Company’s shareholders’ interests in realizing these assets, so as to leverage return on capital invested in concession, within legal limits.

Based on recoverability assessment conducted by the Company, no allowance for doubtful accounts was set up.

3.8. Inventories

Inventories are storeroom maintenance items and are recorded for the lower between cost value and net realizable value. Inventory costs are determined under the average cost method.

3.9. Investments

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

3.10. 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 property, plant and equipment items increase. Any other expenses are recognized in P&L as expenses, when incurred.

The Company did not deem the property, plant and equipment balance relevant and, consequently, decided not to adopt the deemed cost method, pursuant to ICPC 10 (IAS 16 and 40) – Interpretation on First-Time Adoption for Property, Plant and Equipment and for Investment Property.

In addition, depreciation effects arising from the first periodic analysis of the remaining economic useful life of property, plant and equipment, as set forth in ICPC 10 (IAS 16 and 40), were not considered material by management.

3.11. Intangible assets

These refer to expenses incurred from ERP-SAP system implementation and Company's goodwill (note 15). Amortization is computed on the straight-line basis over the estimated period of useful life of the referred to system and goodwill amortized according to concession period.

In addition, amortization effects arising from the first periodic analysis of the remaining economic useful life of intangible assets, as set forth in ICPC 10 (IAS 16 and 40), were not considered material by management.

3.12. Lease agreements

(a) Subsidiary 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.

- *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 leaseholder

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 carrying amount and also recognized under the straight-line method along the lease agreement effective term.

3.13. Other current and non-current assets

These are stated at their net realizable value.

Provisions are set up at amounts at which assets are unlikely to realize on the balance sheets date.

3.14. Current and non-current liabilities

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

3.15. 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 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 their nature and on the opinion of the Company's and its subsidiary's legal advisors.

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 the related amount can be reliably measured.

Rationale and type of provision for tax, civil and labor contingencies are detailed in Note 21 (a).

3.16. 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.

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.

At December 31, 2011 and 2010, the Company did not recognize any actuarial assets or liabilities, as mentioned in Note 22.

3.17. Dividends and interest on equity

The dividend recognition policy is in compliance with CPC 24 (IAS 10) and ICPC 08, which determine that proposed dividends based on statutory obligations are to be recorded under current liabilities. Subsidiary CTEEP's by-laws establish minimum mandatory dividends equivalent to 10% of capital.

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

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

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

3.18. 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-making process.

CTEEP’s 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, CTEEP has only one business segment: electric power transmission.

3.19. Statements of value added (“SVA”)

The purpose of the statements of value added is to state the wealth created by the Company as well as its payment within a certain period, and these are presented by the Company pursuant to the Brazilian corporation law, as a part of its individual financial statements and as supplementary information to the consolidated financial statements, since the SVA is not compulsory under the IFRS.

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 loan losses), 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.

3.20. Statements of Cash Flows (SCF)

Statements of cash flows were prepared by the indirect method and are presented in accordance with CVM Ruling No. 547 of August 13, 2008, which approved accounting pronouncement CPC 03 (R2) – Statements of Cash Flows issued by CPC.

3.21. Present value adjustment of assets and liabilities

Long-term and short-term monetary assets and liabilities are adjusted to present value, when the effect is considered relevant in relation to the overall financial statements.

The adjustment to present value is calculated taking into account contractual cash flows and explicit interest rates, and in certain cases implicit interest rates of respective assets and liabilities. Therefore, interest rates accrued on revenues, expenses and costs associated with these assets and liabilities are discounted with a view to recognizing them in conformity with the accrual basis of accounting. Subsequently, this interest is reallocated to financial income and expenses in the statements of income/operations by using the effective interest rate method in relation to the contractual cash flows. Implicit interest rates applied were determined based on assumptions and are considered accounting estimates. At the financial statements dates, the Company and its subsidiaries did not have any adjustment to present value.

3.22. Earnings per share

The Company calculates earnings per share using the weighted average number of outstanding common shares during the period corresponding to the result, in accordance with accounting pronouncement CPC 41 (IAS 33).

Base earnings per share is computed by dividing net profit for the period by the average weighted number of shares issued. Computation of diluted earnings is affected by instruments convertible into shares, if any.

3.23. Service concession arrangements (ICPC 01 and OCPC 05 – IFRIC 12)

As from January 1, 2009, subsidiary CTEEP and its subsidiaries and joint subsidiaries adopted and used the ICPC 01 provisions, issued by CPC (which corresponds to IFRIC 12 of international accounting rules enacted by IASB), to classify and measure concession activities. This interpretation guides concessionaires on how to record public services concessions granted to private entities, when:

- grantor controls or regulates which services must be provided, to whom services must be provided and the price to be charged; and
- grantor controls – by ownership, usufruct or any other way – any significant residual interest in infrastructure at the end of the concession term.

For service concession arrangements under ICPC 01 (IFRIC 12), any built infrastructure extended, reinforced or improved by the concession operators should not be recorded as their property, plant and equipment, since concession contracts do not transfer to a concessionaire the right to control (or own) use of public services infrastructure. Concession operators are only entitled to assignment of such assets ownership for provision of public services, and these (property, plant and equipment) are returned to grantor after expiration of concession contract. Concessionaire is entitled to operate the infrastructure in order to provide public services on behalf of grantor, under contractual terms and conditions.

Therefore, under concession contracts within ICPC 01 (IFRIC 12) scope, the concessionaire is a service provider. The concessionaire builds, extends, reinforces or improves the infrastructure (construction services) used for public service provision, in addition to operating and maintaining such infrastructure (operation and maintenance services) during a certain period of time. Concessionaire must record and measure service income according to Technical Pronouncements CPC 17 – Construction Contracts (equivalent to the IAS 11 issued by IASB) and CPC 30 – Revenue (equivalent to IAS 18 issued by IASB). In the event a concessionaire performs more than one service (for instance, construction or improvements services and operation services) under one single contract, any remuneration received or receivable must be recognized based on fair value related to services provided, in the event the respective amounts are identifiable separately. Therefore, payment for construction services or improvements made in concession assets must be classified as financial asset, intangible asset or both.
A financial asset is generated to the extent that the concession operator has an unconditional contractual right to receive cash or other financial asset from grantor for construction services; and grantor has little or no other option to avoid payment, normally because the contract is enforceable by law. Concessionaire is unconditionally entitled to receive cash if grantor contractually assures that payment (a) of preset or determinable amounts or (b) insufficiency, if any, of amounts received from public service users with respect to preset or determinable amounts, even when payment is contingent on guarantee made by concessionaire that the infrastructure meets specific quality and efficiency requirements. An intangible asset is generated to the extent that the concession operator receives the right (authorization) to charge public service users. Such right does not correspond to an unconditional right to receive cash, since the amounts are conditioned to use of the public service provided. If concessionaire’s construction services are paid partially in financial asset and partially in intangible asset, each such concessionaire compensation item must be recorded separately. The compensation received or receivable of both assets must be initially recorded at their fair value received or receivable.

The criteria used to adopt interpretation of concessions held by Subsidiary CTEEP

Interpretation of ICPC 01 (IFRIC 12) was deemed applicable to all public-private service contracts to which CTEEP is a party.

All concessions were classified according to the financial asset model, and revenue and cost of construction sites related to financial assets are recognized under the evolution percentage rate method. Indemnification financial assets are recognized when construction is completed, and are included as construction service compensation.

ICPC 01 (IFRIC 12) provisions were applied to concessions related to subsidiaries IEMADEIRA, IESUL, IENNE, IEMG, Serra do Japi and Pinheiros. Considering that it not possible to reliably restate historical data, subsidiary CTEEP adopted prospective application as from January 1, 2009 for concession contracts existing on that date.

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 subsidiary 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 Company's 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 construction services compensation and is recognized when the construction work is completed.

Subsidiary CTEEP determined fair value of construction services considering that projects include margin sufficient to cover construction costs plus certain expenses for the construction period. The effective interest rate on financial assets generated by construction services was determined considering shareholders' expectancy of return on an asset of that nature.

Financial assets are classified as loans and receivables and the monthly financial revenue is recorded directly in P&L.

Construction revenue and financial revenue computed on construction financial asset are subject to deferral of cumulative Social Contribution Tax on Gross Revenue for Social Integration Program (PIS) and Social Contribution Tax on Gross Revenue for Social Security Financing (COFINS), recorded under "deferred taxes" account in non-current liabilities.

4. New and revised standards and interpretations not yet adopted

The new pronouncements, amendments to existing pronouncements and new interpretations below have been published and are mandatory for the year beginning on January 1, 2012 and subsequent years.

CPC has not yet edited the respective pronouncements and amendments related to new and reviewed IFRS described in this note. Due to CPC and CVM commitment to maintain the set of standards updated, based on updating made by IASB, these pronouncements and modifications are expected to be edited by CPC and approved by CVM up to its mandatory application date.

The Company and its subsidiaries chose not to resort to an early adoption of such amendments for their consolidated financial statements at December 31, 2011, and had no opportunity yet to assess their possible impact.

(a) IAS 1 - Presentation of financial statements

In June 2011, IASB introduced amendments to IAS 1 in connection with presentation of items recorded in equity valuation adjustments (other comprehensive income) in equity. Those amendments require that the Company aggregate items presented in that account according to its potential realization (transfer to) in retained earnings (accumulated losses).

(b) IAS 12 Income taxes

This amendment addressed the determination of deferred tax on investment properties measured at fair value. And introduced the refutable assumption that deferred tax on investment properties measured under the fair value model in IAS 40 should be defined based on the fact that its carrying amount will be recovered through sale. This amendment shall be effective for the annual periods beginning on or after January 1, 2012.

(c) IAS 19 Employee benefits

In June 2011, IASB amended IAS 19 in order to improve the following areas: (a) recognition of changes in net assets/liabilities on defined benefit plans; (b) benefit plan amendments, curtailments and settlements; (c) disclosure about defined benefit plans; (d) accounting of termination benefits; and (e) miscellaneous issues related to (i) classification of employee benefits; (ii) mortality rates estimates; (iii) administrative costs and tax; (iv) risk-sharing and condition indexation features. This standard shall be applicable for years beginning on or after January 1, 2013. Major impacts from application of this standard are (i) elimination of the corridor criteria and (ii) asset return estimate calculation using the same discount rate used to calculate the actuarial liability. Application of this standard shall require discontinuation of the corridor method and related records of actuarial gains or losses not recorded as contra entry to equity valuation adjustment account and use of actuarial liability discount rate in computation of return on assets.

(d) IAS 27 Consolidated and individual financial statements

IAS 27 was amended in 2011 due to issuance of IFRS 10 - Consolidated financial statements. Consequently, IAS 27 introduced requirements on preparation of individual financial statements. This standard is effective for years beginning on or after January 1, 2013.

(e) IAS 28 Investments in associates

IAS 28 was modified in 2011 to include joint ventures in the scope of this pronouncement, by virtue of equity method being applicable in investments in both affiliates and joint ventures. This standard is effective for years beginning on or after January 1, 2013.

(f) IFRS 9 Financial instruments – Classification and measurement

IFRS 9 completed the first phase of "IAS 39 - Financial Instruments: Recognition and Measurement" replacement project. IFRS 9 requires that all financial assets be classified under the same business model used to manage financial assets and under the contractual features of financial assets cash flows. Assets are initially measured at fair value adjusted at transaction costs, except when it is an asset assessed at fair value through profit or loss. Assets are assessed subsequently by the amortized cost method or by fair value. The standard also requires adoption of one single method to determine impairment losses of assets. This standard is effective for years beginning on or after January 1, 2013.

(g) IFRS 10 - Consolidated financial statements

IFRS 10 requires that the parent company present consolidated financial statements. IRFS 10 defines control principles and sets forth that controls are the base for determining entities that must be included in the consolidation of financial statements. An investor controls an investee if it is exposed or is entitled to variable returns due to its involvement with its investee, and is capable of causing an impact on such returns by means of its power on the respective investee. This standard is effective for years beginning on or after January 1, 2013.

(h) IFRS 11 – Joint arrangements

This IRFS replaces IAS 31 – Interests in Joint Ventures. IFRS 11 requires that a party to a joint arrangement determines its contractual type by evaluating its rights and obligations therein. IFRS classifies joint arrangements in 2 types – joint operation and joint venture. In a joint operation, the parties have rights to the assets, and obligations for the liabilities relating to the arrangement. In a joint venture, the parties have rights to the net assets of the arrangement. Evaluation of rights and obligations by the parties to a joint arrangement must take into account such arrangement structure and legal basis, the arrangement contractual terms and other facts and circumstances, when these are relevant. This standard is effective for years beginning on or after January 1, 2013.

(i) IFRS 12 - Disclosure of interests in other entities

IFRS 12 requires disclosure of information that would allow financial statements users to: (i) understand judgments and assumptions used in determining the type of interest in other entities or joint arrangements; (ii) understand the interest that non-controlling interests have in group's activities and cash flows; (iii) evaluate the nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities, of the group; (iv) evaluate the nature of, and changes in, the risks associated with its interests in consolidated structured entities; (v) evaluate the nature and extent of its interest in unconsolidated structured entities, as well as nature of, and changes in, the risks associated with such entities; (vi) evaluate the nature and extent of its interests in joint arrangements and associates, including the nature of, and changes in, risks associated with its these transactions; (vii) evaluate the consequences of changes in its ownership interest in a subsidiary that do not result in a loss of control; and (viii) evaluate the consequences of losing control of a subsidiary during the reporting period. This standard is effective for years beginning on or after January 1, 2013.

(j) IFRS 13 - Fair value measurement

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., exit price). This fair value definition points out that fair value is based on market valuation and not on specific valuation by an entity. Therefore, an entity's intention to keep an asset or to settle a liability is not relevant in determining its fair value. This standard is effective for years beginning on or after January 1, 2013.

CVM approved the following CPC technical pronouncements:

- CPC 15 R1 – Business Combination - CVM Ruling No. 665 of August 4, 2011;
- CPC 19 R1 – Interests in Joint Ventures - CVM Ruling No. 666 of August 4, 2011;
- CPC 35 R1 – Individual Financial Statements - CVM Ruling No. 667 of August 4, 2011;
- CPC 36 R2 – Consolidated Financial Statements - CVM Ruling No. 668 of August 9, 2011;
- CPC 20 R1 – Borrowing Costs - CVM Ruling No. 672 of October 20, 2011;
- CPC 21 R1 – Interim Reporting - CVM Ruling No. 673 of October 20, 2011;
- CPC 00 R1 – Framework for Preparation and Presentation of Financial Statements - CVM Ruling No. 675 of December 13, 2011;
- CPC 26 R1 – Presentation of Financial Statements - CVM Ruling No. 676 of December 13, 2011;
- ICPC 01 R1 – Concession Contracts - CVM Ruling No. 677 of December 13, 2011; and
- ICPC 17 – Concession Contracts: Evidence - CVM Ruling No. 677 of December 13, 2011.

5. Obligations 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, 2011, the amount to supplement purchase price is composed of two different transactions, as follows:

a) The amount of R$238,884 (December 31, 2010 – R$223,921), determined upon acquisition of the first equity interest through the privatization auction held on June 28, 2006, recorded in "Amounts payable – Law No. 4819/58 – State Finance Department" account, R$6,335 (December 31, 2010 – R$8,423) in current liabilities and R$232,549 (December 31, 2010 - R$215,498) in noncurrent liabilities, the contra entry, in the amount of R$ 188,895, was to “Investments – goodwill on acquisition of equity interest in subsidiary”, and the difference of R$49,989 was recognized in the income statement as monetary restatement of the obligation, in accordance with the Consumer Price Index- Amplified (IPC-A) as from December 31, 2005. The amount of R$12,803 was recognized in the income statement for 2011.

In thousands of reais, except where otherwise stated

b) The amount of R$149,783 (December 31, 2010 - R$ 140,402), determined upon acquisition of the third equity interest through public offer for purchase of shares at auction (OPA), held on January 9, 2007, recorded in “Amounts payable – Law No. 4819/59 - OPA” account, R$ 3,715 (December 31, 2010 – R$ 4,946) in current liabilities and R$146,068 (December 31, 2012 – R$ 135,456) in non-current liabilities, the contra entry, in the amount of R$ 120,306, was to “Investments – goodwill on acquisition of equity interest in subsidiary” account, and the difference of R$29,477 was recognized in income statement as monetary restatement of the obligation, in accordance with the Consumer Price Index- Amplified (IPC-A) as from December 31, 2005. The amount of R$8,184 was recognized in the income statement for 2011.

6. Cash and cash equivalents

	Company		Consolidated	
	12.31.2011	12.31.2010	12.31.2011	12.31.2010
Cash and banks	205	70	2,081	697
Short-term investments (i)	351,362	257,191	556,781	311,547
	351,567	**257,261**	**558,862**	**312,244**

Breakdown of short-term investments is as follows:

		Company		Consolidated	
	% of CDI	12.31.2011	12.31.2010	12.31.2011	12.31.2010
Bank deposit certificates (CDB)	97.5% to 105.0%	294,028	181,476	344,174	235,831
Repurchase agreements (*)	97.0% to 102.8%	61,289	75,715	216,562	75,716
Provision for IRRF		(3,955)	-	(3,955)	-
		351,362	**257,191**	**556,781**	**311,547**

Short-term investments are measured at fair value through P&L and offer daily liquidity.

Analysis of the Company management as to these assets exposure to interest rate risk, among others, is disclosed in Note 31 (c).

(*) Repurchase agreements are notes issued by banks, provided that the issuing bank repurchases such note and the client sells it at predefined rates and terms, guaranteed by private or public notes, depending on the bank's availability. Such repurchase agreements must be registered at Clearing House for the Custody and Financial Settlement of Securities (CETIP).

In thousands of reais, except where otherwise stated

7. Trade accounts receivable (concession assets)

Breakdown of trade accounts receivable is as follows:

	Consolidated	
	12.31.2011	**12.31.2010**
Receivables from construction services (a)	6,565,661	5,405,440
Receivables from O&M services (b)	244,160	175,912
Acknowledgment of debt and payment agreement (c)	-	68,347
	6,809,821	**5,649,699**
Current portion	**1,474,794**	**1,424,390**
Non-current portion	**5,335,027**	**4,225,309**

(a) 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 the subsidiary 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) O&M – Operation and Maintenance 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, Subsidiary 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 2011, all installments had been received as provided for therein.
These financial assets are classified as lending and receivables.

Accounts receivable are distributed by maturity as follows:

	Consolidated	
	12.31.2011	**12.31.2010**
Falling due	6,784,301	5,633,208
Overdue		
up to 30 days	1,353	1,498
from 31 to 60 days	598	846
over 61 days (i)	23,569	14,147
	25,520	**16,491**
	6,809,821	**5,649,699**

(i) Certain network members challenged balances billed in connection with the Basic Network. By virtue of this challenge, judicial deposits of amounts owed by such members are currently being made. Subsidiary CTEEP believes that the amounts billed agree with authorizations by regulatory agencies. Therefore, it does not record any provision for losses related to such questionings.

Subsidiary CTEEP has no history of losses on accounts receivable, which are secured by structures of guarantees and/or access to current accounts operated by the National System Operator (ONS) or directly by CTEEP and, therefore, did not set up any allowance for doubtful accounts.

In thousands of reais, except where otherwise stated

Changes in accounts receivable are as follows:

	Consolidated
Balances at 12.31.2009	**5,087,285**
Construction revenue	693,803
Financial income	1,398,245
Maintenance and operating revenue	442,469
Settlement	(1,972,103)
Balances at 12.31.2010	**5,649,699**
Construction revenue	1,103,686
Financial income	1,589,969
Maintenance and operating revenue	555,127
Settlement	(2,088,660)
Balances at 12.31.2011	**6,809,821**

8. Receivables - State Finance Department

	2011			2010
	Current portion	**Non-current portion**	**Total**	**Total**
Obligation acknowledgment and consolidation agreement (a)	12,341	-	12,341	30,069
Disposal of real estate (b)	2,565	-	2,565	6,250
Payroll processing – Law No. 4819/58 (c)	-	658,764	658,764	533,866
Labor claims – Law No. 4819/58 (d)	-	151,986	151,986	133,882
Family allowance – Law No. 4819/58 (e)	-	2,218	2,218	2,218
Allowance for doubtful accounts	-	(2,218)	(2,218)	(2,218)
	14,906	**810,750**	**825,656**	**704,067**

(a) On May 2, 2002, an Obligation Acknowledgment and Consolidation Agreement was executed with the State Finance Department, whereby the State acknowledges that it owes to subsidiary CTEEP amounts corresponding to payments 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 subsidiary CTEEP 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 CTEEP 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) These refer to amounts receivable to settle the payroll portion of the supplementary pension plan regulated by the State Law No. 4819/58, from January 2005 to December 2011 (note 33). Such balance is not monetarily restated and no yields are recorded until they are approved by the State Government. Increase in relation to the previous year is related to settlement by CTEEP of the obligation to pay to retired employees the amounts agreed with Fundação CESP on a monthly basis.

In thousands of reais, except where otherwise stated

(d) These refer to certain labor claims settled by Subsidiary 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.

(e) CESP made payment advances for monthly expenses relating to family allowances, arising from State Law No. 4819/58 benefits, which were transferred to Subsidiary CTEEP upon CESP partial spin-off. Considering the expected loss, management set up an allowance for loan losses under noncurrent assets, amounting to R$2,218.

There were no significant changes in the status of the respective claims in relation to December 31, 2010.

9. Taxes and contributions to offset

	Company		Consolidated	
	12.31.2011	**12.31.2010**	**12.31.2011**	**12.31.2010**
COFINS	-	-	1,016	3,273
PIS	-	-	305	803
Withholding income tax	44,950	36,806	53,467	42,425
Withholding social contribution tax	-	-	939	776
Other	-	-	549	759
	44,950	**36,806**	**56,276**	**48,036**

10. Tax benefit – merged goodwill – Company and consolidated

The goodwill paid by ISA Capital on acquisition of Subsidiary 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 Ruling No. 247 of March 27, 1996, as amended by CVM Ruling 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) and a special merger goodwill reserve were 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:

In thousands of reais, except where otherwise stated

	Amortization - % p.a.		
	Concession agreement		
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 financial position of the Company in its interim financial statements, net amount of R$119,079 (R$ 147,911 at December 31, 2010), which essentially represents the merged tax credit, was classified in the balance sheet as current and non-current assets as tax benefit – merged goodwill, based on expected realization, and separately from the remaining goodwill, which is classified in intangible assets.

Changes for the years ended December 31, 2011 and 2010 are the following:

	Total Goodwill	Intangible Assets (Note 15)	Tax Benefit
Balances at 12.31.2009	**519,834**	**343,091**	**176,743**
Realization for the year	(84,800)	(55,968)	(28,832)
Balances at 12.31.2010	**435,034**	**287,123**	**147,911**
Balances at 12.31.2010	**435,034**	**287,123**	**147,911**
Realization for the year	(84,800)	(55,968)	(28,832)
Balances at 12.31.2011	**350,234**	**231,155**	**119,079**

Amortization is recorded in income statements under other expenses, net (Note 28).

11. Loans receivable

The loan refers to full on-lending by the Company to its controlling company Interconexión Elétrica S.A. ESP of the loan raised in 2006 from ABN AMRO BANK, denominated in US dollars, in the original amount of US$ 23,800 thousand, whose maturity in a lump sum was on July 19, 2007 and interest calculated based on LIBOR, plus 3.00% p.a. The Company maintained the same assumptions for updating such operation, bearing semi-annual interest thereon; however, principal is to be repaid within eight years in a lump sum payable on January 30, 2017.

On December 15, 2011, ISA Capital entered into a loan agreement with Internexa Brasil amounting to R$9,364, expiring on December 28, 2012 and bearing interest based on Interbank Deposit Certificate (CDI variation) plus 0.72% p.a. Such interest shall be payable on a quarterly basis.

Balance breakdown is as follows:

	12.31.2011	12.31.2010
Principal	60,510	51,146
Interest	38	8
Exchange variation	(6,502)	(11,491)
Total	**54,046**	**39,663**
Current (Note 30)	9,393	-
Non-current (Note 30)	44,653	39,663

In thousands of reais, except where otherwise stated

12. Pledges and restricted deposits

Company

These refer to a deposit in Bank of New York to guarantee interest paid biannually, which are related to bonds remaining after debt restructure. The balance of the account recorded in current assets at December 31, 2011 in the amount of R$2,612 (R$2,320 at December 31, 2010).

Consolidated

In non-current assets, in view of the uncertainties regarding the outcome of the lawsuits to which the deposits refer, the Company'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:

	Company		Consolidated	
	12.31.2011	**12.31.2010**	**12.31.2011**	**12.31.2010**
Notices of violation – ANEEL (Note 21 (a) (iv))	-	-	6,076	5,723
Judicial deposits	-	-	-	-
Labor (Note 20(a)(i))	-	-	52,867	27,914
Tax – COFINS (b)	-	-	-	5,668
Social security – INSS (Note 21 (a) (iii))	-	-	2,745	2,745
Deposit - BANK of NEW YORK (Guarantee)	2,612	2,320	2,612	2,320
Other	-	-	198	198
	2,612	**2,320**	**64,498**	**44,568**
Current portion	2,612	2,320	2,612	2,320
Non-current portion	-	-	61,886	42,248

(a) These refer to deposits in connection with lawsuits to annul notices of violation issued by ANEEL:

(i) Deposit made on January 17, 2000, in the amount of R$3,040, in an annulment action filed by subsidiary CTEEP against ANEEL, related to notice of violation 001/1999-SFE which had fined subsidiary CTEEP 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.

(ii) 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 transformer bank of SE Baixada Santista, authorized by ANEEL Rule No. 197 of May 4, 2004.

(iii) Deposit made on September 17, 2008, amounting to R$ 544, for annulment of notice of violation No. 001/2008, related to noncompliance with the date set for start-up of the Guarulhos - Anhanguera Transmission Line, in 345 kV, permitted by Authorizing Resolution No. 064/2005 of January 31, 2005.

In thousands of reais, except where otherwise stated

(iv) Deposit made on April 18, 2011, amounting to R$ 353, for annulment of notice of violation No. 022/10, which imposed a fine on subsidiary CTEEP due to a fact occurred on April 1, 2009, in Substation (SE) 88kV sector, consisting of an automatic shutdown of the transformer bank due to overheating caused by the SE cooling system that would have been the subsidiary CTEEP's fault.

(b) Judicial deposits – COFINS

Subsidiary CTEEP has challenged in court the constitutionality of increased COFINS tax base, amounting to R$ 11,132, and obtained a favorable outcome. In October 2009, subsidiary CTEEP withdraw the portion related to its restatement. In addition, in September 2011, subsidiary CTEEP received R$ 11,594 for monetary restatement of judicial deposits. Subsidiary CTEEP recorded financial income gain, since the balance recorded on that date was R$ 5,668.

13. Investments

(a) Information on investments in subsidiaries

Information on subsidiary CTEEP

	12.31.2011	**12.31.2010**
Number of outstanding shares as of balance sheet date		
Common - ON	64,484,433	63,860,513
Preferred - PN	88,177,132	87,968,467
Total	152,661,565	151,828,980
Equity		
Capital	1,162,626	1,119,911
Capital reserves	2,054,370	2,054,369
Special goodwill reserve (i)	147,911	176,744
Income reserve	1,142,512	1,014,124
Proposed additional dividend distribution	31,349	198,021
Future capital contribution	666	666
Total	4,539,434	4,563,835
Net income for the year	915,260	812,171

(b) Information on investments

	12.31.2011	**12.31.2010**
Shares held – ON outstanding as of balance sheet date	57,715,128	57,093,869
CTEEP Equity	4,539,434	4,563,835
(-) Special goodwill reserve (i)	(147,911)	(176,744)
CTEEP Equity (equity pickup base)	4,391,523	4,387,091
Percentage of ownership interest of CTEEP	37.8059%	37.6041%
Investment (A)	**1,660,254**	**1,649,726**
Goodwill		
Unamortized goodwill	231,155	287,123
Goodwill – special reserve (i)	147,911	176,744
Total goodwill (*) (B)	**379,066**	**463,867**
Total investment (A+B)	**2,039,320**	**2,113,593**

(c) Changes in investment

In thousands of reais, except where otherwise stated

Balance at December 31, 2009	**2,220,298**
Equity pickup adjustment	(3,171)
Equity pickup	306,266
Dividends stated for the period (*)	(259,287)
Interest on equity stated for the period (*)	(94,546)
Amortization of goodwill	(55,968)
Balance at December 31, 2010	**2,113,593**
Subscription of shares through special goodwill reserve	28,832
Acquisition of new shares	3,262
Loss in acquisition of new shares	(7,488)
Equity pickup	345,777
Dividends stated for the period (*)	(264,009)
Interest on equity stated for the period (*)	(95,847)
Amortization of goodwill	(55,968)
Realization of special goodwill reserve – payment of shares	(28,832)
Balance at December 31, 2011	**2,039,320**

(*) Over the year, the Company received R$340,872 (R$287,908 in 2010) from CTEEP referring to dividends and interest on equity computed for the period and the remaining 2010 balance payable.

(d) Transactions in subsidiaries

On August 6, 2010, Cymi Holding S.A. notified subsidiary CTEEP of its intention to dispose of its interests in IEMG capital, corresponding to 40% of total capital, to a third party, for R$14,531 thousand. A meeting held by CTEEP's Board of Directors on September 6, 2010 approved the call option to buy 40% of IEMG shares held by Cymi Holding S.A., under the terms and conditions of an offer made by a third party.

After fulfilling all conditions precedent on February 3, 2011, CTEEP paid R$ 15,283 for acquisition of interests in IEMG. Such amount corresponds to the monetarily restated price (Note 28.i).

In thousands of reais, except where otherwise stated

14. Property plant and equipment

This substantially refers to chattel used by the Company and its subsidiary CTEEP, not related to the concession agreement.

	Annual average depreciation rate				Company
				12.31.2011	12.31.2010
	%	Cost	Accumulated depreciation	Net	Net
In operation					
Machinery and equipment	16%	65	(33)	32	13
Furniture and fixtures	10%	31	(12)	19	22
Other	4%	5	(4)	1	2
		101	**(49)**	**52**	**37**

	Annual average depreciation rate				Consolidated
				12.31.2011	12.31.2010
	%	Cost	Accumulated depreciation	Net	Net
In operation					
Leasehold improvements	20%	3,148	(3,086)	62	818
Machinery and equipment	16%	10,436	(4,968)	5,468	4,698
Furniture and fixture	10%	2,759	(1,030)	1,729	1,734
Vehicles	21%	1,536	(803)	733	943
Other	4%	1,116	(272)	844	1,038
		18,995	**(10,159)**	**8,836**	**9,231**

In thousands of reais, except where otherwise stated

Changes in property, plant and equipment are as follows:

	Balance at December 31, 2009	Additions	Depreciation	Write-offs	Balance at December 31, 2010
					Company
Machinery and equipment	20	-	(7)	-	13
Furniture and fixture	23	2	(3)	-	22
Other	3	-	(1)		2
	46	**2**	**(11)**	**-**	**37**

	Balance at December 31, 2010	Additions	Depreciation	Write-offs	Balance at December 31, 2011
					Company
Machinery and equipment	13	28	(9)	-	32
Furniture and fixture	22	-	(3)	-	19
Other	2	-	(1)	-	1
	37	**28**	**(13)**	**-**	**52**

	Balance at December 31, 2009	Additions	Depreciation	Write-offs	Balance at December 31, 2010
					Consolidated
Leasehold improvements	1,530	25	(737)	-	818
Machinery and equipment	5,233	2,558	(1,860)	(1,143)	4,788
Furniture and fixture	2,264	199	(285)	(388)	1,790
Vehicles	336	825	(187)	(31)	943
Other	943	-	(51)	-	892
	10,306	**3,607**	**(3,120)**	**(1,562)**	**9,231**

In thousands of reais, except where otherwise stated

					Consolidated
	Balance at December 31, 2010	Additions	Depreciation	Write-offs	Balance at December 31, 2011
Leasehold improvements	818	-	(756)	-	62
Machinery and equipment	4,788	2,225	(1,526)	(19)	5,468
Furniture and fixture	1,790	206	(260)	(7)	1,729
Vehicles	943	70	(280)	-	733
Other	892	2	(47)	(3)	844
	9,231	**2,503**	**(2,869)**	**(29)**	**8,836**

15. Intangible assets

Intangible assets refer to expenses incurred in the ERP-SAP implementation/structuring project, except for training expenses that were recorded in the income statement and for the goodwill from CTEEP acquisition. The project started in April 2008 and was concluded in February 2009, being amortized on the straight line basis over the period of 5 years.

The goodwill paid by ISA Capital 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 Ruling No. 247 of March 27, 1996, as amended by CVM Ruling No. 285 of July 31, 1998. Goodwill is currently being amortized in accordance with the concession contract that expires in 2015.

Changes in intangible assets is as follows:

			Consolidated
	Goodwill	**Software**	**Total**
Balance at December 31, 2009	**343,091**	**12,881**	**355,972**
Additions	-	-	-
Amortization of software expenses	-	(2,938)	(2,938)
Amortization of goodwill	(55,968)	-	(55,968)
			-
Balance at December 31, 2010	**287,123**	**9,943**	**297,066**
Additions	-	2,336	2,336
Amortization of software expenses	-	(3,282)	(3,282)
Amortization of goodwill	(55,968)	-	(55,968)
Balance at December 31, 2011	**231,155**	**8,997**	**240,152**

In thousands of reais, except where otherwise stated

16. Loans and financing

Breakdown of loans and financing balance is as follows:

	Consolidated			
	Charges	Maturity (dd/mm/yy)	12.31.2011	12.31.2010
Foreign currency				
Bonds (a)	8.8%p.a.	30.01.2017	61,548	54,671
Foreign currency under hedge accounting (d)				
CCB Internacional Banco IBBA (i)	US$ Variation + 4% p.a.	26.04.2013	122,077	-
Commercial Paper - JP Morgan Bank (ii)	US$ Variation + 2.1% p.a.	21.10.2013	159,116	-
Local currency				
BNDES (b) (i)	2.3% p.a. above TJLP	15.06.2015	328,318	421,146
BNDES (b) (ii)	1.8% p.a. above TJLP	15.06.2015	196,251	160,605
BNDES (b) (iii)	2.4% p.a. above TJLP	15.04.2023	57,631	37,630
BNDES (b) (iv)	2.8% p.a. above TJLP	15.07.2012	229,947	185,134
BNDES (b) (v)	2.8% p.a. above TJLP	15.07.2012	71,890	-
BNDES (b) (vi)	2.4% p.a. above TJLP	15.05.2025	9,568	-
BNDES (b) (vii)	2.6% p.a. above TJLP	15.05.2025	125,434	-
BNDES (b) (viii)	1.9% p.a. above TJLP	15.06.2026	48,282	-
BNDES (b) (viii)	1.5% p.a. above TJLP	15.06.2026	42,217	-
Promissory notes				
4th issue (c) (i)	CDI + 0.4% p.a.	12.01.2012	223,048	-
5th issue (c) (ii)	CDI + 0.4% p.a.	05.07.2012	316,885	-
Banco Bradesco (e)	CDI + 2.0% p.a.	-	4,365	1,396
Banco do Nordeste (f)	10.0% p.a.	19.05.2030	55,898	56,094
Citibank (g)	CDI + 1.5% p.a.	11.03.2011	-	8,297
Eletrobrás	8.0% p.a.	15.11.2021	391	441
Finance lease transactions			619	1,702
Total foreign and local currencies			**2,053,485**	**927,116**
Current portion			**1,009,850**	**334,347**
Non-current portion			**1,043,635**	**592,769**

(a) Issue of bonds on January 29, 2007 in the amount of US$ 554 million

The issue had as agents JP Morgan S.A. and ABN Amro Real S.A. and was divided into two tranches: one in the amount of US$ 200 million, with five-year term maturing in 2012, interest rate of 7.875% p.a., and call option in 2010 and 2011; and the other tranche in the amount of US$ 354 million, with ten-year term maturing in 2017 and interest rate of 8.8% p.a.

(i) Restructuring of foreign-currency-denominated debt - Bonds

Following ISA Group strategy, which aims at expanding its businesses in Brazil, ISA Capital management conducted studies, denominated REDI project, in order to restructure its debt in foreign currency – bonds and reduce the cost of such indebtedness, concurrently creating favorable conditions allowing expansion of the activities of the Company and its subsidiaries.

- 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 in 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 2010 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 semi-annual basis, in January and July each year, at the rate of 8.8% p.a.

- Bonds of US$ 200.0 million 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 debentures for exercising the call option in 2010, ISA Capital disbursed US$ 212.6 million, equivalent to R$ 380.8 million, for bond repurchase, as follows: (i) Principal of US$ 200.0 million, equivalent to R$358.2 million; (ii) Consent fee of US$7.9 million, equivalent to R$14.1 million; (iii) pro-rata interest of US$2.4 million equivalent to R$4.4 million; and (iv) taxes levied on transfers of US$2.3 million, equivalent to R$4.1 million.

The effects of that transaction on the Company's P&L are shown in Note 27.

(b) BNDES

(i) On September 17, 2007, subsidiary 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$601.7 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 from banks Bradesco, Santander and Banco do Brasil, effective up to December 15, 2015, at the cost of 0.7% p.a., with quarterly maturities. Financial indicators established in contract are: Net debt/EBITDA = 3.5 and net debt/(net debt + equity) = 0.6.

(ii) On November 18, 2008, subsidiary CTEEP entered into a R$329.1 million loan agreement with BNDES. Repayment is in 54 monthly installments as from January 2011. Up to the beginning of repayment, charges were paid on quarterly basis. As guarantee, subsidiary CTEEP has given bank sureties taken out effective up to June 15, 2015 from Banco Bradesco S.A., at the cost of 1.2% p.a., with quarterly maturities. Financial indicators established in contract are: Net debt/EBITDA = 3.5 and net debt/(net debt + equity) = 0.6.

(iii) On January 14, 2009 CTEEP 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 is in 168 monthly installments as from May 15, 2009. As guarantee, the Company has given bank sureties taken out from HSBC bank, effective until March 18, 2010. The need of bank guarantee was dispensed with by BNDES, since IEMG attained Debt Coverage Ratio (ICSD) of 1.3% and thus met the condition in the financing agreement.

(iv) On August 11, 2010, CTEEP subsidiary IEMadeira entered into a R$ 292.6 million and a R$ 108.7 million loan agreement with BNDES. The amounts of R$ 163.0 million, R$ 110.0 million, R$ 37.7 million, R$ 36.7 million, R$ 40.0 million and R$ 13.9 million were drawn down on August 30, October 26, November 24 and December 27, 2010 and June 27 and December 14, 2011, respectively, corresponding to total funds. The amount is intended to finance the construction of the Transmission Lines and Substations provided for in the concession agreements. Repayment, which will take place in a lump sum including charges, was extended from on January 15, 2012 to July 15, 2012 (Note 36b). As guarantee, the Company has given bank sureties taken out from Banco Bradesco, Banco Espírito Santo - BES and Santander at the cost of 0.7% p.a.

(v) On December 14, 2011, Subsidiary CTEEP subsidiary IEMadeira entered into a R$280.0 million loan agreement with BNDES. R$140.8 million were released on December 29, 2011. 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 on January 15, 2012. As guarantee, the Company has given bank sureties taken out from Banco Itaú BBA, at the cost of 0.3% p.a.

(vi) On December 21, 2010, Subsidiary CTEEP, subsidiary IESUL entered into a R$18.1 million financing agreement with BNDES. Such amount was released on February 24, 2011. The amount is intended to finance the construction of the Transmission Lines and Substations provided for in the concession agreements. Repayment is in 168 monthly installments as from June 15, 2011. As guarantee, the Company has given bank sureties taken out from Branco do Brasil, effective until December 21, 2012, at the cost of 0.95% p.a., with semi-annual maturities. IESUL is required to keep ICSD of at least 1.3, computed on an annual basis, throughout repayment period and after collaterals are released.

(vii) On December 30, 2010, CTEEP subsidiary IEPinheiros entered into a R$ 119.9 million loan agreement with BNDES. The amount of R$ 91.3 million and R$ 28.6 million was drawn down on January 28 and April 27, 2011, respectively, corresponding to total funds. 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 168 monthly installments as from September 15, 2011. As guarantee, the Company has given bank sureties contracted effective up to January 17, 2013 from Banco Bradesco S.A., at the cost of 0.48% p.a., with quarterly maturities. IEPinheiros is required to keep ICSD of at least 1.3, computed on an annual basis, throughout repayment period and after collaterals are released.

(viii) On October 28, 2011, CTEEP subsidiary Serra do Japi entered into a R$93.3 million loan agreement with BNDES. R$75.0 and R$15.0 million were drawn down on November 18, and December 12, 2011, respectively. The remaining amounts are expected to be released in February 2012. The amount is intended to finance Transmission Lines and Substations provided for in the concession agreements. Repayment will take place in 168 monthly installments as from June 15, 2012. As guarantee, the Company has given bank sureties contracted effective up to February 28, 2014 from Banco Bradesco S.A., at the cost of 0.65% p.a., with quarterly maturities. Serra do Japi is required to keep ICSD of at least 1.2, computed on an annual basis, throughout repayment period and after collaterals are released.

(c) Promissory notes

(i) 4th issue – issued on January 17, 2011 amounting to R$ 200.0 million and settled on January 11, 2012 (note 36.b). Nominal charges correspond to CDI + 0.4 p.a. The cost of issue of these promissory notes totaled R$ 132 and, in accordance with CPC 08 (IAS 39), they were recorded reducing the amount raised and posted to P&L over the transaction term. No guarantee was provided for the promissory notes.

(ii) 5th issue – issued on July 11, 2011 by subsidiary CTEEP, amounting to R$ 300.0 million and maturing on July 5, 2012. Nominal charges correspond to CDI + 0.4% p.a. The cost of issue of these promissory notes totaled R$ 190 and, in accordance with CPC 08 (IAS 39), they were recorded reducing the amount raised and posted to P&L over the transaction term. No guarantee was provided for the promissory notes.

Promissory notes issued by IEMadeira on May 18, 2011, amounting to R$ 180.0 million, were settled on September 15, 2011.

Promissory notes issued by Serra do Japi on April 27, 2011, amounting to R$ 70.0 million, were settled on July 27, 2011.

(d) Foreign currency with hedge accounting

(i) On April 20, 2011, subsidiary CTEEP entered into an international bank credit bill agreement with Banco Itaú BBA Nassau, under the terms of Law No. 4131, of September 3, 1962, amounting to USD 63,694 thousand bearing exchange variation + 4% p.a. In addition, a Swap instrument was taken out from Banco Itaú BBA with the notional value of R$100.0 million and restated by 103.50% of CDI. The effects of taking out such swap instrument are described in Note 31. The operation has final maturity on April 26, 2013. Banco Itaú BBA is guaranteed by the credit rights resulting from adventitious swap operation positive balance adjustment.

(ii) On October 17, 2011, a US$85,788 thousand long-term loan agreement was entered into with JP Morgan Chase Bank, maturing on October 21, 2013 and bearing exchange variation + 2.1% p.a. In addition, a Swap instrument was taken out from JP Morgan Bank with the notional value of R$150.0 million and restated by 98.3% of CDI. The effects of this instrument are described in Note 31.

(e) CTEEP subsidiary IENNE's secured account with a R$ 20.0 million limit with Banco Bradesco S.A. Nominal charges correspond to 100.0% of CDI + 2.0%p.a.

In thousands of reais, except where otherwise stated

(f) On May 19, 2010, CTEEP 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 in between substations Colinas do Tocantins and São João do Piauí. 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 taken out from Banco Bradesco S.A., effective up to July 15, 2011, at the cost of 1.8% p.a., with quarterly maturities. On June 9, 2011, maturity of such bank surety was extended to July 8, 2012.

(g) On August 4, 2010, CTEEP subsidiary IESUL entered into a R$ 17.0 million limit bank credit bill agreement with Citibank S.A., settled on March 3, 2011. Charges levied thereon were paid on a monthly basis.

All covenants established in the agreements have been duly observed and met by the Company and its subsidiaries to the date.

Maturities of noncurrent portions are set out as follows:

		Company		**Consolidated**
	12.31.2011	**12.31.2010**	**12.31.2011**	**12.31.2010**
2012	-	-	-	132,449
2013	-	-	451,771	132,963
2014	-	-	172,425	133,201
2015	-	-	98,201	69,183
2016	-	-	23,975	5,161
After 2016	59,371	52,737	297,263	119,812
	59,371	**52,737**	**1,043,635**	**592,769**

Changes in loans and financing are as follows:

	Company	**Consolidated**
Balance at December 31, 2009	**1,017,816**	**2,067,226**
New loans	-	444,869
Payments (principal and interest)	(1,255,324)	(1,929,219)
Changes in interest in subsidiary (IESUL)	-	(11,768)
Interest, inflation and foreign exchange adjustments	292,179	356,008
Balance at December 31, 2010	**54,671**	**927,116**
Additions	-	1,350,266
Payments (principal and interest)	(4,498)	(387,659)
Interest, inflation and foreign exchange adjustments	11,375	163,762
Balance at December 31, 2011	**61,548**	**2,053,485**

In thousands of reais, except where otherwise stated

17. Debentures

	Maturity (dd/mm/yy)	Number of debentures	Charges	Consolidated 2011	Consolidated 2010
1st series	15.12.2014	49,100	CDI + 1.3% p.a.	490,736	490,405
2nd series	15.12.2017	5,760	IPCA + 8.1% p.a.	67,117	65,388
Single series IEMadeira	15.09.2012	420	106.5% of CDI p.a.	221,608	-
				779,461	**555,793**
Current portion				**389,825**	**2,154**
Non-current portion				**389,636**	**553,639**

In December 2009, subsidiary CTEEP issued 54,860 debentures amounting to R$ 548.6 million, with the respective cash inflow in January 2010. The 1st series will be repaid on the following dates: December 15, 2012, 2013 and 2014; remuneration will be paid on a semi-annual basis, on June 15 and December 15 of each year, the third one took place on June 15, 2011, and forth one on December 15, 2011.

The 2nd series will be repaid on the following dates: June 15, 2014, December 15, 2015, 2016 and 2017; remuneration will be paid on the following dates: June 15, 2011, 2012, 2013, 2014, December 15, 2015, 2016 and 2017, and the first one took place on June 15, 2011.

Financial indicators established in contract are: Net debt/EBITDA = 3.5 and EBITDA/Financial income/expenses = 3.0.

In September 2011, the subsidiary CTEEP subsidiary IEMadeira issued 420 debentures amounting to R$ 420 million, with the cash inflow relating to 400 debentures on September 15, 2011 and 20 debentures on October 3, 2011. These debentures are expected to be fully repaid with funds arising from a long-term financing to be taken out from BNDES.

All requirements and covenants established in the agreements have been duly observed and met by the Company and its subsidiaries to the date.

Maturity of non-current installments is as follows:

	Consolidated 2011	Consolidated 2010
2012	-	168,092
2013	163,204	163,206
2014	177,939	176,878
2015	16,164	15,153
2016	16,163	15,155
After 2016	16,166	15,155
	389,636	**553,639**

In thousands of reais, except where otherwise stated

Changes in debentures is as follows:

	Consolidated
Balance at December 31, 2009	**-**
Additions	548,589
Payments (principal and interest)	(54,852)
Interest, inflation and foreign exchange adjustments	62,056
Balance at December 31, 2010	**555,793**
Additions	204,000
Payments (principal and interest)	(70,213)
Interest, inflation and foreign exchange adjustments	89,881
Balance at December 31, 2011	**779,461**

18. Taxes and social charges payable

	Company		Consolidated	
	12.31.2011	**12.31.2010**	**12.31.2011**	**12.31.2010**
Income tax	4,227	304	42,618	46,256
Social contribution tax	1,402	-	15,385	16,633
COFINS	1,843	1,801	9,819	9,011
PIS	400	391	2,130	1,955
Scholarship program (i)	-	-	864	1,542
INSS	17	20	7,541	6,226
Service Tax (ISS)	-	-	3,421	3,936
Other	189	17	6,573	5,718
	8,078	**2,533**	**88,351**	**91,277**

19. Taxes in installments – Law No. 11941

Due to completion issues, the subsidiary 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, subsidiary 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.

On June 30, 2011, subsidiary CTEEP consolidated its tax debts with Brazilian IRS and opted to pay them in 180 months for calculating the installments to be paid as from June 30, 2011. Out of the total installments above the prepayments made in the period from November 30, 2009 to May 31, 2011 were deducted and that represented 19 installments already paid. After deducting the prepayments, there remained 161 installments to be paid as from June 30, 2011, in the amount of R$ 975, subject to monetary restatement by reference to accumulated SELIC as from December 2009.

Due to the payment option in 180 months, CTEEP generated revenue from reduction of fine and interest in the amount of R$ 21,013 on the total amount due, which was recognized in financial income. This revenue, for purposes of income and social contribution taxes, will not be a component of taxable profit of the company according to Law No. 11941/09.

In thousands of reais, except where otherwise stated

Changes for the years ended December 31, 2011 and 2010 are as follows:

	2011	2010
Opening balance	155,317	147,738
Reduced fine and interest (Law benefits)	(21,013)	-
Monetary restatement on debt	30,202	7,580
Payments made (*)	(6,997)	(1)
	157,509	**155,317**
Current portion	**12,273**	**10,353**
Non-current portion	**145,236**	**144,964**

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

20. Regulatory charges payable

	Consolidated	
	2011	**2010**
Research and development - R&D (i)	50,364	39,114
Energy Development Account - CDE	1,834	2,179
Fuel consumption bill (CCC)	2,592	3,620
Global reversion reserve (RGR)	4,917	5,629
Alternative energy source program (PROINFA)	1,269	1,143
Inspection fee (ANEEL)	182	48
	61,158	**51,733**
Current portion	**28,824**	**49,559**
Non-current portion	**32,334**	**2,174**

(i) Subsidiary CTEEP and its subsidiaries recognized liabilities related to amounts billed through tariffs (1% of Net Operating Income), but not applied in the Research and Development Program (R&D), which are restated on a monthly basis as from the second month subsequent to its recognition up to the effective realization thereof, based on SELIC rate, according to ANEEL Resolutions 300/2008 and 316/2008. The amounts payable are settled upon completion of each project in which funds are invested.

In thousands of reais, except where otherwise stated

21. Provisions

	Company		Consolidated	
	12.31.2011	12.31.2010	12.31.2011	12.31.2010
Vacation pay and social charges	13	11	17,853	16,807
Profit sharing (PLR)	-	-	5,419	5,786
Voluntary termination program (PDV)	-	-	6	87
Contingencies (a)	-	-	101,844	161,682
	13	**11**	**125,122**	**184,362**
Current portion	**13**	**11**	**23,290**	**22,674**
Non-current portion	**-**	**-**	**101,832**	**161,688**

(a) Provision for contingencies

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

	Consolidated	
	12.31.2011	12.31.2010
Labor (i)	87,807	145,993
Civil	3,347	3,844
Tax – IPTU (ii)	7,608	7,527
Social security – INSS (iii)	1,439	3,635
ANEEL (iv)	1,643	683
	101,844	**161,682**

(i) Labor

Subsidiary CTEEP assumed responsibility for certain lawsuits at different courts, mainly arising from the partial spin-off of CESP and EPTE. It has labor-related judicial deposits amounting to R$52,867 (R$27,914 as of December 31, 2010), according to Note 12.

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

Subsidiary 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$7,608.

(iii) Social security – INSS

On August 10, 2001, the National Institute of Social Security (INSS) served Subsidiary 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$8,243, recorded in non-current assets, under "Pledges and restricted deposits". In January 2010, an unfavorable final decision was handed against Subsidiary CTEEP regarding the meal tickets, morning snack and part of the basket of food staples, and the remaining items are still pending judgment. Consequently, the portion corresponding to the judicial deposits amounting to R$ 5,498 was reversed to the Federal Government and written off against P&L, under general and administrative expenses, considering that a provision had not been recorded for this contingency.

In thousands of reais, except where otherwise stated

(iv) ANEEL

Subsidiary CTEEP was notified by ANEEL for not meeting the deadline for installation of the 3rd bank of transformers 345/88 kV of SE Baixada Santista, 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 Authorizing Resolution No. 064/2005, of January 31, 2005, with fine of R$ 886, totaling R$ 2,867. Such provision was charged against general and administrative expenses on June 30, 2010.

In addition, subsidiary CTEEP records a provision for burden of defeat 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, Southern and Middle West Regions.

(v) Lawsuits involving probable losses

Subsidiary CTEEP is party to tax, labor and civil lawsuits rated by management as involving probable losses, based on an assessment of its legal advisors, in the estimated amount of R$ 119,512 (R$ 101,252 in 2010), mainly consisting of labor claims, which totaled R$65,736 (R$59,517 in 2010) for which no provisions have been set up.

(vi) Changes in provisions for contingencies

						Consolidated
	Labor	Civil	Tax – IPTU	Social security – INSS	ANEEL	Total
Balance at December 31, 2009	**147,344**	**3,219**	**8,239**	**5,398**	**3,642**	**167,842**
Set-up	12,523	966	-	-	-	13,489
Reversal/payment	(23,396)	(687)	(838)	(2,256)	(2,959)	(30,136)
Restatement	9,522	346	126	493	-	10,487
Balance at December 31, 2010	**145,993**	**3,844**	**7,527**	**3,635**	**683**	**161,682**
Set-up	25,920	1,948	-	-	-	27,868
Reversal/payment	(85,781)	(2,668)	(79)	(2,381)	-	(90,909)
Restatement	1,675	223	160	185	960	3,203
Balance at December 31, 2011	**87,807**	**3,347**	**7,608**	**1,439**	**1,643**	**101,844**

22. Payables – Fundação CESP

Subsidiary CTEEP sponsors supplementary pension and health care plans maintained with Fundação CESP. At December 31, 2011, their balance was R$6,244 (R$6,503 in 2010) referring to monthly installments payable as contribution.

In thousands of reais, except where otherwise stated

(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 35).

(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 Subsidiary 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 Subsidiary 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.

(d) Actuarial valuation

The projected unit credit method was applied for actuarial valuation conducted by an independent actuary on PSAP pension plans sponsored by subsidiary CTEEP. Pursuant to CPC 33 and CVM Ruling No. 600 (IAS 19), significant financial information, based on actuarial reports, are the following:

(i) Reconciliation of assets and liabilities

	2011	**2010**
Fair value of asset	2,684,582	2,515,067
Present value of defined benefit plan	(2,008,168)	(1,800,653)
Restriction on asset recognition	(676,414)	(714,414)
Liabilities, net	-	-

(ii) Changes in assets of benefit plan

	2011	**2010**
Fair value of asset in the beginning of the year	2,515,067	2,001,707
Contributions by employer	2,036	2,128

In thousands of reais, except where otherwise stated

Contributions by employee	2,886	2,707
Return on investments	281,493	612,858
Paid benefits	(116,900)	(104,333)
Fair value of asset in the end of the year	**2,684,582**	**2,515,067**

(iii) Changes in liabilities of benefit plan

	2011	2010
Present value of actuarial liability in the beginning of the year	1,800,653	1,628,613
Cost of current services	911	(200)
Cost of interest	188,384	178,110
Contribution by beneficiaries	2,886	2,707
Actuarial gains/losses	132,234	95,756
Paid benefits	(116,900)	(104,333)
Present value of actuarial liability in the end of the year	**2,008,168**	**1,800,653**

(iv) Beneficiaries (number of people)

	2011	2010
Active	1,447	1,446
Inactive		
Retired employees	1,882	1,852
Retired due to disability	37	40
Pensioners	103	85
	2,022	1,977
	3,469	**3,423**

(v) Actuarial assumptions used

	2011	2010
Deduction rate of benefit plan liability present value	10.50%	10.75%
Expected return rate on benefit plan assets	11.50%	12.00%
Future salary increase rate	4.50%	7.64%
Adjustment index of benefits granted for continued provision	4.50%	4.50%
Estimate of mortality rate	AT-83	AT-83
Estimate of disabilities	Light-Average	Light-Average
Estimate of disabled employees mortality rate	AT-49	AT-49

23. Special obligations – Reversion/Amortization

These refer to funds arising from the reversion reserve, amortization and portion held at the Subsidiary 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.

In thousands of reais, except where otherwise stated

According to resolution issued by ANEEL, subsidiary CTEEP pays 5% on the RGR amount as interest, on an annual basis. The manner for the settlement of these liabilities has not been defined by the Granting Authority.

24. 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 at the price of R$ 2.020731 each, the redemption of which is scheduled to start on April 12, 2013 and end on April 9, 2016, and which were 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 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 to 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 the 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 the Company's capital and R$359,820 to capital reserve. Therefore, Company's capital increased from R$840,198 to 840,378, comprising 1,434,469,504 shares.

Later, on May 14, 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.

Accordingly, at December 31, 2011 and 2010, the Company's subscribed and paid-in capital amounted to R$840,378 and comprises 840,625,000 common shares and 593,844,504 preferred shares distributed as follows:

Shareholder	Number of common shares	Number of preferred shares	Total	%
Interconexión Eléctrica S.A ESP	840,624,995	0	840,624,995	58.60%
Board of Directors	5	0	5	0.00%
HSBC Finance (Brasil) S.A. Banco Múltiplo	0	296,922,252	296,922,252	20.70%
Banco Votorantim S.A.	0	296,922,252	296,922,252	20.70%
Total	**840,625,000**	**593,844,504**	**1,434,469,504**	**100%**

In thousands of reais, except where otherwise stated

(b) Allocation of profit

As set forth in article 35 of the Company's articles of incorporation, mandatory dividends are calculated at 1% of net income for the year, adjusted under article 202 of Law No. 6404/76, and refer to preferred shares redeemable up to the amount equivalent to fixed cumulative dividends.

Fixed cumulative dividends are calculated and paid on a quarterly basis, according to article 6 of the Articles of Incorporation. Over 2011, the Company paid dividends related to redeemable preferred shares amounting to R$171,897.

Pursuant to the referred to article 35 of the Articles of Incorporation, an amount equivalent to 100% of Net Profit outstanding after set-up of Legal Reserve, subject to legal limits and mandatory and fixed cumulative dividends payable against preferred shares, shall be recorded in Income Reserve up to 50% of balance of the redeemable amount of redeemable preferred shares, plus 120% of fixed cumulative dividends and/or amounts related to unpaid preferred shares redemptions.

Accordingly, pursuant to article 35 of the referred to Articles of Incorporation, net profit for the year shall be divided as follows:

	2011	2010
Net profit (loss) for the year	**297,529**	**(104,534)**
Set-up of legal reserve (*)	-	-
Dividend base	**297,529**	**-**
Mandatory dividends paid	(2,975)	-
Fixed cumulative dividends paid	(168,921)	-
Fixed cumulative dividends payable in January 2012	(36,004)	-
Setting up of remaining income reserve (note 24.f)	**(89,629)**	**-**

(*) Legal reserve plus capital reserve should reach up to a 30% limit on capital according to article 182, paragraph 1, of the Corporation Law.

Since the company recorded losses for 2010, there will be no dividend payment.

(c) Fixed cumulative dividends

The Board of Directors approved fixed cumulative dividend payment to preferred shareholders HSBC Finance (Brasil) S.A. Banco Múltiplo and Banco Votorantim S.A., as follows:

Payment (dd/mm/yy)	Amount	Amount per share	Share	Approval (dd/mm/yy)	Year
18/03/2011 (*)	48,230	0.081217	593,844,504	17/3/2011	2010
18/03/2011	59,408	0.100040	593,844,504	17/3/2011	2011
04/04/2011	35,347	0.059522	593,844,504	04/04/2011	2011
05/07/2011	37,286	0.062787	593,844,504	05/07/2011	2011
06/09/2011	39,855	0.067114	593,844,504	06/09/2011	2011
Total	**220,126**				

(*) Paid in accordance to balance of income reserve account at December 31, 2010 (note 24.f).

In thousands of reais, except where otherwise stated

(d) **Capital reserve**

After the abovementioned decisions, dated March 9 and 19, 2010, the Company's capital reserve account amounted to approximately R$ 1,199,400 at December 31, 2011. 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.

(e) Goodwill on capital transaction

After acquiring CTEEP shares in December 2011, the Company recorded gains on percentage variation, together with losses on share purchase price in relation to the subsidiary equity per share. Goodwill on capital transaction at December 31, 2011 amounted to R$7,488. That amount shall be realized when CTEEP shares are sold.

(f) Income reserve

	12.31.2011	12.31.2010
Legal reserve (i)	5,881	5,881
Income reserve (ii) (note 24.b)	89,629	48,230
	95,510	**54,111**

(i) Legal reserve

This is established at 5% of net income, limited to 20% of capital, before any allocations. In the event legal reserve balance plus capital reserves exceed 30% (thirty per cent) of the Company's capital, allocation of a part of net income for the year to legal reserve will not be compulsory, as provided for by article 182, paragraph 1, of the Brazilian Corporation Law.

(ii) Income reserve

The portion of net income for the year remaining after cumulative dividends are paid to redeemable preferred shares shall be allocated to income reserve account, under the Company's articles of incorporation. While there are outstanding redeemable preferred shares, this account will only be used for payment of fixed cumulative dividends to which the redeemable preferred shares are entitled and also for redemption of the redeemable preferred shares, as the case may be.

The balance at December 31, 2010 of R$48,230 was fully used for payment of fixed cumulative dividends attributed to the redeemable preferred shares on March 18, 2011 (note 24c).

(g) Earnings (loss) per share

Base and diluted earnings (loss) per share is calculated through P&L attributable to the Company's controlling and non-controlling interests, based on the weighted average outstanding common and preferred shares for the respective period.

In thousands of reais, except where otherwise stated

The table below shows P&L numbers used to calculate base and diluted earnings (loss) per share:

	12.31.2011	12.31.2010
Base and diluted earnings (loss)		
Net profit – R$ thousand	297,529	(104,534)
Weighted average number of shares		
Common	840,625,000	840,625,000
Preferred	593,844,504	450,757,128
	1,434,469,504	1,291,382,128
Base earnings per share	0.2074	(0.0809)

(h) Dividends and interest on equity of subsidiary CTEEP

On March 31, 2011 and June 30, 2011, CTEEP Board of Directors decided to pay dividends in connection with profit recorded in 2010, amounting to R$181,307 and R$16,714, corresponding to R$1.194154 and R$0.110087 per share, respectively. The controlling shareholder received R$74,464 and non-controlling shareholders received R$123,557.

In 2011, subsidiary CTEEP paid dividends and interest on equity amounting to R$915.2 million (R$751.6 million in 2010), R$340.9 million of which went to ISA Capital

The balance of dividends and interest on equity payable by subsidiary CTEEP is R$84.8 million to ISA Capital (Note 30) and R$147.3 million to the other shareholders.

In thousands of reais, except where otherwise stated

25. Net operating income

25.1. Breakdown of net operating income

	Consolidated	
	12.31.2011	**31.12.2010**
Gross income		
Construction (a)	1,103,686	693,803
Operation and maintenance (a)	555,127	442,469
Financial (b)	1,589,969	1,398,245
Rent	13,703	12,797
Services provided	6,204	4,229
Total gross income	3,268,689	2,551,543
Taxes on gross income		
COFINS	(177,541)	(128,896)
PIS	(38,325)	(27,967)
ISS	(301)	(212)
	(216,167)	(157,075)
Regulatory charges		
Fuel consumption bill (CCC)	(40,737)	(32,524)
Energy Development Account - CDE	(26,021)	(27,197)
Global reversion reserve (RGR)	(54,042)	(46,972)
Research and development (R&D)	(18,499)	(16,202)
Alternative energy source program (PROINFA)	(12,418)	(15,287)
	(151,717)	**(138,182)**
	2,900,805	**2,256,286**

(a) Construction, operation 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 Subsidiary CTEEP. When Subsidiary 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.

25.2. Periodic review of Annual Revenue Allowed (RAP)

In accordance with concession agreements as intermediated by ANEEL, every four years from the execution date, ANEEL will periodically review the Annual Revenue Allowed (RAP) of electric transmission, for the purpose of promoting efficiency and reasonable rates.

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 Decision No. 386/09, the tariff review results will be effective from July 1, 2009 onwards. Considering this retroactive review and the capital cost reduction for this second cycle, from 9.18% to 7.24%, gains and losses from tariff adjustments affect cash flows expected by subsidiary CTEEP for its financial assets classified as lending and receivables and, therefore, are recognized as financial income adjustments for the period they occur.

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 (twelve) monthly installments, through contractual adjustment portion.

25.3. 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 be added to transmission companies' revenue as an incentive to improve availability of transmission facilities. These are recognized as operating and maintenance revenue and/or reduction in revenue for the period they occur.

25.4. Annual revenue adjustment

On June 28, 2011, Authorizing Resolution No. 1171 was issued and established annual revenue allowed of Subsidiary CTEEP and its subsidiaries from the provision of base network and other transmission facilities for the twelve-month cycle comprising the period from July 1, 2011 to June 30, 2012.

In thousands of reais, except where otherwise stated

In accordance with this Resolution, Subsidiary CTEEP's annual revenue allowed (RAP) that was R$ 1,760,758 on July 1, 2010, increased to R$ 2,008,277 on July 1, 2011, an increase by R$ 247,519, or 14.1%. RAP of Subsidiary CTEEP and its subsidiaries, which amounted to R$1,861,195 on July 1, 2010, increased to R$2,120,592 on July 1, 2011, an increase of R$259,397, or 13.9%.

In June 2011, Subsidiary CTEEP RAP effective from July 1, 2011 to June 30, 2012 is as follows:

Concession agreement	**Base network**				**Other transmission facilities (DIT)**			**Total**
	Existing assets	New investments	Out to bid	Adjustment portion	Existing assets	New investments	Adjustment portion	
59/2001	1,241,581	314,290	-	(17,795)	360,076	106,099	(11,767)	1,992,484
143/2001	-	-	15,925	(132)	-	-	-	15,793
	1,241,581	**314,290**	**15,925**	**(17,927)**	**360,076**	**106,099**	**(11,767)**	**2,008,277**

In June 2011, RAP of Subsidiary CTEEP and its subsidiaries effective from July 1, 2011 to June 30, 2012 is as follows:

Concession agreement	**Base network**				**Other transmission facilities (DIT)**			**Total**
	Existing assets	New investments	Out to bid	Adjustment portion	Existing assets	New investments	Adjustment portion	
59/2001	1,241,581	314,290	-	(17,795)	360,076	106,099	(11,767)	1,992,484
143/2001	-	-	15,925	(132)				15,793
004/2007	14,193	-	-	-	-	-	-	14,193
012/2008	-	-	7,386	-	-	-	-	7,386
015/2008	13,474	-	-	-	-	-	-	13,474
018/2008	-	-	3,174	-	-	-	-	3,174
026/2009	-	-	25,200	-	-	-	-	25,200
001/2008	36,435	-	-	-	-	-	-	36,435
013/2008	4,447	-	-	-	-	-	-	4,447
016/2008	8,006	-	-	-	-	-	-	8,006
	1,318,136	**314,290**	**51,685**	**(17,927)**	**360,076**	**106,099**	**(11,767)**	**2,120,592**

26. Costs of construction, operation and maintenance services and general and administrative expenses

	Company	**Consolidated**

		12.31.2011	12.31.2010			12.31.2011	12.31.2010
	Expenses	**Total**	**Total**	**Costs**	**Expenses**	**Total**	**Total**
Personnel	(1,912)	(1,912)	(1,713)	(169,516)	(43,147)	(212,663)	(203,305)
Services	(1,129)	(1,129)	(2,940)	(422,100)	(46,788)	(468,888)	(383,622)
Depreciation (note 14)	(13)	(13)	(11)	-	(6,151)	(6,151)	(6,058)
Materials	-	-	-	(703,797)	(1,481)	(705,278)	(425,779)
Lease and rent	(252)	(252)	(249)	(8,298)	(5,130)	(13,428)	(10,910)
Bond amortization	-	-	(12,752)	-	-	-	(12,752)
Contingencies		-	-	-	(1,598)	(1,598)	(31,522)
Other	(102)	(102)	(95)	(19,698)	(26,130)	(45,828)	(30,015)
	(3,408)	**(3,408)**	**(17,760)**	**(1,323,409)**	**(130,425)**	**(1,453,834)**	**(1,103,963)**

Subsidiary CTEEP's construction costs totaled R$240,839 in 2011 and R$134,001 in 2010. Consolidated construction costs amounted to R$970,176 in 2011 – R$604,495 in 2010. The respective construction revenue, as shown in note 25.1, include PIS and COFINS rates to the cost of investment amount, the projects include margin sufficient to cover construction costs plus certain expenses for the construction period.

In thousands of reais, except where otherwise stated

27. Financial income and expenses

	Company		Consolidated	
	12.31.2011	**12.31.2010**	**12.31.2011**	**12.31.2010**
Revenue				
Short-term investment income	32,797	13,571	58,432	41,809
Mark-to-market adjustment – debt (bond) (Note 16.a)	-	230,986	-	230,986
Interest receivable (loans)	1,393	1,502	10,888	10,953
MTM adjustment (CCB International and Commercial Paper)	-	-	2,478	-
Selic interest – tax recoverable	3,192	2,440	3,192	2,440
Monetary variation	-	-	-	8,382
REDI project financial income	-	4,329	-	4,329
Exchange variation	21,416	-	21,416	-
Exchange variation (CCB International and Commercial Paper)	-	-	17,975	-
Hedge transaction adjustment (swap – CCB International)	-	-	69,778	-
Hedge transaction adjustment (NDF)	-	-	7,263	-
Other	-	-	3,433	1,486
	58,798	**252,828**	**194,855**	**300,385**
Expenses				
Interest payable (borrowings)	(4,654)	(18,449)	(77,545)	(90,341)
Interest payable			(14,934)	(9,690)
Charges on promissory notes	-	-	(44,129)	(7,911)
Charges on debentures	-	-	(75,603)	(57,686)
Charges (CCB International and Commercial Paper)	-	-	(5,312)	-
IRRF on remittance of interest	(678)	(2,867)	(678)	(2,867)
PIS on interest on equity	(1,581)	(1,560)	(1,581)	(1,560)
COFINS on interest on equity	(7,284)	(7,186)	(7,284)	(7,186)
Mark-to-market adjustment – debt (bond) (Note 16.a)	-	(228,599)	-	(228,599)
Monetary variation	(34,394)	(23,995)	(36,606)	(23,995)
Hedge transactions	-	(23,764)	-	(23,764)
Financial expenses – REDI project (note 16.a)	-	(280,161)	-	(280,161)
Exchange variation	(22,994)	-	(22,994)	-
Exchange variation (CCB International)	-	-	(48,474)	-
Hedge transaction adjustment (swap – CCB International)	-	-	(47,197)	-
Hedge transaction adjustment (NDF)	-	-	(3,440)	-
Other	(2,635)	(148)	(25,020)	(5,222)
	(74,220)	**(586,729)**	**(410,797)**	**(738,982)**
	(15,422)	**(333,901)**	**(215,942)**	**(438,597)**

International transactions of subsidiary CTEEP, at the end of the year, recorded net foreign exchange loss of R$30,499 and charges of R$2,834. On the other hand, swap adjustment generated a net financial income of R$22,581.

Subsidiary CTEEP conducted two transactions to raise foreign funds, as follows:

In thousands of reais, except where otherwise stated

CCB International transaction with Banco Itaú BBA for the year recorded net foreign exchange loss of R$19,553 and charges of R$4,663. On the other hand, swap adjustment generated net financial income of R$15,686 for the same period which maintains cost at 103,5% of CDI.

Fund raising under Law 4131 with JP Morgan Bank recorded a net foreign exchange loss of R$10,946 and charges at 2.1% p.a. of R$649 and MTM gains of R$2,478 for the year. On the other hand, swap adjustment generated net financial income of R$6,895 for the same period which maintains cost at 98.3% of CDI.

In IEMadeira, cumulative hedge gains (NDF) amounted to R$7,263 and the cumulative hedge losses (NDF) amounted to R$3,440. Balances are proportional to the CTEEP's interest in the subsidiary.

28. Other expenses, net

	Company		Consolidated	
	12.31.2011	**12.31.2010**	**12.31.2011**	**12.31.2010**
Income				
Compensation of loss	-	-	-	1,214
Disposal of land	-	-	26,427	1,659
Other	-	-	-	3,157
	-	**-**	**26,427**	**6,030**
Expenses				
Amortization of goodwill (Note 10)	(55,968)	(55,968)	(84,800)	(84,800)
Loss in variation of interest in joint subsidiary (IEMG) (i)	-	-	(28,490)	(160)
Other	(1)	(3,171)	139	(4,048)
	(55,969)	(59,139)	(113,151)	(89,008)
	(55,969)	**(59,139)**	**(86,724)**	**(82,978)**

(i) In February 2011, after acquiring 40% of IEMG capital and becoming holder of 100% of its capital, subsidiary CTEEP revaluated its previous 60% interest at fair value on the acquisition date, recording a loss of R$28,490 in the second half of 2011, which corresponds to the difference between the investment fair value (R$38,206) and its book value (R$51,414).

29. Income and social contribution taxes

a) Current

The Company and its subsidiary CTEEP monthly provisions income and social contribution taxes based on net income, under the accrual basis of accounting.
By virtue of the Transition Tax Regime (RTT), only the Company and its subsidiaries IEMG, IENNE, IESUL and IEPinheiros recorded income for tax purposes. Taxes are calculated under the taxable profit based on accounting records regime.

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

In thousands of reais, except where otherwise stated

	Company		Consolidated	
	12.31.2011	12.31.2010	12.31.2011	12.31.2010
Income (loss) before income and social contribution taxes	270,978	(104,534)	1,144,305	630,748
Nominal rates in force	34%	34%	34%	34%
Expected income and social contributions tax income (expense)	(92,133)	35,542	(389,064)	(214,454)
Income and social contributions taxes on permanent differences:				
Interest on equity	(32,588)	(32,146)	53,670	53,395
Reduced fine and interest (REFIS benefit)	-	-	7,144	-
Amortization of goodwill	(19,029)	(19,029)	(19,029)	(19,029)
Maintenance of equity integrity			19,029	19,029
Equity pickup	117,564	104,130	-	-
Setting-up of deferred taxes on income and social contribution tax losses	53,000	-	53,000	-
Offsetting of income and social contribution taxes on tax loss of the Company	-	(88,297)	-	(88,297)
Other	(263)	(200)	(2,044)	19,980
Effective income and social contributions tax expenses	**26,551**	**-**	**(277,293)**	**(229,376)**
Income and social contribution taxes				
Current	(18,507)	-	(262,713)	(222,630)
Deferred	45,058	-	(14,580)	(6,746)
	26,551	**-**	**(277,293)**	**(229,376)**
Effective rate	**-**	**-**	**18.61%**	**24.48%**

The rate used in the previously presented 2011 and 2010 reconciliations is 34%, payable by legal entities in Brazil on taxable profit, as provided for by applicable tax legislation.

b) Deferred

In thousands of reais, except where otherwise stated

The Company recorded deferred tax assets on income and social contribution taxes loss, based on its projections on future gains, which were not expected for the previous year. Management expects to recover tax credits within the next five years according to the expected realization chart:

Tax credits annually used	2011	2012	2013	2014	2015	Total
Income tax	6,374	7,441	8,513	8,399	8,244	38,971
Social contribution tax	2,294	2,678	3,064	3,023	2,970	14,029
Total	8,668	10,119	11,577	11,422	11,214	**53,000**

At December 31, 2011, the Company recorded a balance of R$184,358 (R$245,283 at December 31, 2010) in credits on income and social contribution taxes loss, which were not recognized in its books, since these credits are not likely to be recovered within the near future.

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

	Company		Consolidated	
	12.31.2011	12.31.2010	12.31.2011	12.31.2010
Provision for contingencies	-	-	34,623	55,307
Concession contract (ICPC 01)	-	-	(134,800)	(56,307)
Tax loss	33,131	-	33,131	-
Social contribution tax loss	11,927	-	11,927	-
Deferred income and social contribution taxes on subsidiaries' income and social contribution taxes loss			718	
Provision for income and social contribution taxes on subsidiaries' income and social contribution taxes loss (ii)	-	-	(718)	-
Provision for losses (i)	-	-	35,926	-
Other temporary differences	-	-	22,075	19,698
Net	**45,058**	**-**	**2,882**	**18,698**
Assets	**45,058**	**-**	**45,058**	**28,050**
Liabilities	**-**	**-**	**(42,176)**	**(9,352)**

(i) It refers basically to provision recorded on December 31, 2011, amounting to R$82,121, in order to meet ANEEL Normative Decision No. 367/2009, which sets forth the "New Equity Control Guidebook for the Electric Power Industry". Subsidiary CTEEP prepared a physical inventory of all its physical assets, and this work led to identification of accounting and physical surplus, which are currently undergoing a reconciliation process. Management of subsidiary CTEEP decided to provision surplus amounts identified up to now, and upon completion of reconciliation work, any remaining balance will be recognized as effective loss. The provision recorded at December 31, 2011 amounts to R$82,121. For IRFS purposes, that amount was adjusted by the financial assets fair value review, as recorded in accounts receivable (concession assets).

(ii) Subsidiaries CTEEP IEMG, IENNE and IESUL recorded accumulated tax losses. These subsidiaries do not have a taxable profit historical record, since trading operation is recent and management decided to accrue total amount of deferred income and social contribution taxes.

In thousands of reais, except where otherwise stated

For subsidiary CTEEP's management, balance of deferred income and social contribution tax assets from temporary differences will be realized proportionally to contingencies and realization of events triggering provision for losses, within an average estimated period of 5 years.

30. Related-party transactions

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

				12.31.2011			12.31.2010
Type of transaction	**Related party**	**Assets**	**Liabilities**	**Income/ (Expenses)**	**Assets**	**Liabilities**	**Income/ (Expenses)**
	Company						
Short-term benefits (*)	Management key personnel	-	-	(6,212)	-	-	(7,517)
Sublease	CTEEP	-	(43)	(252)	-	(39)	(249)
	IEMG – CTEEP's subsidiary	7	-	34	1		15
	IENNE- CTEEP's subsidiary	8	-	99	8		100
	Pinheiros – CTEEP's subsidiary	-	-	58	3		32
	IESUL - CTEEP's subsidiary	5	-	82	-		-
	Serra do Japi – CTEEP's subsidiary	15	-	85	2		24
Services provided	CTEEP	-	-	(86)	-	(7)	(86)
	IEMG – CTEEP's subsidiary	-	-	-	132	-	1,658
	Pinheiros – CTEEP's subsidiary	30	-	105	-	-	-
	IEMadeira – CTEEP's subsidiary	3,226	-	3,226	-	-	-
Dividends and interest on equity	CTEEP	84,828	-	-	65,844	-	-
Loans receivable (Note 11)	IEMG	529	-	-	-	-	-
	ISA	44,653	-	6,381	39,663	-	3,309
	Internexa Brasil	9,393	-	29	-	-	-

* Refers to management fees.

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 ISA Capital and CTEEP subsidiaries 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 ISA Capital including, among others, delivery of bookkeeping, tax calculation and payroll processing services.

In 2009, an agreement was entered into with subsidiary CTEEP to provide operating and maintenance services in its subsidiary IEMG facilities. In 2011, the agreement was terminated and services ceased to be provided.

In 2011, an agreement was entered into with subsidiary CTEEP to provide operating and maintenance services in its subsidiary Pinheiros facilities.

In May 2010, subsidiary CTEEP entered into an intercompany agreement with IESUL, amounting up to R$63,000, which can be fully or partially used for up to 24 months. Charges levied thereon were received upon maturity and corresponded to CDI, plus 2.5%. At December 31, 2011, there are no balances pending payment relating to this agreement.

In 2010, subsidiary CTEEP entered into an intercompany agreement with Pinheiros, amounting up to R$100,000, which can be fully or partially used for up to 24 months. Charges levied thereon corresponded to CDI plus 1.3%. At December 31, 2011, there are no balances pending payment relating to this agreement.

In May 2010, subsidiary CTEEP entered into an intercompany agreement with Serra do Japi, amounting up to R$55,500, which can be fully or partially used for up to 24 months. Charges levied thereon corresponded to CDI plus 1.3%. At December 31, 2011, there are no balances pending payment relating to this agreement.

In 2011, subsidiary CTEEP entered into a technical support agreement to provide services to the owner's engineering services management, which will be performed by IEMadeira and/or its contractors.

Those transactions will be conducted under specific conditions and negotiated under an agreement between the parties.

In thousands of reais, except where otherwise stated

31. Financial instruments

(a) Identification and valuation of significant financial instruments

	Company		Consolidated	
	12.31.2011	**12.31.2010**	**12.31.2011**	**12.31.2010**
Financial assets				
Fair value through P&L				
Cash and cash equivalents	351,567	257,261	558,862	312,244
Lending and receivables				
Trade accounts receivable				
Current	-	-	1,474,794	1,424,390
Non-current	-	-	5,335,027	4,225,309
Receivables - State Finance Department				
Current	-	-	14,906	22,938
Non-current	-	-	810,750	681,129
Loans receivable				
Current	9,393	-	9,393	-
Non-current	44,653	39,663	44,653	39,663
Interest on equity and dividends receivable	84,828	65,844	-	-
Pledges and restricted deposits				
Current	2,612	2,320	2,612	2,320
Non-current	-	-	61,886	42,248
Fair value through P&L				
Derivative financial instruments				
Current	-	-	1,673	-
Non-current	-	-	54,195	-
Financial liabilities				
Trade accounts payable	325	147	83,338	94,064
Amortized cost				
Loans and financing				
Current	2,177	1,934	1,009,850	334,347
Non-current	59,371	52,737	1,043,635	592,769
Debentures				
Current	-	-	389,825	2,154
Non-current	-	-	389,636	553,639
Interest on equity and dividends payable	-	-	147,328	127,978
Fair value through P&L				
Derivative financial instruments				-
Current	-	-	27,226	-
Non-current	-	-	-	-
Payables – Law No. 4819/58				
Current	10,050	13,369	10,050	13,369
Non-current	378,617	350,954	378,617	350,954

In thousands of reais, except where otherwise stated

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 net present value adjusted at the interest rate prevailing in the market. No financial instruments have been negotiated in active markets; instead, they are appreciated as tier II, as required by prevailing CPC.

On April 26, 2011, subsidiary CTEEP entered into a derivative financial instrument agreement (swap) so as to hedge against currency risk of loans in foreign currency, to cover foreign exchange risk related to Foreign Currency Loan under the terms of Law No. 4131, of September 3, 1962.

On April 29, 2011, Subsidiary CTEEP subsidiary IEMadeira entered into a derivative financial instrument agreement (NDF), so as to hedge against currency risk of steel-corner, aluminum and aluminum-cable supply agreements.

Subsidiary CTEEP and its subsidiary IEMadeira adopted the hedge accounting method and classified the taken out derivative as fair value hedge, according to the parameters set out in Brazilian accounting standard CPC 38 and in International Standard IAS39. Subsidiary CTEEP adopted hedge accounting.

Financial instrument management is compliant with the Full risk management policy / Financial risk guidelines of CTEEP and its subsidiaries. Gains/losses from this transaction and the application of controls to manage this risk are part of the financial risk monitoring adopted by the Company and its subsidiaries, as follows:

				Consolidated
Short-term	**Maturity**	**Reference value (Notional)**	**Fair value**	**Receivables (payables)**
		12.31.2011	**12.31.2011**	**12.31.2011**
Long position:				
Swap (Banco Itaú)	April 2012	7,135	7,135	-
Swap (JP Morgan Bank)	October 2013	6,823	6,823	-
NDF (Financial institutions)	June to September 2013	34,067	35,740	1,673
		48,025	49,698	1,673
Short position:				
Swap (Banco Itaú)	April 2012	(7,135)	(14,396)	(7,261)
Swap (JP Morgan Bank)	October 2013	(6,823)	(26,788)	(19,965)
NDF (Supplier)	June to September 2013	(34,067)	(34,067)	-
		(48,025)	(75,251)	(27,226)
Net amount		-	(25,553)	(25,553)

In thousands of reais, except where otherwise stated

Long-term	Maturity	Reference value (Notional)	Fair value	Receivables (payables)
		12.31.2011	12.31.2011	12.31.2011
Long position:				
Swap (Banco Itaú)	April 2012	114,941	114,941	-
Swap (JP Morgan Bank)	October 2013	152,293	152,293	-
NDF (Financial institutions)	June to September 2013	14,039	14,498	459
		281,273	281,732	459
Short position:				
Swap (Banco Itaú)	April 2012	(114,941)	(88,063)	26,878
Swap (JP Morgan Bank)	October 2013	(152,293)	(125,435)	26,858
NDF (Supplier)	June to September 2013	(14,039)	(14,039)	-
		(281,273)	(227,537)	53,736
Net amount		-	54,195	54,195

(b) Financing

The rate of loans and financing and debentures book value is pegged to TJPL, CDI and IPCA variation and is close to market value.

- **Debt-to-equity ratio**

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

	Company		Consolidated	
	12.31.2011	12.31.2010	12.31.2011	12.31.2010
Loans and financing				
Current	2,177	1,934	1,009,850	334,347
Non-current	59,371	52,737	1,043,635	592,769
Debentures				
Current	-	-	389,825	2,154
Non-current	-	-	389,636	553,639
Total debt (i)	**61,548**	**54,671**	**2,832,946**	**1,482,909**
Cash and cash equivalents	351,567	257,261	558,862	312,244
Net debt	**(290,019)**	**(202,590)**	**2,274,084**	**1,170,665**
Equity (ii)	2,163,804	2,093,889	4,895,072	4,831,253
Net debt-to-equity ratio	-13.4%	-9.7%	46.5%	24.2%

Subsidiary CTEEP and its subsidiaries entered into loan and financing agreements based on debt-to-equity ratio. The companies are compliant with all contractual clauses and requirements, as mentioned in Note 16.

(c) Risk management

The main risk factors underlying the transactions of the Company and its subsidiaries may be identified as follows:

(i) Credit risk – Subsidiary CTEEP and its subsidiaries have 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, CTEEP and its subsidiaries have 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 – Under the terms of the concession agreement, revenues of CTEEP and its subsidiaries are annually adjusted by ANEEL based on IGP-M variation, and part thereof is subject to period review, every four years (Note 25.2).

(iii) Interest rate risk – Financing agreements are restated based on TJLP, IPCA and CDI variation (Notes 16 and 17).

(iv) Currency risk – Subsidiary CTEEP eliminated the currency risk of its liabilities by taking out a *Swap* derivative instrument, designated as “fair value hedge” of the loan agreement in foreign currency (note 16(d)). CTEEP subsidiary IEMadeira eliminated the currency risk of its liabilities by taking out a swap derivative instrument, designated as “fair value hedge”. Subsidiary CTEEP and its subsidiaries have no accounts receivables and other receivables in foreign currency. ISA Capital recorded loans receivable and borrowings payable in foreign currency. The Company did not take out financial instruments to cover possible currency risks. Exposure to effects of exchange rate variation is considered immaterial by the Company.

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

(vi) Insurance risk – Subsidiary CTEEP and its subsidiaries take out insurance against operating and civil liability risks for their 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.

(vii) Liquidity risk – The main source of cash of Subsidiary CTEEP and its subsidiaries lies in their operations, especially the use of their energy transmission system by other concessionaires and industry agents. 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. Subsidiary 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.

(d) Sensitivity analysis

According to CVM Ruling No. 475 of December 17, 2008, subsidiary CTEEP conducts analysis on sensitivity to interest rate and currency risks. The Company’s management does not believe its exposure to the abovementioned risks is significant.

In Subsidiary CTEEP, currency risk arises from the possibility of loss due to increase in exchange rates increasing the balances of liabilities from loans and financing in foreign currency, referring to taking out of an international CCB abroad in April 2011 in the amount of US$ 63.7 million and Commercial paper in October 2011 in the amount of US$85.7 million (Note 16 (d)). In order to ensure that significant fluctuations in the exchange rate of foreign currency to which its liabilities are subject will not affect its results and cash flows, the Company has derivative financial instruments (swap) – exchange “hedge”, representing 100% of this debt principal.

In subsidiary CTEEP subsidiary IEMadeira, this risk arises from the likelihood of loss due to increased exchange rates, which increase steel-corner, aluminum and aluminum-cable supply agreement balances in foreign currency. In order to ensure that significant fluctuations in the exchange rate of foreign currency to which its liabilities are subject will not affect its results and cash flows, subsidiary IEMadeira has derivative financial instruments – exchange “hedge”, representing 100% of this debt principal.

For purposes of defining a probable scenario of the currency risk sensitivity analysis, we used the same assumptions established for long-term economic and financial planning of the subsidiary CTEEP. These assumptions are based, among other aspects, on the Brazilian macroeconomic scenario and the opinion of market specialists.

As such, in order to evaluate the effects of the variation on the cash flow of Subsidiary CTEEP, the sensitivity analysis set out below considers as probable scenario the exchange rate of March 31, 2012, as described in currency risk and interest rate risk charts. This rate we considered increase and decrease by 25% and 50%.

In thousands of reais, except where otherwise stated

Currency risk – Effects on cash flow - Consolidated

Chart 1 – with rate appreciation

				R$ thousand
Operation	**Risk**	**Probable scenario**	**Scenario II**	**Scenario III**
Financial assets and liabilities				
CCB International (Banco Itaú)	USD	111,937	139,922	167,906
Commercial Paper (JP Morgan)	USD	145,900	182,376	218,851
NDF (Financial institutions) liability end	GBP	46,164	57,663	69,332
NDF (Financial institutions) liability end	USD	2,266	2,832	3,399
Swap asset end – CCB International (Banco Itaú)	USD	(111,937)	(139,922)	(167,906)
Swap asset end – Commercial Paper (JP Morgan)	USD	(145,900)	(182,376)	(218,851)
NDF (Financial institutions) asset end	GBP	(46,164)	(57,663)	(69,332)
NDF (Financial institutions) asset end	USD	(2,266)	(2,832)	(3,399)
Difference		-	-	-
Reference for financial assets and liabilities		**Appreciation rate at**	**25%**	**50%**
USD/R$ rate		1.72	2.15	2.58
GBP/R$ rate		2.69	3.36	4.04

Chart 2 – with depreciation rate

				R$ thousand
Operation	**Risk**	**Probable scenario**	**Scenario II**	**Scenario III**
Financial assets and liabilities				
CCB International (Banco Itaú)	USD	111,937	83,953	55,968
Commercial Paper (JP Morgan)	USD	145,900	109,425	72,950
NDF (Financial institutions) liability end	GBP	46,164	34,666	23,168
NDF (Financial institutions) liability end	USD	2,266	1,699	1,133
Swap asset end – CCB International (Banco Itaú)	USD	(111,937)	(83,953)	(55,968)
Swap asset end – Commercial Paper (JP Morgan)	USD	(145,900)	(109,425)	(72,950)
NDF (Financial institutions) asset end	GBP	(46,164)	(34,666)	(23,168)
NDF (Financial institutions) asset end	USD	(2,266)	(1,699)	(1,133)
Difference		-	-	-
Reference for financial assets and liabilities		**Depreciation rate at**	**25%**	**50%**
USD/R$ rate		1.72	1.29	0.86
GBP/R$ rate		2.69	2.02	1.35

In thousands of reais, except where otherwise stated

Interest rate risk – Effects on cash flow - Consolidated

Chart 1 – Index risk

				R$ thousand
Operation	**Risk**	**Probable scenario**	**Scenario II**	**Scenario III**
Financial assets				
Short-term investments	101% CDI	402	498	593
Short-term investments	99.5% CDI	212	262	312
Financial liabilities				
Promissory notes – 4th issue	CDI+0.40%	1,833	1,834	1,849
Promissory notes – 5th issue	CDI+0.48%	7,944	9,755	11,536
Debentures – 1st series	CDI+1.30%	13,396	16,221	19,000
Debentures – 2nd series	IPCA+8.10%	2,336	2,582	2,825
FINEM BNDES I	TJLP+2.30%	6,682	7,854	9,015
FINEM BNDES II	TJLP+1.80%	3,775	4,480	5,178
Banco Bradesco	CDI+2.0%	126	151	176
BNDES (IEMG)	TJLP+2.40%	1,193	1,400	1,605
BNDES (IEMadeira)	TJLP+2.80%	6,551	7,636	8,710
BNDES (IESUL)	TJLP+2.40%	198	233	267
BNDES (Pinheiros)	TJLP+2.60%	2,660	3,111	3,557
BNDES (Serra do Japi) Sub A	TJLP+1.95%	943	1,116	1,287
BNDES (Serra do Japi) Sub B	TJLP+1.55%	787	938	1,089
Debentures IEMadeira	106.5% of CDI	5,613	6,953	8,270
Derivatives				
Swap IBBA (MTM position)	103.5% CDI	2,524	3,128	3,721
Swap JP Morgan (MTM position)	98.30% CDI	3,569	4,423	5,265
Difference, net		(59,516)	(71,055)	(82,445)
Reference for financial assets				
99.5% CDI (March 2012)		9.83%	12.29%	14.75%
101% CDI (March 2012)		9.98%	12.47%	14.97%
Reference for financial liabilities				
98.30% CDI		9.71%	12.14%	14.57%
99.5% CDI (March 2012)		9.83%	12.29%	14.75%
100% CDI (March 2012)		9.88%	12.35%	14.82%
101% CDI (March 2012)		9.98%	12.47%	14.97%
103.5% CDI		10.23%	12.78%	15.34%
TJLP% p.a.		6.00%	7.50%	9.00%
IPCA % (Accumulated – 12 months)		6.00%	7.50%	9.00%

In thousands of reais, except where otherwise stated

Chart 2 – Index drop risk

				R$ thousand
Operation	**Risk**	**Probable scenario**	**Scenario II**	**Scenario III**
Financial assets				
Short-term investments	99.5% CDI	212	160	108
Short-term investments	101% CDI	402	304	205
Financial liabilities				
Promissory notes – 4th issue	CDI+0.40%	1,833	1,407	973
Promissory notes – 5th issue	CDI+0.48%	7,944	6,102	4,229
Debentures – 1st series	CDI+1.30%	13,396	10,523	7,600
Debentures – 2nd series	IPCA+8.10%	2,336	2,088	1,837
FINEM BNDES I	TJLP+2.30%	6,682	5,496	4,298
FINEM BNDES II	TJLP+1.80%	3,775	3,063	2,343
Banco Bradesco	CDI+2.0%	126	101	75
BNDES (IEMG)	TJLP+2.40%	1,193	984	773
BNDES (IEMadeira)	TJLP+2.80%	6,551	5,454	4,345
BNDES (IESUL)	TJLP+2.40%	198	163	128
BNDES (Pinheiros)	TJLP+2.60%	2,660	2,204	1,744
BNDES (Serra do Japi) Sub A	TJLP+1.95%	943	769	592
BNDES (Serra do Japi) Sub B	TJLP+1.55%	787	633	478
Debentures IEMadeira	106.5% of CDI	5,613	4,248	2,859
Derivatives				
Swap IBBA (MTM position)	103.5% CDI	2,524	1,910	1,285
Swap JP Morgan (MTM position)	98.30% CDI	3,569	2,699	1,815
Difference, net		(59,516)	(47,380)	(35,061)
Reference for financial assets				
99.5% CDI (March 2012)		9.83%	7.37%	4.92%
101% CDI (March 2012)		9.98%	7.48%	4.99%
Reference for financial liabilities				
98.30% CDI		9.71%	7.28%	4.86%
100% CDI (March 2012)		9.88%	7.41%	4.94%
100% CDI (March 2012)		9.88%	7.41%	4.94%
101% CDI (March 2012)		9.98%	7.48%	4.99%
103.5% CDI		10.23%	7.67%	5.11%
TJLP% p.a.		6.00%	4.50%	3.00%
IPCA % (Accumulated – 12 months)		6.00%	4.50%	3.00%

In thousands of reais, except where otherwise stated

32. Commitment assumed – operating lease agreements

In addition to the commitment mentioned in Note 5, key commitments undertaken by Subsidiary CTEEP and its subsidiaries are related to operating lease agreements for vehicles and IT equipment, the minimum future payments of which, total and for each period, are stated below:

	2011	2010
Up to one year	6,210	3,133
From one to five years	8,002	3,411
	14,212	**6,544**

Lease agreements involving subsidiary CTEEP as the leaseholder refer to sublease agreements with its parent company and subsidiaries. They are described in Note 30 – related-party transactions.

33. Insurance

The specification by type of risk of the Company's insurance is as follows:

			Consolidated
Type	**Validity (dd/mm/yy)**	**Insured amount – R$ thousand**	**Premium – R$ thousand**
Assets (a)	09/07/09 to 19/12/12	2,635,324	2,947
Civil liability (b)	01/09/09 to 19/12/12	33,000	415
National transport (c)	16/07/09 to 15/12/12	231,632	51
Collective personal accidents (d)	01/05/11 to 01/05/12	26,767	1
Vehicles (e)	02/03/11 to 02/03/12	Market value	35
			3,449

(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 CTEEP's operations.

(c) **National transport** - Coverage of damage caused to the Subsidiary CTEEP's 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 an audit or quarterly information review scope. As a result, these were not reviewed by our independent auditors.

34. 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 monetary restatement of said financing agreement and made judicial 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 ELETROBRAS.

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 Subsidiary CTEEP management and its legal advisors that Eletropaulo was solely 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 ELETROBRAS 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 amount demanded in court by ELETROBRAS. 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 restated amounts of the judicial 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, ELETROBRAS 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 ELETROBRAS were lodged by CTEEP.

On June 29, 2006, the STJ accepted the appeal filed by Subsidiary 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 ELETROBRAS.

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 be considered, the execution of the decision filed by ELETROBRAS 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, Subsidiary CTEEP, according to the understanding of its management and legal advisors, holds only the escrow deposit which was received as an asset from 1988, 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 ELETROBRAS.

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

The supplementary pension plan under State Law No. 4819/58, which created a State Social Services Fund, is applicable to employees of government agencies, government-controlled corporations and state-owned and managed manufacturing services, hired up to May 13, 1974, and provided for the following benefits: supplementary pension plan, bonus license and family allowance. Funds required to cover plan charges are the responsibility of applicable São Paulo State Government agencies. 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 Subsidiary 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 Subsidiary CTEEP on July 11, 2005, 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 Subsidiary CTEEP. To comply with said court decisions, Subsidiary CTEEP is required to monthly request the necessary funds to São Paulo State Finance Department, to effectively pass them on to Fundação CESP, which must process the payments to the beneficiaries.

The State Finance Department has been transferring to Subsidiary CTEEP, since September 2005, an amount lower than necessary to comply with the decision of the 49th Labor Court.

In view of the facts above and by virtue of the decision of the 49th São Paulo Labor Court, as well as decision of the High Court of Justice, Subsidiary CTEEP transferred to Fundação CESP, from January 2005 to December 2011, the amount of R$1,927,563 for payment of benefits provided by State Law No. 4819/58, and received the amount of R$1,268,799 from the State Finance Department for that purpose. Disallowances between the amounts transferred to Fundação CESP and refunded by the State Finance Department, amounting to R$658,764 (note 8 (c)), was initially required by the Company in an administrative proceeding, and the relevant collection lawsuit against São Paulo State Finance Department was filed in December 2010.

Subsidiary 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. Subsidiary 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 8 (c)).

36. Subsequent events

Company

(a) Parent company’s dividend distribution

On January 9, 2012, ISA Capital paid cumulative fixed dividends to preferred shareholders HSBC Finance (Brasil) S.A. Banco Múltiplo and Banco Votorantim S.A. Based on the calculation criterion set forth in article 6 of the Company’s articles of incorporation, each preferred share was entitled to R$0.0606, totaling R$36,004 paid to total redeemable preferred shares.

Consolidated

(b) Loans and financing

On January 11, 2012, the Company conducted the 6th promissory note issue amounting to R$400.0 million and maturing January 5, 2013. Nominal charges correspond to 104.9% of CDI.

On January 11, 2012, the Company settled the 4th promissory note issue.

On January 13, 2012, addendum to financing agreements between BNDES and CTEEP’s subsidiary IEMadeira (note 16 (b.iv)), changing due date from January 15, 2012 to July 15, 2012, or the date of disbursement of first installment of credit line opened by BNDES through long-term financing agreement, whichever comes first.

(c) Substation start-up

Substation Salto of CTEEP's subsidiary Serra do Japi started up on January 18, 2012.

(d) Dividends and interest on equity

On January 30, 2012, subsidiary CTEEP paid and/or made available dividends and interest on equity approved in the Board of Directors meeting held on December 21, 2011.

37. Approval of financial statements

The financial statements were approved and their publication was authorized by the Board of Directors on March 21, 2012.

* * *

Independent auditor's report on financial statements

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

We have reviewed the individual and consolidated financial statements of ISA Capital do Brasil S.A. ("Company"), identified therein respectively as Company and Consolidated, which comprise the balance sheet as at December 31, 2011, and the income statements, statements of changes in equity and cash flows 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 individual financial statements in accordance with accounting practices adopted in Brazil and of consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), 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 conduct 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 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 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 qualified opinion.

Basis for qualified opinion on individual and consolidated financial statements

As a consequence of the debt restructuring carried out in 2010, described in Note 16.a, ISA Capital do Brasil S.A. recognized issue of redeemable preferred shares, mentioned in Note 24.a, as an equity instrument which, in our view, should be recognized as financial instrument liability, according to accounting practices adopted in Brazil, specifically CPC 39 approved by CVM Ruling No. 604, of November 19, 2009, and IAS 32. In addition, the Company recognized remuneration of the referred to instrument as fixed cumulative dividend as provided for by its Articles of Incorporation and Shareholders' Agreement, and not as financial expense with interest in the form we believe it should be. Had the Company recognized the referred to share issue as financial instrument liability and had the referred to remuneration been recognized as financial expense and not as dividend, equity at December 31, 2011, would be reduced by R$1,200,000 thousand, from R$2,127,800 thousand to R$927,800 thousand, individual, and from R$4,859,068 thousand to R$3,659,068 thousand, consolidated. In addition, total liabilities would have increased, from R$494,635 thousand to R$1,694,635 thousand, individual, and from R$4,279,826 thousand to R$5,479,826 thousand, consolidated. Net income for the year ended December 31, 2011 would be reduced by R$145,272 thousand, from R$297,529 thousand to R$152,257 thousand, individual, and from R$867,012 thousand to R$721,740 thousand, consolidated, before non-controlling interest.

Qualified opinion on individual financial statements

In our opinion, except for the effects of the matter discussed in “Basis for qualified opinion on the individual and consolidated financial statements", the individual financial statements referred to above present fairly, in all material respects, the financial position of ISA Capital do Brasil S.A. at December 31, 2011, its income and cash flows statements for the year then ended, in accordance with accounting practices adopted in Brazil.

Qualified opinion on consolidated financial statements

In our opinion, except for the effects of the matter discussed in “Basis for qualified opinion on the individual and consolidated financial statements", the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ISA Capital do Brasil S.A. at December 31, 2011, and its consolidated financial performance and consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and accounting practices adopted in Brazil.

Emphasis of a matter

As described in Note 2, the individual financial statements were prepared in accordance with accounting practices adopted in Brazil. In the case of ISA Capital do Brasil S.A. (“Company”), such practices differ from IFRS applicable to separate financial statements only in connection with valuation of investments in subsidiaries, affiliates and jointly-controlled subsidiaries by the equity pickup method, which, under IFRS, would be at cost or fair value.

As described in Note 35, Law No. 4819/58 granted to servers of companies under the São Paulo State control the advantages to which other public service employees were already entitled, particularly supplemental retirement and pensions, also establishing that resulting expenses are the full responsibility of the State Government. The operation of the payments involves Fundação CESP, charged with preparing the payroll, and the State Government, which transfers the amount to CTEEP (which, in turn, transfers to Fundação CESP for payment to the end beneficiary.) This has been the procedure adopted since the spin-off of CESP, which created CTEEP, and, until December 2003, was fully observed with by all parties. As from 2004, the São Paulo State Government claimed the right to process the payroll and make the payment directly to beneficiaries. In January 2006, however, the State Finance Office, based on opinion issued by the State Attorney’s Office, began the disallowance of part of the benefits paid to pensioners and, since then, accounts receivable have been generated with the Government, as the Company makes the payment of the disallowed installments to pay up the benefits, as required by decision handed down by the 49th Labor Court. The Company management, in addition to being broadly and strongly supported by the opinion of its legal counsel, and also due to the fact the State Finance Office does not discuss its full responsibility of providing the financial resources for payment of the benefits from application of Law No. 4819/58 established thereby, understands that it is not necessary to record provision for losses in relation to such accounts receivable in the Company financial statements.

We do not issue a qualified opinion due to the above-mentioned matters.

Statements of value added

We have also reviewed the individual and consolidated statement of value added (SVA) for the year ended December 31, 2011, the presentation of which is required by the Brazilian Corporation Law for publicly-held companies, and as supplementary information under IFRS, whereby no statement of value added presentation is required. These statements have been subject to the same auditing procedures previously described and, in our opinion, are presented fairly, in all material respects, in relation to the overall financial statements.

São Paulo, March 21, 2012.

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

Luiz Carlos Passetti Accountant CRC 1SP144343/O-3	Marcos Alexandre S. Pupo Accountant CRC 1SP221749/O-0

Statement of Officers on the Independent Auditor’s Report

The Company Officers declare that they have reviewed, discussed and agreed on the opinions expressed in the Independent Auditor’s Report.

São Paulo, March 21, 2012.

FERNANDO AUGUSTO ROJAS PINTO
CEO

ALEX ENRIQUE OLANO NIETO
CFO

BOARD OF DIRECTORS

LUIS FERNANDO ALARCÓN MANTILLA
Chairman

FERNANDO AUGUSTO ROJAS PINTO
Vice-Chairman

ALFONSO CAMILO BARCO MUÑOZ

JUAN RICARDO ORTEGA LÓPEZ

JULIÁN DARIO CADAVID VELÁSQUEZ