

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

December 31, 2011 and 2010
with Independent Auditor's Report on Financial Statements

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Individual and consolidated financial statements

December 31, 2011 and 2010

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CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Management Report – Year 2011

Dear Shareholders,

The Management of CTEEP – Companhia de Transmissão de Energia Elétrica Paulista, in compliance with legal and statutory provisions, submits this Management Report and the corresponding Financial Statements with Independent Auditor's and Supervisory Board's Report for the year ended December 31, 2011.

Message from Management

We ended 2011 sure that our efforts yielded good results. And these results are not only translated by the figures achieved by us – which are proportionally amongst the best of the market –, but especially by the trust and satisfaction of our stakeholders.

In accordance with the comprehensive management that includes monitoring the strategy defined by our Board of Directors, as well as the financial and operational status and ability to manage projects, we were able to achieve results worthy of celebration. The EBITDA for 2011 was 23.84% higher compared to 2010, totaling R\$ 1,456.5 million with a margin of 50.2%. Net income totaled R\$ 915.3 million, representing a 12.7% increase compared to 2010.

With the support of our body of employees, we were able to further improve our operating performance. Therefore, once again CTEEP put its level of energy not supplied (ENS) in a prominent position, appearing at the highest level among all electricity transmission companies in Brazil. Notwithstanding, the Company was granted the highest additional Annual Revenue Premium (RAP) for availability of transmission assets for the third consecutive year.

Investments in maintenance and modernization such as digitalization of substations under the new IEC 6530 standards and the creation of redundancy in systems that did not have such benefit were essential measures for our good performance. Throughout the year, R\$ 91.4 million was invested in maintenance and R\$ 10.4 million in digitalization of substations.

We took advantage from this scenario to develop many projects that will add approximately 4,400 new MVA, i.e. increasing almost 10% of our total capacity. Furthermore, these projects will reinforce the availability and reliability of our electricity transmission through our assets.

The energy from our accomplishments comes from a motivated team committed to our goals, to which we express our gratitude for their cooperation throughout the year. We would like to thank our partners and suppliers for our lasting and efficient relationship. We also would like to thank the shareholders, directors and managing officers for their support, dedication and efforts exerted to build a profitable and sustainable Company, dedicated to its mission.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Management Report – Year 2011

1. Company profile

Companhia de Transmissão de Energia Elétrica Paulista (CTEEP), the largest Brazilian private electricity concessionaire, is responsible for the annual transmission of 30% of all electricity produced in Brazil, 60% of the electricity consumed in Southeast region and almost 100% of the electricity consumed in the state of São Paulo. At the end of 2011, the Company had a team of 1,458 employees. The net operating income totaled R\$ 2.9 billion, and net income totaled R\$ 915.3 million.

Headquartered in the city of São Paulo, CTEEP also operates in the states of Rio Grande do Sul, Santa Catarina, Paraná, São Paulo, Minas Gerais, Rondônia, Mato Grosso, Mato Grosso do Sul, Goiás, Tocantins, Maranhão, Piauí, Paraíba and Pernambuco. The Company also has interest in companies established to provide electricity transmission services: 100% in subsidiaries IEMG (Interligação Elétrica de Minas Gerais), Pinheiros (Interligação Elétrica Pinheiros) and Serra do Japi (Interligação Elétrica Serra do Japi); 50% in IESul (Interligação Elétrica Sul), 51% in IEMadeira (Interligação Elétrica Madeira); 25% in IENNE (Interligação Elétrica Norte e Nordeste) and 51% in IEGaranhuns (Interligação Elétrica Garanhuns).

In 2011, CTEEP transmitted a total of 141,127 GWh through a network that comprises 12,993 km of transmission lines, 18,782.41 km of circuits, 2,488 km of fiber optic cables and 106 substations with tension of up to 550 kV, totaling an installed capacity of 45,131 MVA. This network connects energy-generating companies and other electricity transmission companies to electricity transmission networks that carry this electricity to end consumers.

The technological innovation and annual investment in network expansion, reinforcement and maintenance, necessary to ensure the quality and reliability of the Company's operations, express the Company's mission of providing excellent services and with a view to the customer satisfaction through a sustainable management that envisions the Company's stability, proper return to shareholders and development of local communities.

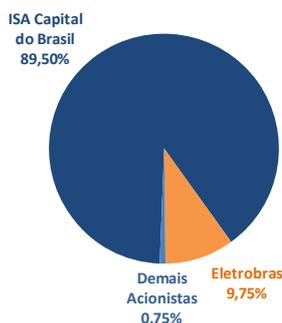
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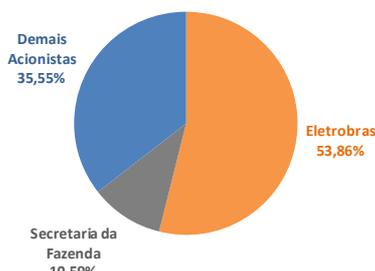
1. Company profile (Continued)

Shareholders

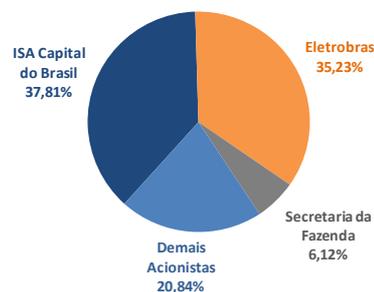
**Common shares –
TRPL3 (42% of total)**



**Preferred Shares –
TRPL4 (58% of total)**



Total Capital Stock



Corporate governance

CTEEP continually works to develop its management process and control systems. As a result of these constant efforts towards improvements, the Company was the first of its field in the state of São Paulo to adhere to Corporate Governance Level 1, and is also included in the Corporate Governance Index (IGC) of BM&FBovespa, which encompasses companies with the most transparent relationship with their stakeholders.

The management model adopted by CTEEP is in compliance with the best market practices. Accordingly, in order to guide the decisions and operations of its professionals, the Company has a Code of Ethics and Corporate Governance Code, duly approved by the Board of Directors. Both codes reinforces the commitment of the Company's high management and professionals with a transparent management and relationship with stakeholders.

Sustainable management

The Company has a comprehensive management based on the balance scorecard methodology and constant development of its capabilities. Consequently, in 2011, CTEEP revised its strategy map, thus setting its three market drivers: business sustainability, development of electricity transmission technology and service reliability, which are aligned with the Company's strategy to ensure business continuity with a constant aggregation of value to shareholders.

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Management Report – Year 2011

1. Company profile (Continued)

Sustainable management (Continued)

Throughout 2011, the Company showed progress with the commitments with its stakeholders: customers, shareholders and investors, suppliers, society, and state employees. Bearing our customers in mind, CTEEP achieved excellent operational indicators that indicate the quality of our services at competitive costs, high availability of our assets and constant interaction with this group.

CTEEP is clearly committed to society in order to create better conditions for business management, not only in the present, but also in the future. One of CTEEP duties is developing the society, and that's why the Company signed the United Nations Global Compact, thus adhering to GRI methodology in its sustainability report, also participating in ETHOS indicators.

The Company invested R\$ 2,200 thousands in initiatives to contribute with social inclusion through education and cultural projects. With this investment, the Company directly benefited 4,665 people and over 50,000 people indirectly, bringing forth relevant discussions such as the Company's role in sustainability.

A good management is only possible with committed professionals, prepared to face challenges. Therefore, the Company constantly invests in qualification, training and especially in security in order to conduct its activities. In 2011, the Company's 1,458 professionals attended an average of 52.6 training hours.

With a view to the future, the Company focused on research and development projects for energy efficiency, higher productivity and development of new technologies.

2. Expansion and extension of the transmission system

Great efforts are continuously exerted to operate, keep and expand CTEEP's transmission capacity with high quality indicators. Reliability and operating excellence are two key drivers for the Company's operations.

In 2011, the maintenance planning, the facilities that started operations and the management of all these combined were essential measures for our strong performance indicators – one of the best in our field –, especially in face of adverse meteorological phenomena and climate instability over the region where the Company operates. CTEEP mitigates risks through investments and maintenance. However, when any adversity takes place, the Company's response is immediate, isolating the problem in order to quickly reestablish the electricity supply.

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2. Expansion and extension of the transmission system (Continued)

In line with the strategy of expanding its operations, in September 2011, CTEEP – in a consortium with Companhia Hidro Elétrica do São Francisco (CHESF) – won a bid held by the Brazilian Electricity Regulatory Agency (ANEEL) comprehending two substations and four transmission lines located in the states of Paraíba and Pernambuco, in order to increase the reliability of its electricity transmission system in the Northeast region of Brazil.

CTEEP also won the bid for Itapeti substation with a view to improving the quality and reliability of its electricity transmission system in the northeast area of São Paulo, that comprehends the cities Mogi das Cruzes and Vale do Paraíba region.

3. Economic and financial performance

Revenue from construction totaled R\$ 1,103,686 thousand in 2011 compared with R\$ 693,803 thousand in 2010; given that this positive impact was a consequence of the progress in constructions at Serra do Japi and IEMadeira, as well as of the reinforcements and expansion of CTEEP's electricity transmission system.

Revenue from operation and maintenance totaled R\$ 555,127 thousand in 2011, compared with R\$ 442,469 thousand in 2010, especially due to the restatement of the Allowed Annual Revenue (RAP) of 2010/2011 cycle for 2011/2012 cycle, in accordance with the accumulated IGPM variation.

Financial income from concession agreements totaled R\$ 1,589,969 thousand in 2011 compared with R\$ 1,398,245 thousand in 2010, reflecting the remuneration of the construction accounts receivable balance, with a positive variation of 21%. Furthermore, in July 2011, the Company and its subsidiaries recognized positive adjustments from the annual tariff adjustment, which impacted the cash flows amounting to R\$ 246,871 (R\$ 86,360 in 2010) as adjustments in annual financial income, bearing in mind that the concession financial assets are classified as loans receivable.

Deductions from operating revenue totaled R\$ 367,884 thousand in 2011 and R\$ 295,257 thousand in 2010, represented by taxes and charges that reflect the operating revenue growth.

As a consequence of the factors mentioned above, the **net operating income** increased by 28.6%, totaling R\$ 2,900,805 thousand in 2011, compared with R\$ 2,256,285 thousand in 2010, due to a 59.1% increase in revenue from construction, 25.5% in revenue from operation and maintenance, 13.7% in financial income and 23.5% in deductions from operating income.

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3. Economic and financial performance (Continued)

Construction, operation and maintenance costs increased by 39.6%, totaling R\$ 1,323,409 thousand in 2011 compared with R\$ 948,270 thousand in 2010 due to additional R\$ 366,576 thousand referring to expenses with material and services to the work carried out at Serra do Japi and IEMadeira.

Net operating expenses did not have relevant variations in 2011, totaling R\$ 157,772 thousand, compared with R\$ 161,773 thousand in 2010; however, we emphasize certain important changes occurred in the year: (i) reversal of provision for contingencies referring to a labor proceeding won, amounting to R\$ 27,603 thousand; (ii) set up of provision for inventory losses totaling R\$ 17,971 thousand; (iii) increase in service contracting expenses totaling R\$ 5,999 thousand; and (iv) increase in personnel expenses totaling R\$ 3,207 thousand, basically due to the bargaining for the period.

EBITDA margin was 50.2%, totaling R\$ 1,456,517 thousand in 2011 – compared with 52.1%, R\$ 1,176,130 thousand in 2010.

Financial expenses totaled R\$ 200,520 thousand in 2011, representing a 91.5% increase compared with R\$ 104,696 thousand in 2010 due to higher financial leverage. In 2011, CTEEP raised R\$ 500.0 million in Promissory Notes and R\$ 250.0 million in CCB international and Commercial Paper, generating additional financial expenses of approximately R\$ 47 million. Subsidiaries Serra do Japi and IEMadeira had an increase in short-term borrowings, and subsidiaries Pinheiros, IESul and Serra do Japi took out new long-term borrowings from BNDES, generating and additional financial expenses of approximately R\$ 24.0 million. It is worth highlighting the increase in CDI from 2010 to 2011, which increase the total cost of debt by approximately 1.68% per annum. Due to the higher short-term borrowings taken out especially by subsidiaries Serra do Japi and IEMadeira, whose transmission lines are under construction, the consolidated net outstanding capital at December 31, 2011 was negative at R\$ 83.2 million.

Income and social contribution tax expenses increased by 32.5%, totaling R\$ 303,844 thousand in 2011, compared with R\$ 229,376 thousand in 2010. The effective income and social contribution tax rate was 24.9% in 2011, compared with 22.0% in 2010. The main permanent differences that justify the variations between the effective and nominal tax rates are interest on equity expenses, equity pickup and reversal of provision for maintenance of the equity's integrity.

As a consequence of the factors mentioned above, net income for 2011 totaled R\$ 915,260 thousand, a 12.7% increased compared with R\$ 812,171 thousand in 2010.

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4. Investments

In 2011, investments made by CTEEP in reinforcements, modernization and improvements to the existing assets, workforce capitalization and investments in subsidiaries totaled R\$ 661.4 million.

Multi-Year Investment Plan 2012/2014

In a meeting held on January 23, 2012, the Board of Directors approved the Multi-Year Investment Plan for the three-year period from 2012 to 2014, based on estimates for the Company's investments.

(R\$ million)	2012	2013	2014
Own (A)	312.1	442.5	350.6
Corporate	15.6	8.4	8.4
Telecom Project	0.1	0.0	0.0
Reinforcements – Type 1	107.6	178.3	97.5
Reinforcements – Type 2	29.9	21.8	20.5
New Connections	27.8	91.5	107.4
PMT	78.9	73.1	62.6
PMIS	38.0	54.7	38.8
Personnel capitalization	14.1	14.7	15.5
Interest in subsidiaries (B)	333.3	76.3	83.1
IENNE	1.6	0.0	0.0
IEPinheiros	50.8	4.7	0.0
IESul	14.5	0.0	0.0
IEMadeira	251.9	2.0	0.0
Serra do Japi	5.7	0.0	0.0
IEGaranhuns	8.7	69.6	83.1
TOTAL (A+B)	645.4	518.8	433.7

In order to ensure the effectiveness of the Multi-Year Investment Plan, CTEEP will seek financial support from different sources in order to make investments in projects for reinforcements, new connections, maintenance (PMT and PMIS) and Telecom, as well as in investments in subsidiaries.

5. Capital market

CTEEP (BM&FBovespa: TRPL3 and TRPL4) common and preferred shares ended 2011 at R\$ 54.00 and R\$ 57.99, respectively, thus representing a variation of -11.62% and +5.25%, respectively, in comparison with 2010. Summing up the proceedings paid to shareholders at share value, the return referring to common shares was -1.79% and 18.03% on preferred shares. In 2011, IBOVESPA had a 18.11% decrease, and the Electricity Index (IEE) had a 19.72% increase. In 2011, CTEEP preferred shares had a daily average trade volume of R\$ 7.2 million in BM&FBovespa, with a daily average of 743 deals.

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Management Report – Year 2011

5. Capital market (Continued)

CTEEP also holds American Depositary Receipts (ADR) Level 1, pegged to common and preferred shares at the ration of 1 Depositary Share for each 1 share of both species. At the end of 2011, the Company's shareholding basis comprehended 23,724 ADR referring to common shares and 2,098,918 ADR referring to preferred shares.

Shareholders' Compensation

In relation to net income recorded in 2011, including dividends paid in January 2012, shareholders were paid R\$ 757.7 million, corresponding to R\$ 4.98 per share of both species. This compensation represented a dividend yield of 8.59% and payout of 82.78%.

6. Independent auditors

As for the provision of services not related to external audit, CTEEP follows principles that preserve the independency of the auditor – who shall not audit its own work, carry out managerial activities and advocate for its client.

The individual and consolidated financial statements for the year ended December 31, 2011 were audited by Ernst & Young Auditores Independentes S.S. (“Ernst & Young Terco”).

In accordance with CVM Rule No. 381/03 of January 14, 2003, CTEEP informs that the services rendered by Ernst & Young in 2011 totaled R\$ 80 thousand and refers to services of Accounting and Financial Audit of Projects, Management Plans, Research and Development – R&D and Electricity Efficiency Programs – PEE governed by ANEEL Resolutions No. 316/2008 and 300/2008 hired on June 29, 2011, for 14 months. This provision of services corresponded to 30.6% of the annual contract for audit of financial statements.

The policies of the Company and its subsidiaries prohibit the hiring of independent auditors for the provision of services that could create a conflict of interest or loss of their objectivity.

Management

Independent auditor's report on financial statements

The Shareholders, Board of Directors and Officers

CTEEP - Companhia de Transmissão de Energia Elétrica Paulista
São Paulo - SP

We have audited the accompanying individual and consolidated financial statements of CTEEP – Companhia de Transmissão de Energia Elétrica Paulista (“Company”), identified as Company and Consolidated, respectively, which comprise the balance sheet as at December 31, 2011 and the related income statements, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting practices and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Brazilian and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the 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 in the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls 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 controls. 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 audit opinion.

Opinion on the individual financial statements

In our opinion, the individual financial statements referred to above present fairly, in all material respects, the financial position of CTEEP – Companhia de Transmissão de Energia Elétrica Paulista (“Company”) as at December 31, 2011, and the performance of its operations and its cash flows for the year then ended, in accordance with the accounting practices adopted in Brazil.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of CTEEP – Companhia de Transmissão de Energia Elétrica Paulista (“Company”) as at December 31, 2011, and the consolidated performance of its operations and its consolidated cash flows for the year then ended, in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the accounting practices adopted in Brazil.

Emphases

As described in Note 2, the individual financial statements were prepared in accordance with accounting practices adopted in Brazil. In the case of CTEEP – Companhia de Transmissão de Energia Elétrica Paulista (“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 33, 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.

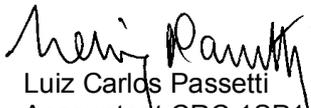
We do not issue a qualified opinion due to the above-mentioned matters.

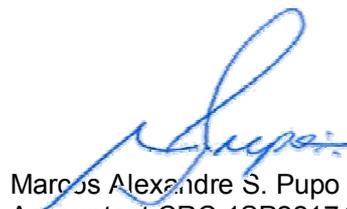
Statements of value added

We have also audited the individual and consolidated statements 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 6, 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

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Balance sheets

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

	Note	Company		Consolidated	
		2011	2010	2011	2010
Assets					
Current assets					
Cash and cash equivalents	5	151,021	40,334	207,295	54,983
Accounts receivable (concession assets)	6	1,434,110	1,413,681	1,474,794	1,424,390
Inventories		50,044	44,791	50,052	44,791
Values receivable – Department of Finance	7	14,906	22,938	14,906	22,938
Taxes and contributions payable	8	7,840	9,780	11,326	11,230
Prepaid expenses		1,786	1,828	3,190	2,611
Derivative financial instruments	29	-	-	1,673	-
Loans with subsidiaries	28	3,291	146	-	-
Dividends receivable	28	529	-	-	-
Other		74,078	35,798	74,529	35,802
		1,737,605	1,569,296	1,837,765	1,596,745
Non-current assets					
Long-term receivables					
Accounts receivable (concession assets)	6	3,423,417	3,231,704	5,335,027	4,225,309
Values receivable – Department of Finance	7	810,750	681,129	810,750	681,129
Tax benefit – incorporated premium	9	119,079	147,911	119,079	147,911
Deferred income and social contribution taxes	27	-	28,050	-	28,050
Escrows and related deposits	10	61,886	42,248	61,886	42,248
Loans with subsidiaries	28	-	56,338	-	-
Inventories		145,395	184,264	145,395	184,264
Derivative financial instruments	29	53,736	-	54,195	-
Other		21,007	1,267	27,617	6,624
		4,635,270	4,372,911	6,553,949	5,315,535
Investments	11	883,515	531,314	-	-
Property, plant and equipment	12	8,655	9,044	8,784	9,194
Intangible assets	13	8,946	9,944	8,998	9,944
		901,116	550,302	17,782	19,138
		5,536,386	4,923,213	6,571,731	5,334,673
Total assets		7,273,991	6,492,509	8,409,496	6,931,418

	Note	Company		Consolidated	
		2011	2010	2011	2010
Liabilities and equity					
Current liabilities					
Loans and financing	14	693,472	133,317	1,007,673	332,413
Debentures	15	168,217	2,154	389,825	2,154
Suppliers		48,781	48,856	83,056	93,964
Taxes and social charges payable	16	77,471	87,731	80,273	88,745
Taxes paid in installments – Law No. 11941	17	12,273	10,353	12,273	10,353
Regulatory charges payable	18	27,497	49,244	28,824	49,559
Interest on equity and dividends payable	22(b)	232,156	193,822	232,156	193,822
Provisions	19	22,830	22,284	23,277	22,662
Amounts payable – CESP Foundation	20	6,244	6,503	6,244	6,503
Derivative financial instruments	29	27,226	-	27,226	-
Other		25,750	12,885	30,185	13,874
		1,341,917	567,149	1,921,012	814,049
Non-current liabilities					
Long-term payables					
Loans and financing	14	653,233	450,577	984,264	540,032
Debentures	15	389,636	553,639	389,636	553,639
Taxes paid in installments – Law No. 11941	17	145,236	144,964	145,236	144,964
Deferred PIS and COFINS		44,334	24,430	229,519	117,632
Deferred income and social contribution taxes	27	1,982	-	42,176	9,352
Regulatory charges payable	18	32,334	2,174	32,334	2,174
Provisions	19	101,832	161,688	101,832	161,688
Special liabilities – reversal/amortization	21	24,053	24,053	24,053	24,053
		1,392,640	1,361,525	1,949,050	1,553,534
Equity					
Capital	22 (a)	1,162,626	1,119,911	1,162,626	1,119,911
Capital reserves	22 (c)	2,202,281	2,231,113	2,202,281	2,231,113
Advances for future capital increase		666	666	666	666
Income reserve	22 (d)	1,142,512	1,014,124	1,142,512	1,014,124
Proposal for distribution of additional dividends	22 (b and d)	31,349	198,021	31,349	198,021
		4,539,434	4,563,835	4,539,434	4,563,835
Total liabilities and equity		7,273,991	6,492,509	8,409,496	6,931,418

See accompanying notes.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Income statements

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

	Note	Company		Consolidated	
		2011	2010	2011	2010
Net operating revenue	23	2,025,847	1,735,190	2,900,805	2,256,286
Cost of construction, operation and maintenance services	24	(588,380)	(474,656)	(1,323,409)	(948,270)
Gross profit		1,437,467	1,260,534	1,577,396	1,308,016
Operating revenue (expenses)					
General and administrative expenses	24	(111,660)	(118,028)	(120,634)	(129,851)
Management fees	24 and 28	(5,145)	(5,966)	(6,383)	(8,082)
Other expenses, net	26	(30,878)	(23,842)	(30,755)	(23,840)
Equity results	11	57,594	12,553	-	-
		(90,089)	(135,283)	(157,772)	(161,773)
Income before financial income (expenses) and taxes on profit		1,347,378	1,125,251	1,419,624	1,146,243
Financial expenses	25	(277,851)	(133,712)	(336,577)	(152,253)
Financial income	25	118,898	43,553	136,057	47,557
		(158,953)	(90,159)	(200,520)	(104,696)
Income before income and social contribution taxes		1,188,425	1,035,092	1,219,104	1,041,547
Income and social contribution taxes					
Current	27	(243,130)	(222,549)	(244,206)	(222,630)
Deferred	27	(30,035)	(372)	(59,638)	(6,746)
		(273,165)	(222,921)	(303,844)	(229,376)
Net income for the year		915,260	812,171	915,260	812,171
Basic earnings per share	22 (e)	6.02735	5.36207		
Diluted earnings per share	22 (e)	5.90743	5.23721		

See accompanying notes.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Statements of changes in equity

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

	Capital	Capital reserves	Advances for future capital increase	Legal reserve	Statutory reserve	Realizable profit	Retained earnings	Retained earnings	Income reserve Proposal for distribution of additional dividends	Total
At December 31, 2009 (restated)	1,063,049	2,259,945	666	175,154	106,305	36,533	653,077	-	368,282	4,663,011
Capital increase (Note 22 a)	56,862	(28,832)	-	-	-	-	-	-	-	28,030
Realization of income reserve	-	-	-	-	-	(3,240)	-	3,240	-	-
Payment of additional dividends proposed (Note 22 b)	-	-	-	-	-	-	-	-	(368,282)	(368,282)
Interest on prescribed equity	-	-	-	-	-	-	-	774	-	774
Dividends prescribed	-	-	-	-	-	-	-	1,748	-	1,748
Net income for the year	-	-	-	-	-	-	-	812,171	-	812,171
Profit allocation:	-	-	-	-	-	-	-	-	-	-
Set up of legal reserve (Note 22 d)	-	-	-	40,609	-	-	-	(40,609)	-	-
Set up of statutory reserve (Note 22 d)	-	-	-	-	5,686	-	-	(5,686)	-	-
Interest on equity (R\$ 1.660255 per share) (Note 22 b)	-	-	-	-	-	-	-	(251,593)	-	(251,593)
Interim dividends (R\$ 2.120969 per share) (Note 22 b)	-	-	-	-	-	-	-	(322,024)	-	(322,024)
Additional dividends (R\$ 1.304237 per share) (Note 22 b)	-	-	-	-	-	-	-	(198,021)	198,021	-
At December 31, 2010	1,119,911	2,231,113	666	215,763	111,991	33,293	653,077	-	198,021	4,563,835
Capital increase (Note 22 a)	42,715	(28,832)	-	-	-	-	-	-	-	13,883
Realization of income reserve	-	-	-	-	-	(2,217)	-	2,217	-	-
Payment of additional dividends proposed (Note 22 b)	-	-	-	-	-	-	-	-	(198,021)	(198,021)
Interest on prescribed equity	-	-	-	-	-	-	-	841	-	841
Dividends prescribed	-	-	-	-	-	-	-	1,315	-	1,315
Net income for the year	-	-	-	-	-	-	-	915,260	-	915,260
Profit allocation:	-	-	-	-	-	-	-	-	-	-
Set up of legal reserve (Note 22 d)	-	-	-	16,762	-	-	-	(16,762)	-	-
Set up of statutory reserve (Note 22 d)	-	-	-	-	4,272	-	-	(4,272)	-	-
Set up of retained earnings reserve (Note 22 d)	-	-	-	-	-	-	109,571	(109,571)	-	-
Interest on equity (R\$ 1.674188 per share) (Note 22 b)	-	-	-	-	-	-	-	(254,540)	-	(254,540)
Interim dividends (R\$ 3.307749 per share) (Note 22 b)	-	-	-	-	-	-	-	(503,139)	-	(503,139)
Additional dividends (R\$ 0.205349 per share) (Note 22 b)	-	-	-	-	-	-	-	(31,349)	31,349	-
At December 31, 2011	1,162,626	2,202,281	666	232,525	116,263	31,076	762,648	-	31,349	4,539,434

See accompanying notes.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Cash flow statements

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

	Company		Consolidated	
	2011	2010	2011	2010
Cash flow from operating activities				
Net income for the year	915,260	812,171	915,260	812,171
Adjustments to reconcile net income with cash from (used in) operating activities				
Deferred PIS and COFINS	19,901	7,534	105,754	60,023
Depreciation and amortization (Notes 12, 13 and 24)	6,116	6,021	6,138	6,047
Deferred income and social contribution taxes	30,035	372	59,638	6,746
Provision for contingencies	1,589	31,522	1,589	31,522
Residual cost of written-off permanent assets	20	1,534	29	1,562
Tax benefit – incorporated premium (Note 9)	28,832	28,832	28,832	28,832
Interest, foreign exchange and current variations on assets and liabilities	191,216	127,063	210,688	127,063
Loss on change of interest in joint subsidiary (Note 11)	28,490	160	28,490	160
Realization of losses in joint subsidiaries (Note 11)	(2,445)	-	(2,445)	-
Equity results (Note 11)	(57,594)	(12,553)	-	-
	1,161,420	1,002,656	1,353,973	1,074,126
(Increase) decrease in assets				
Trade accounts receivable	(216,432)	(16,036)	(1,145,961)	(582,470)
Inventories	33,592	(58,873)	33,584	(58,873)
Values receivable – Department of Finance	(121,589)	(122,256)	(121,589)	(122,256)
Taxes and contributions payable	1,940	202,935	122	202,055
Escrows and related deposits	(19,638)	1,698	(19,638)	1,704
Derivative financial instruments	-	-	(2,088)	-
Other	(4,780)	(71,599)	(5,879)	(76,114)
	(326,907)	(64,131)	(1,261,449)	(635,954)
Increase (decrease) in liabilities				
Suppliers	(75)	1,359	(8,335)	22,746
Taxes and social charges payable	(10,259)	292	(8,519)	396
Taxes paid in installments – Law No. 11941	(9,592)	-	(9,592)	-
Regulatory charges payable	8,413	8,407	9,252	8,445
Provisions	(60,899)	(43,026)	(60,843)	(42,787)
Amounts payable – CESP Foundation	(259)	(414)	(259)	(414)
Other	12,870	(9,295)	(39,624)	47,730
	(59,801)	(42,677)	(117,920)	36,116
Net cash generated from (used in) operating activities	774,712	895,848	(25,396)	474,288

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Cash flow statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

	Company		Consolidated	
	2011	2010	2011	2010
Cash flow from investing activities				
Property and equipment (Note 12)	(2,465)	(3,575)	(2,475)	(3,605)
Intangible assets (Note 13)	(2,284)	-	(2,336)	-
Investments (Note 11)	(321,181)	(222,184)	(15,283)	-
Initial cash and cash equivalents balance of IEMG upon acquisition of the controlling interest	-	-	2,174	-
Net cash used in investing activities	(325,930)	(225,759)	(17,920)	(3,605)
Cash flow from financing activities				
Loan additions	834,830	709,017	1,554,266	993,458
Payment of loans (including interest)	(267,661)	(633,691)	(453,374)	(728,747)
Payment of derivative financial instruments	(3,931)	-	(3,931)	-
Dividends and interest on equity paid	(915,216)	(751,675)	(915,216)	(751,675)
Payment of capital	13,883	28,030	13,883	28,030
Net cash generated from (used in) financing activities	(338,095)	(648,319)	195,628	(458,934)
Increase in cash and cash equivalents, net	110,687	21,770	152,312	11,749
Cash and cash equivalents at the end of the year	151,021	40,334	207,295	54,983
Cash and cash equivalents at the beginning of the year	40,334	18,564	54,983	43,234
Changes in cash and cash equivalents	110,687	21,770	152,312	11,749

Total amount of interest paid by the Company for the year was R\$ 123,463 (R\$ 135,548 in 2010), referring to loans and financing described in Note 14. Total income and social contribution taxes paid by the Company for the year was R\$ 243,930 (R\$ 76,230 in 2010).

Total amount of interest paid by the Company for the year was R\$ 138,976 (R\$ 139,810 in 2010), referring to loans and financing described in Note 14. Total income and social contribution taxes paid by the Company and its subsidiaries for the year was R\$ 244,188 (R\$ 76,230 in 2010).

See accompanying notes.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Statements of value added

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

	Company		Consolidated	
	2011	2010	2011	2010
Revenues				
Operating income	2,302,698	1,977,057	3,268,689	2,551,543
Other operating income	35,677	6,028	35,798	6,030
	2,338,375	1,983,085	3,304,487	2,557,573
Input products acquired from third parties				
Cost of services rendered	(14,778)	(11,876)	(17,485)	(13,163)
Materials, energy, third-party services and others	(482,620)	(381,944)	(1,218,343)	(864,427)
	(497,398)	(393,820)	(1,235,828)	(877,590)
Gross value added	1,840,977	1,589,265	2,068,659	1,679,983
Retentions				
Depreciation and amortization	(6,116)	(6,021)	(6,138)	(6,047)
Value added produced by the entity, net	1,834,861	1,583,244	2,062,521	1,673,936
Received in transfer				
Equity results	57,594	12,553	-	-
Financial income	118,898	43,553	136,057	47,557
Total value added to be distributed	2,011,353	1,639,350	2,198,578	1,721,493
Distribution of value added				
Personnel				
Direct compensation	(149,280)	(118,649)	(153,876)	(121,546)
Benefits	(34,863)	(31,673)	(35,639)	(32,074)
Dismissal compensation fund	(9,983)	(10,176)	(10,199)	(10,306)
	(194,126)	(160,498)	(199,714)	(163,926)
Taxes, charges and contributions				
Federal	(592,463)	(509,895)	(715,422)	(570,070)
State	(618)	(596)	(696)	(595)
Local	(18,270)	(12,576)	(18,270)	(12,576)
	(611,351)	(523,067)	(734,388)	(583,241)
Compensation of capital from third parties				
Rents	(13,032)	(10,661)	(13,176)	(10,661)
Interest, currency and foreign exchange variations	(277,584)	(132,953)	(336,040)	(151,494)
	(290,616)	(143,614)	(349,216)	(162,155)
Equity remuneration				
Interest on equity and dividends	(789,028)	(771,638)	(789,028)	(771,638)
Retained earnings	126,232	40,533	126,232	40,533

See accompanying notes.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

1. Operations

1.1 Corporate purpose

CTEEP - Companhia de Transmissão de Energia Elétrica Paulista (“CTEEP” or “Company”) is a publicly held corporation, authorized to operate as a public utility of electric power, having as main activities the planning, construction and operation of power transmission systems, as well as research and development programs with respect to power transportation and other activities related to the available technology, and its activities are regulated and supervised by the Brazilian Electricity Regulatory Agency (ANEEL).

The Company is a result of a partial spin-off of Companhia Energética de São Paulo (“CESP”) and started its business operations on April 1, 1999. On November 10, 2001, acquired EPTE - Empresa Paulista de Transmissão de Energia Elétrica S.A. (“EPTE”), a company arising from the partial spin-off of Eletropaulo - Eletricidade de São Paulo S.A.

In a privatization auction held on June 28, 2006, the Stock Exchange of São Paulo - BOVESPA, under Call for Tender SF/001/2006 the state government of São Paulo, until then majority shareholder, disposed of 31,341,890,064 common shares held by it, corresponding to 50.10% of the common shares issued by CTEEP. The company that won the auction was Interconexión Eléctrica S.A. E.S.P.

The financial settlement was carried out on July 26, 2006 with the consequent transfer of ownership of said shares to ISA Capital do Brasil S.A. (“ISA Capital”), a Brazilian company controlled by Interconexión Eléctrica S.A. E.S.P. (“ISA”), incorporated to operate in Brazil, which thereby became the parent company of CTEEP. Such operation was approved by ANEEL, on July 25, 2006, according to Authorizing Resolution 642/06, published at the Official Gazette of July 26, 2006.

The Company's shares are traded at *Bolsa de Valores, Mercadorias e Futuros* (BM&FBovespa). Additionally, CTEEP has an “American Depositary Receipts” program - ADRs - Rule 144 in the United States. The ADRs depository is The Bank of New York, and Banco Itaú S.A. is the custodian.

In September 2002, the Company adhered to the different practices of Corporate Governance - Level 1 of BM&FBovespa. The commitments assumed arising from said adhesion ensure greater transparency of the Company with the market, investors and shareholders, facilitating the follow-up of the Management's acts.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

1. Operations (Continued)

1.1 Corporate purpose (Continued)

The Company has preferred shares included in Ibovespa Index and is also part of the Corporate Governance Index - IGC and Electric Power Index - IEE.

1.2 Concessions

The Company has the right to explore, whether directly or indirectly, the following concession contracts of Public Utilities of Power Transmission:

Concessionaire	Contract	Interest (%)	Term (years)	Maturity	Periodical tax review			RAP in degree	Adjustment Index	Allowed Annual Revenue - RAP	
					Term	Next	In thousands of R\$			Base month	
CTEEP	059/2001 (*)		20	07.07.15	4 years	2013	No	IGPM	1,992,484	06/11	
CTEEP	143/2001		30	12.20.31	n/a	n/a	Yes	IGPM	15,793	06/11	
IEMG	004/2007	100	30	04.23.37	5 years	2012	Yes	IPCA	14,193	06/11	
Pinheiros	012/2008	100	30	10.15.38	5 years	2014	No	IPCA	7,386	06/11	
Pinheiros	015/2008	100	30	10.15.38	5 years	2014	No	IPCA	13,474	06/11	
Pinheiros	018/2008	100	30	10.15.38	5 years	2014	No	IPCA	3,174	06/11	
Pinheiros	021/2011	100	30	12.09.41	5 years	2017	No	IPCA	4,400	09/11	
Serra do Japi	026/2009	100	30	11.18.39	5 years	2015	No	IPCA	25,200	06/11	
IENNE	001/2008	25	30	03.16.38	5 years	2013	No	IPCA	36,435	06/11	
IESul	013/2008	50	30	10.15.38	5 years	2014	No	IPCA	4,447	06/11	
IESul	016/2008	50	30	10.15.38	5 years	2014	No	IPCA	8,006	06/11	
IEMadeira	013/2009	51	30	02.25.39	5 years	2014	No	IPCA	176,249	11/08(**)	
IEMadeira	015/2009	51	30	02.25.39	5 years	2014	No	IPCA	151,788	11/08(**)	
IEGaranhuns	022/2011	51	30	12.09.41	5 years	2017	No	IPCA	68,900	09/11	

(*) The concession contract No. 059 of CTEPP is divided into: Existing Service (SE) referring to energized facilities up to December 31, 1999; and New Investments (NI) referring to energized facilities as from January 1, 2000. The information on periodical tariff review refers only to the concession contract No. 059 NI.

(**) According to the concession contract, the allowed annual revenue (RAP) is annually restated after the plant entered into operation. The Company estimates that IEMadeira will start operating by the middle of 2012 (lot D) and 2013 (lot F).

Due to the acquisition of the controlling interest of CTEEP by ISA Capital, on June 28, 2006, an Addendum to concession contract 059/2001 was executed - ANEEL of CTEEP on January 29, 2007, in order to reflect such reality of the new controlling shareholder. In such addendum, the conditions initially agreed were maintained and added a clause defining that the premium paid in the auction, as well as the special liabilities and values arising from State Law 4,819/58 set forth in Call for Tender SF/001/2006 will not be considered by ANEEL for evaluation purposes of the financial and economic concession. Also as a result of such addendum, ISA Capital and ISA undertake to make capital contributions to CTEEP.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

1. Operations (Continued)

1.2 Concessions (Continued)

All concession contracts above provide for the indemnification right on assets relate to concession upon their termination.

Participation in auctions

(i) *Auction No. 001/2009*

Lot C - LT Porto Velho - Jauru

Lot C refers to the third circuit of transmission line - TL in 230 kV between Jauru (Mato Grosso) and Porto Velho (Rondônia), totaling 987 km. To exploit this TL was constituted on July 2, 2009, Linha Verde Transmissora de Energia S.A.

On May 19, 2010, Linha Verde filed, with ANEEL, an application for prior consent for the transfer of the shares held by CTEEP to Abengoa Concessões Brasil Holding S.A. On March 15, 2011, ANEEL approved through Authorizing Resolution No. 2814 the request to transfer shares held by CTEEP for Abengoa Concessões Brasil Holding S.A. On April 7, 2011, CTEEP transferred its Linha Verde shares, at asset value, to Abengoa Concessões Brasil Holding S.A.

Lot D - LT Porto Velho – Rio Branco

This lot refers to the second circuit of the TL in 230 kV between Porto Velho (Rondônia), Abunã and Rio Branco (Acre), totaling 487 km. To exploit this TL was constituted on July 2, 2009, Rio Branco Transmissora de Energia S.A.

On October 29, 2010, Rio Branco filed, with ANEEL, an application for prior consent for the transfer of the shares held by for Centrais Elétricas do Norte do Brasil S.A. - Eletronorte. On February 15, 2011 ANEEL decided through Authorizing Resolution No. 2774, the request for transfer of shares held by CTEEP to Centrais Elétricas do Norte do Brasil S.A. - Eletronorte. On May 5, 2011, CTEEP transfer, at asset value, its Rio Branco shares to Centrais Elétricas do Norte do Brasil S.A.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

1. Operations (Continued)

1.2 Concessions (Continued)

Participation in auctions (Continued)

(i) *Auction No. 001/2009 (Continued)*

Lot E – LT Jauru – Cuiabá and substation Jauru

This lot refers to TL in 500 kV between Jauru and Cuiabá (Mato Grosso), totaling 348 km, and substation Jauru of 500/230 kV. To exploit these facilities were constituted on July 2, 2009, Transmissora Matogrossense de Energia S.A. On May 14, 2010, CTEEP transferred the Matogrossense's shares owned by it to Mavi Engenharia e Construções Ltda.

(ii) *Auction 001/2011*

On June 10, 2011, through ANEEL Auction No. 001/2011, on a public session held at BM&FBovespa, CTEEP established, together with Companhia Hidro Elétrica do São Francisco - Chesf, the consortium Extremoz, which won Lot A, encompassing TL Ceará-Mirim - João Câmara II, in 500 kV with 64 km; TL Ceará-Mirim - Campina Grande III, in 500 kV with 201 km; TL Ceará-Mirim - Extremoz II, in 230 kV with 26 km; TL Campina Grande III - Campina Grande II, with 8.5 km; SE João Câmara II 500 kV, SE Campina Grande III 500/230 kV and SE Ceará-Mirim 500/230 kV.

The estimate investment in this project is R\$ 622.0 million and a RAP of R\$ 31.9 million as at June 2011. The Company's equity interest is 51%. Operations are estimated to start in August 2013.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

2. Presentation of the financial statements

2.1 Basis of preparation and presentation

The individual financial statements, identified as “Company”, were prepared and are being presented in compliance with accounting practices adopted in Brazil, which cover the provisions contained in the Corporate Act, pronouncements, interpretations and guidelines issued by the Accounting Pronouncement Committee (“CPC”) and approved by the Brazilian Securities and Exchange Commission (“CVM”). In accordance with Brazilian laws, these individual financial statements present the evaluation of the investments in subsidiaries and joint ventures on the equity method. Therefore, these financial statements are not considered as meeting the International Financial Reporting Standards (IFRS), which require the evaluation of investments at fair value or its cost value.

The consolidated financial statements, identified as “Consolidated”, were prepared and are being presented in compliance with accounting practices adopted in Brazil, which cover the provisions contained in the Corporate Act, pronouncements, interpretations and guidelines issued by CPC and approved by CVM, which are in compliance with the IFRS issued by the International Accounting Standards Board – IASB.

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

Except for the P&L for the year, the Company does not have any other comprehensive income. Accordingly, the comprehensive income statements are not being presented, given that it is equivalent to the income statements for the year.

The individual and consolidated financial statements were based on the historical cost, except where otherwise stated, as described in the accounting practices below. Historical cost is usually based on the fair value of the considerations paid for the assets.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

2. Presentation of the financial statements (Continued)

2.2 Functional and presentation currency

The financial statements of the Company and each of its subsidiaries included in the consolidated financial statements are presented in reais, the currency of the primary economic environment in which companies operate ("functional currency").

2.3 Significant accounting judgment, estimates and assumptions

The preparation of individual and consolidated financial statements requires that the Management makes judgments, using estimates and assumptions based on objective and subjective factors, to determine the appropriate values to record certain transactions affecting assets, liabilities, revenue and expenses. Actual income from these transactions may differ from such estimates.

These judgments, estimates and assumptions are reviewed at least annually and any adjustments are recognized in the period when estimates are reviewed.

Critical judgments, estimates and assumptions are related to the following aspects: record of concession contracts, time of recognition of financial assets, determination of the revenue from construction and operation and maintenance, definition of the actual interest rate of the financial assets, credit risk analysis and other risks to determine the need for allowance, including allowances for tax, civil and labor contingencies.

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

In recording concession contracts the Company makes analysis involving the judgment of the Management substantially in relation to: applicability of the interpretation of concession contracts, determination and classification of expenditures for construction, expansion and reinforcements as financial assets. The accounting treatment for each concession contract of the Company and its characteristics are described in Notes 3.23 and 6.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

2. Presentation of the financial statements (Continued)

2.3 Significant accounting judgment, estimates and assumptions (Continued)

- Time of recognition of the financial assets

The Company's Management evaluates the time of recognition of the financial assets based on the economic characteristics of each concession contract. The recording of additions following the financial assets only occur when the provision of construction service related to expansion/improvement/reinforcement of the infrastructure that represents potential to generate additional revenue. For these cases, the obligation of construction is not recognized upon execution of the contract, but it will at the time of construction, in consideration of financial assets. The financial assets for indemnity are recognized when the construction is completed, and included as remuneration of the construction services.

- Determination of the actual interest rate of the financial assets

The actual interest rate is the rate that exactly discounts the payments or receipts of the estimated future cash through the expected life of the instrument. This interest rate is determined by the concession contract, and can be fixed or vary according to new investments. If the entity reviews its estimates of payments or revenue, the book value of financial assets is adjusted to reflect actual and reviewed cash flows estimates, and the adjustment is recognized as revenue or expense in P&L.

- Determination of revenue from construction

When the concessionaire provides construction services, construction revenue is recognized at fair value and related costs transformed into expenses related to the construction service provided and, thus, determine the profit margin. In recording of construction revenue the Company Management evaluates issues related to the primary responsibility for providing construction services, even in cases of outsourcing of services, management costs and/or monitoring of work, considering that the projects include sufficient margin to cover the construction costs plus certain expenses of the construction period. All premises described are used for purposes of determining the fair value of the construction activities.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

2. Presentation of the financial statements (Continued)

2.3 Significant accounting judgment, estimates and assumptions (Continued)

- Value of indemnified assets

As defined in the contracts, the termination of the concession will lawfully determine the reversal of the property related to the service to the grantor, proceeding to surveys and assessments, as well as determining the amount of compensation payable to the concessionaire, meeting the values and dates of its incorporation to the electrical system. The Company believes that the compensation value to which it is entitled shall correspond to the New Value of Replacement adjusted for accumulated depreciation for each item. Considering the existing uncertainties today in the power market, the Company estimated the compensation value of its assets based on its respective book values, and this is the amount that the Management believes to be the minimum guaranteed by the rules in force. Whereas the Management constantly monitors electricity regulation in case of changes in these laws which may change the estimate of the compensation value of the assets, the accounting effects of these changes will be addressed prospectively in the Financial Statements. However, the Management reiterates its commitment to continue to defend the interests of the Company's shareholders in realizing these assets in order to maximize the return on the capital invested in the concession, within the legal limits.

- Determination of operation and maintenance revenue

When the concessionaire provides services for operation and maintenance, the revenue is recognized at fair value and respective costs, according to the completion stage of the contract.

2.4 Consolidation procedures

The consolidated financial statements include the financial statements of CTEEP, its subsidiaries and its joint ventures.

Control is obtained when the Company has the power to control financial and operating policies of an entity to obtain benefits from its activities.

The subsidiaries and joint ventures are fully and proportionally consolidated, respectively, from the date on which control, shared control, begins up to the date on which control, shared control, ceases to exist.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

2. Presentation of the financial statements (Continued)

2.4 Consolidation procedures (Continued)

At December 31, 2011, the interests in subsidiaries were as follows:

	Financial statements base date	Interest %	
		2011	2010
Subsidiaries			
Interligação Elétrica de Minas Gerais S.A. (IEMG)	12.31.2011	100	60
Interligação Elétrica Pinheiros S.A. (Pinheiros)	12.31.2011	100	100
Interligação Elétrica Serra do Japi S.A. (Serra do Japi)	12.31.2011	100	100
Joint ventures			
Interligação Elétrica Norte e Nordeste S.A. (IENNE)	12.31.2011	25	25
Interligação Elétrica do Sul S.A. (IESul)	12.31.2011	50	50
Interligação Elétrica do Madeira S.A. (IEMadeira)	12.31.2011	51	51
Interligação Elétrica Garanhuns S.A. (IEGaranhuns)	12.31.2011	51	-

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

- elimination of the net equity of subsidiaries;
- elimination of equity in the earnings; and
- elimination of the balances of assets and liabilities, revenue and expenses among consolidated companies.

Accounting practices were applied uniformly in all consolidated companies. All the consolidated companies had their financial statements audited by our independent auditors for the purposes of consolidation.

There is no interest of non-controlling shareholders to be emphasized in the consolidated financial statements.

2.5 Regulatory financial statements

In accordance with ANEEL Resolution No. 396 issued on February 23, 2010, the Company shall disclose the Regulatory Financial Statements (DCR) as from the year ended December 31, 2011.

The DCR shall contain reconciliation between the income statements for the year (DRE) prepared for corporate purposes and regulatory income statements for the year (DRRE), as well as reconciliation between the balances from groups and subgroups of accounts from the corporate and regulatory balance sheet accounts.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

3. Summary of significant accounting practices **Determination of profit and loss**

The income of the operations is determined on an accrual basis.

3.2 Revenue recognition

The revenue is recognized in accordance with the provisions of ICPC 01 (IFRIC 12 and OCPC 05, see Note 3.23). The concessionaires should register and measure the revenue of the services provided in compliance with technical pronouncements CPC 17 (IAS 11) – Construction Contracts and CPC 30 (IAS 18) – Revenue (operation and maintenance services), even when provided under a single concession contract. The revenue of the Company is:

a) Construction revenue

This refers to the services of construction, expansion and reinforcement of the electric power transmission facilities. They are recognized according to the stage of completion of the works and calculated adding PIS and COFINS rates to the investment value, since the projects include sufficient margin to cover the construction costs plus certain expenses of the construction period, whereas much of its facilities is constructed through outsourced contracts with unrelated parties.

b) Financial income

Refers to interest recognized under the straight-line method based on the effective interest rate applied to the amount receivable from construction revenue. The actual interest rate is determined by discounting the estimated future cash flows over the expected life of the financial assets on the initial book value of these financial assets.

c) Operation and maintenance revenue

This refers to the operation and maintenance services of the electric power transmission facilities in order not to interrupt the availability of these facilities.

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

3. Summary of significant accounting practices (Continued)

3.3 Current and deferred income tax and social contribution

They are determined by meeting the provisions of the applicable law, based on the net income, adjusted by the inclusion of non-deductible expenses, excluding non-taxable revenue and inclusion and/or exclusion of temporary differences. As from 2009, the Company chose the Quarterly Taxable Income basis.

Current and deferred income tax and social contribution of the year are calculated based on rates of 15%, plus an additional fee of 10% on taxable income in excess of R\$ 240 for income tax and 9% on taxable income for social contribution on the net income and consider the loss carry forwards and negative basis of social contribution, limited to 30% of the taxable income. 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 Income basis, the other subsidiary are considered, for tax purposes, in pre-operating phase.

Tax deferred assets arising from temporary differences were recorded in accordance with CVM Rule No. 371 of June 27, 2002 and CPC 32 (IAS 12) – Income Taxes, and consider the history of profitability and the expectation of generating future taxable income based on a technical feasibility analysis approved by the management.

The recovery of the balance of deferred tax assets is reviewed at the end of each year, and when it is not probable that future taxable income will be available to allow recovery of any assets or part thereof, the balance of assets is adjusted by the amount expected to recover.

Deferred tax assets and liabilities are measured at the rates applicable for the period in which it is expected that the liabilities are settled or the assets are realized, based on the tax rates provided for in the tax laws in force at the end of each year, or when a new law has been substantially approved.

The deferred tax assets and liabilities are offset only when there is a legal right to offset the current tax assets with the current tax liabilities and when they are related to taxes administered by the same tax authority and the Company intends to liquidate the net value of its current tax assets and liabilities.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

3. Summary of significant accounting practices (Continued)

3.4 Taxes and regulatory fees on revenue

a) Taxes on sales

Revenues, expenses and assets are recognized net of taxes on sales, except when the taxes on sales incurred on the purchase of goods or services is not recoverable from the tax authorities, in which case the sales tax is recognized as part of the acquisition cost of the asset or expense, as the case may be.

b) Regulatory fees

Sector Charges, described below, are part of the government's policies for the Electricity Segment, and are all set forth by Law. Their amounts are defined by Resolutions or Orders issued by ANEEL, and the concessionaires shall collect these amounts from consumers through electricity supply fees, given that they are recorded in balance sheets under regulatory charges to be collected.

(i) *Fuel Consumption Account (CCC)*

Created by Decree No. 73102 of November 7, 1973, the purpose of this is reimbursing a portion of the total generation cost to meet the public service of electricity in isolated systems. This cost comprehends costs referring to electricity price and the corresponding power level contracted by distribution agents, charges and taxes not recovered, provision of electricity-related services in remote regions and capacity reserve in order to ensure the electricity supply.

(ii) *Energy Development Account (CDE)*

Created by Law No. 10438 of April 26, 2002, the purpose of this is providing resources for: i) energy development of the states; ii) competitiveness of electricity produced from wind, small hydroelectric power plants, biomass, natural gas and mineral coal for the areas supplied by interconnected electricity systems; iii) promoting an universal electricity system in all national territory.

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

3. Summary of significant accounting practices (Continued)

3.4 Taxes and regulatory fees on revenue (Continued)

b) Regulatory fees (Continued)

(iii) *Program for Support to Alternative Electricity Sources (PROINFA)*

Created by Law No. 10438 of April 26, 2002, the purpose of this is increasing the share of renewable power in the Brazilian production, i.e. wind power, biomass and small hydroelectric power plants.

(iv) *Global Reversal Reserve (RGR)*

Created by Decree No. 41019 of February 26, 1957, this refers to an annual amount defined by ANEEL, paid on a monthly basis in twelfths by concessionaires, in order to provide resources for reversal and/or expropriation of public services, but also to finance the expansion and improvement of these services.

(v) *Research & Development (R&D)*

Concessionaires for public distribution, transmission or generation of electricity, permissionaires of electricity distribution and entities authorized to independently produce electricity, except, by exemption, those which generate electricity solely from wind, biomass, qualified cogeneration and small hydroelectric power plants, shall annually apply a percentage of their net operation income in Technological Research & Development of the Electricity Segment – R&D, in accordance with ANEEL regulations.

(vi) *Public Electricity Inspection Fee (TFSEE)*

Created by Law No. 9427/1996, this applies on production, transmission, distribution and commercialization of electricity. Calculated by ANEEL on a yearly basis.

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

3. Summary of significant accounting practices (Continued)

3.5 Financial instruments

a) Financial assets

(i) *Classification and measurement*

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

The classification depends on the purpose of the financial assets and is determined on the date of initial recognition. All usual acquisitions or disposals of financial assets are recognized or written-off based on the trade date. Usual acquisitions or disposals correspond to acquisitions or disposals of financial assets that require delivery of assets within the term established by regulation or market practice.

The effective interest method is used to calculate the amortized cost of a debt instrument and assign its interest income over the corresponding period. The actual interest rate is the rate that exactly discounts the estimated future cash receipts during the estimated life of the debt instrument or, when appropriate, for a shorter period, for the net book value on the date of initial recognition. Revenue is recognized based on the actual interest rate for debt instruments not characterized as financial assets at fair value through profit or loss. Financial assets and liabilities are offset and the net amount is reported on the balance sheet when there is a legally enforceable right to offset the recognized values and there is the intention to settle them on a net basis, or realize the assets and settle the liabilities simultaneously.

- *Financial assets at fair value through profit and loss*

Financial assets are classified at fair value through profit or loss when they are held for trading or designated at fair value through profit and loss. Financial assets at fair value through profit or loss are carried at fair value and any gains or losses are recognized in P&L. Net gains or losses recognized in the income incorporate dividends or interest determined by the financial assets, and are included under “Others gains and losses” in P&L.

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

3. Summary of significant accounting practices (Continued)

3.5 Financial instruments (Continued)

a) Financial assets (Continued)

(i) *Classification and measurement* (Continued)

- *Financial assets at fair value through profit and loss* (Continued)

Financial assets are classified as held for trading if (i) are acquired primarily to be sold in the short term, or (ii) on initial recognition are part of a portfolio of identified financial instruments that the Company jointly manages and have a recent actual standard to obtain short-term profits, or (iii) are derivatives that have not been designated as an effective hedge instrument.

Financial assets other than those held for trading may be designated at fair value through profit or loss on initial recognition if (i) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise, or (ii) the financial assets are part of a group of managed assets or financial liabilities or both, and their performance is assessed based on the fair value in accordance with the documented strategy of risk or investment management of the Company, and when information about the grouping is provided internally with the same basis; or (iii) they are part of a contract containing one or more embedded derivatives and CPC 38 and IAS 39 allow the combined contract is fully designated at fair value through profit or loss.

At December 31, 2011 and 2010, the financial assets under this category are related to cash and cash equivalents and derivative financial instruments.

- *Financial assets held to maturity*

Investments held to maturity correspond to non-derivative financial assets with fixed or determinable payments and fixed maturity date that the Company has the positive intention and ability to hold to maturity. After initial recognition, investments held to maturity are measured at amortized cost using the effective interest method, less any impairment losses.

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

3. Summary of significant accounting practices (Continued)

3.5 Financial instruments (Continued)

a) Financial assets (Continued)

(i) *Classification and measurement* (Continued)

- Financial assets held to maturity (Continued)

At December 31, 2011 and 2010, the Company had no financial assets classified as held to maturity.

- Financial assets available for sale

Financial assets available for sale correspond to non-derivative financial assets designated as “available for sale” or are not classified as: (a) loans and receivables, (b) investments held to maturity, or (c) financial assets at fair value through profit or loss.

Gains or losses arising from changes in fair value of financial assets classified as available for sale, when applicable, are recorded under “Other comprehensive income” in net equity, until the settlement of financial assets, when are finally reclassified for P&L for the year.

At December 31, 2011 and 2010, the Company had no financial assets classified as available for sale.

- Loans and receivables

Included in this classification are non-derivative financial assets with fixed or determinable receipt, which are not quoted on an active market. These are recorded in current assets, except, where applicable, those with a maturity term of more than 12 months after the balance sheet date which are classified as non-current assets.

Loans and receivables are measured at amortized cost using the actual interest method, less any loss for impairment. Interest revenue is recognized by applying the actual interest rate, except for short-term credits when the recognition of interest would be immaterial. At December 31, 2011 and 2010, the Company’s financial assets under this category mainly included accounts receivable (concession assets) and amounts receivable – Department of Finance.

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

3. Summary of significant accounting practices (Continued)

3.5 Financial instruments (Continued)

a) Financial assets (Continued)

(ii) *Financial asset impairment losses*

Financial assets, except those designated at fair value through profit or loss, are assessed by indicators of the impairment at the end of each reporting period. The losses for impairment are recognized if, and only if, there is objective evidence of the impairment of the financial assets as a result of one or more events that occurred after initial recognition, with impact on the estimated future cash flows of such assets.

The book value of the financial assets is reduced directly by the loss for impairment for all financial assets, except for accounts receivable when the book value is reduced by using an allowance. Subsequent recoveries of amounts previously written off are credited to the allowance. Changes in the book value of the allowance are recognized in P&L. In 2011, the Company's management did not find any objective evidence of impairment; hence, no provision was set up.

(iii) *Write-off of financial assets*

The Company writes off financial assets, only when the contractual rights to cash flows from such assets expire, or it transfer the assets and substantially all risks and benefits of the ownership to the other company. If the Company neither transfers nor substantially retains all risks and benefits of the ownership of the financial assets, but still control the assets transferred, the retained interest and liabilities in values that should be payable are recognized. If it substantially retains all the risks and benefits of ownership of the financial assets transferred, the Company continues to recognize such assets, in addition to a loan secured by the revenues received.

In writing off all the financial assets, the difference between the book value of assets and the sum of the consideration received and receivable and accrued gain or loss that was recognized in "Other comprehensive income and accumulated in equity. In 2011, there was no financial asset write-off impacting the contractual rights.

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

3. Summary of significant accounting practices (Continued)

3.5 Financial instruments (Continued)

b) Financial liabilities

Financial liabilities are classified at fair value through profit or loss when they are held for trading or designated at fair value through profit and loss. The other financial liabilities (including loans) are measured at amortized cost using the actual interest method.

c) Derivative instruments and hedge activities

In 2011, the Company and its subsidiary IEMadeira engaged in derivative financial instruments.

Derivative financial instruments for hedge transactions are initially recognized at fair value upon engagement, and subsequently revalued also at fair value. Any gains and losses arising from changes in fair value of derivatives during the year are directly recorded in P&L.

For hedge transactions to be qualified for hedge accounting, the following requirements shall be met:

- There is formal documentation referring to hedge transactions as for their initial date, also specifying their classification, purpose and risk management strategy. This documentation must include identification of the hedge instrument, the hedged item or transaction and the nature of it, the nature of the hedge risks, a prospective effectiveness statement of the relation between the hedge transaction and how the Company will evaluate the hedge instrument in order to offset the exposure to changes in fair value of said item or cash flow related to the hedged risk;
- This hedge coverage is expected to be highly effective;
- The effectiveness of the hedge transaction can be reliably measured; and
- This hedge coverage is evaluated on a continuous basis, and determined as highly effective over the useful life of the hedge accounting structure.

At December 31, 2011, the Company and its subsidiary IEMadeira are engaged in derivative instruments classified under hedge at fair value.

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

3. Summary of significant accounting practices (Continued)

3.5 Financial instruments (Continued)

c) Derivative instruments and hedge activities (Continued)

Instruments are classified at fair value through profit or loss when held for trade or designated as such upon their 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 purchase or sale decisions based on their fair value in accordance with their investment and risk management strategy, documented by the Company and/or its subsidiaries. Following the initial recognition, changes in fair value of hedge instruments and changes in fair value of the hedged item attributable to the covered risks are recognized under the P&L heading related to the hedged item.

3.6 Cash and cash equivalents

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

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

3.7 Accounts receivable (concession assets)

Financial assets classified as loans and receivables include values receivable relating to construction services, financial income and operation and maintenance services, as well as the value of indemnified assets.

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

3. Summary of significant accounting practices (Continued)

3.7 Accounts receivable (concession assets) (Continued)

The indemnified assets, recorded at the end of construction, refers to the estimated share of investments made and not amortized until the end of the concession and to which the Company will be entitled to receive cash or other financial assets, upon termination of the concession contract. As defined in the contracts, the termination of the concession will lawfully determine the reversal of the property related to the service to the grantor, proceeding to surveys and assessments, as well as determining the amount of compensation payable to the concessionaire, meeting the values and dates of its incorporation to the electrical system. The Company believes that the value of the compensation to which it is entitled shall correspond to the New Value of Replacement adjusted for accumulated depreciation for each item. Considering the existing uncertainties today in the power market, the Company estimated the compensation value of its assets based on its respective book values, and this is the amount that the Management believes to be the minimum guaranteed by the rules in force. Whereas the Management constantly monitors electricity regulation in case of changes in these laws which may change the estimate of the compensation value of the assets, the accounting effects of these changes will be addressed prospectively in the Financial Statements. However, the Management reiterates its commitment to continue to defend the interests of the Company's shareholders in realizing these assets in order to maximize the return on the capital invested in the concession, within the legal limits.

Based on the Company's impairment test, no allowance for doubtful accounts was set up.

3.8 Inventories

Inventories are stated by warehouse maintenance items and recorded by their cost or net realizable value, whichever is lower. Inventory costs are determined under the average cost method.

3.9 Investments

In the individual financial statements the Company recognizes and states the investments in subsidiaries by the equity method of accounting.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

3. Summary of significant accounting practices (Continued)

3.10 Property, plant and equipment

These are basically represented by administrative assets. Their depreciation is calculated under the straight-line method considering their economic useful lives.

Other expenses are capitalized only when in case of increase of the economic benefits of the item of the fixed assets. Any other type of expense is recognized in income as an expense when incurred.

The Company did not consider the balance of the fixed assets important and therefore chose not to adopt the “deemed cost” practice as provided for in ICPC 10 (IAS 16 and 40) - Interpretation on the Initial Application to Fixed Assets and Property for Investment.

Additionally, the depreciation effects resulting from the first regular analysis of the remaining useful and economic life of the fixed assets as determined by ICPC 10 (IAS 16 and 40) were not considered relevant by the Company's management.

3.11 Intangible assets

These are basically represented by the expenses incurred upon implementation of the ERP – SAP system. The amortization is calculated by the straight-line method considering the useful life of said system.

Additionally, the amortization effects resulting from the first regular analysis of the remaining useful and economic life of the intangible assets as determined by ICPC 10 (IAS 16 and 40) were not considered relevant by the Company's Management.

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

3. Summary of significant accounting practices (Continued)

3.12 Leases

a) The Company as lessee

- *Operating leases*

Payments relating to operating leases are recognized as expense by the straight-line method during the term of the contract, except when another systematic basis is more representative to reflect the time when the economic benefits from the leased assets are consumed. The contingent payments from operating leases are recognized as expense when they are incurred.

- *Finance lease*

At the beginning of the contract, finance leases are recognized as assets and liabilities on their balance sheets at amounts equal to the fair value of the leased property or, if lower, the present value of minimum lease payments.

The discount rate used in calculating the present value of minimum lease payments is the interest rate implicit in the lease, if it is practicable to determine, otherwise, the incremental financing rate of the lessee is used. Any initial direct costs of the lessee are added to the amount recognized as asset.

b) The Company as lessor

The rental revenue arising from the operating lease is recognized by the straight-line method during the effectiveness of said lease. Initial direct costs incurred in negotiating and preparing an operating lease are added to the book value of leased assets and recognized also by the straight-line method during the term of the lease.

3.13 Other current and non-current assets

They are presented at their net realizable value.

The allowance for doubtful accounts consists of values considered unlikely to be realized on balance sheet date.

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

3. Summary of significant accounting practices (Continued)

3.14 Current and non-current liabilities

They are stated at a known or estimated amounts including, when applicable, related charges, monetary or exchange variations incurred through balance sheet date.

3.15 Provisions

These are recognized for the present obligations (legal or constructive) arising from past events, where it is possible to reliably estimate the values and whose settlement is likely to occur.

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

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, an asset is recognized if, and only if the reimbursement is virtually certain and the value can be reliably measured.

Provisions are quantified at the present value of the reimbursed expected for settlement of liabilities, at the proper discount rate in accordance with the risks related to liabilities. They are adjusted through the balance sheet dates by the estimated amount of probable losses, according to their natures and supported by the opinion of the lawyers of the Company and its subsidiaries.

Provisions for the lawsuits are recognized when the Company and its subsidiaries whether or not have a present obligation formalized as a result of past events, and it is probable that an outflow of resources is required to settle the obligation and the value can be reliably estimated.

The grounds and the nature of the provisions for tax, civil and labor risks are described in Note 19 (a).

3.16 Retirement plan and other benefits to employees

The Company sponsors retirement plans and health care to its employees, administered by CESP Foundation.

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

3. Summary of significant accounting practices (Continued)

3.16 Retirement plan and other benefits to employees (Continued)

The payments to retirement plans of defined contribution are recognized as expense when the services that grant the right to such payments are provided.

In the case of retirement plans of defined benefit, the cost for concession of the benefits is determined by the Projected Credit Unit Method based on actuarial valuation carried out annually at the end of each reporting period. Actuarial gains and losses that exceed 10% of the greatest value in the previous year, between the present value of the liabilities with the defined benefits and the fair value of the plan assets are amortized over the average expected remaining period of working lives of the participating employees. The past service cost is recognized immediately, to the extent that the benefits were granted, or amortized by the straight-line method for the average period until the benefits are acquired.

The liability to retirement benefit recognized in the balance sheet represents the present value of the liability with defined benefits, adjusted for actuarial gains and losses not recognized and the past service cost not recognized, reduced by the fair value of the plan assets. Any assets resulting from this calculation are limited to the amount of unrecognized actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

At December 31, 2011 and 2010, the Company had no actuarial assets or liabilities recorded, as mentioned in Note 20.

3.17 Dividends and interest on equity

The recognition of dividends policy complies with CPC 24 (IAS 10) and ICPC 08, which provide for that the proposed dividends, based on the statutory obligations, should be recorded in the current liabilities. The Company's Articles of Association set a minimum mandatory dividend of 10% of the capital, since there is profit.

The portion of dividends above the minimum mandatory dividend, stated by the Management after the accounting period referred to in the financial statements, but before the date of authorization for issuance of said financial statements, is recorded under "Additional proposed dividend", in the equity, according to Note 22 (b).

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

3. Summary of significant accounting practices (Continued)

3.17 Dividends and interest on equity (Continued)

The Company distributes interest on equity, which are deductible for tax purposes and considered part of the mandatory dividends and are stated as allocation of income directly in equity.

3.18 Business segment

Operating segments are defined as business activities from which revenue can be obtained and incur expenses, with availability of financial information separately and whose operating income is regularly reviewed by the management in the decision-making process.

In the opinion of the Company's Management, in spite of recognizing revenue for the construction, and operation and maintenance activities, since such revenue arises from a single relevant public utility concession contract of power transmission, CTEEP has only one business segment: electric power transmission.

3.19 Statement of Value Added ("DVA")

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

DVA has been prepared based on information obtained from accounting records that base the preparation of the financial statements and following the provisions contained in CPC 09 - Statement of Value Added. The first part introduces the wealth created by the Company, represented by the revenue (gross sales revenue, including taxes levied on the same, other revenue and effects of allowance for doubtful accounts), inputs acquired from third parties (cost of sales and purchases of materials, power and services from third parties, including taxes included on the acquisition, effects of loss and recovery of assets, and depreciation and amortization) and the value added received from third parties (equity in earnings, financial income and other revenue). The second part of DVA shows the distribution of wealth among staff, taxes and contributions, compensation of capital from third parties and compensation of equity.

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

3. Summary of significant accounting practices (Continued)

3.20 Cash flow statements (“DFC”)

The cash flow statements were prepared under the indirect method and is presented in accordance with CVM Rule No. 547 of August 13, 2008, which approved the accounting pronouncement CPC 03 (R2) – Statement of Cash Flows, issued by the Brazilian FASB (CPC).

3.21 Adjustment to present value of assets and liabilities

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

Adjustment to present value is calculated based on the contractual cash flows and expressed (implied, under certain circumstances) interest rate of the respective assets and liabilities. Accordingly, the interest rate embedded in revenues, expenses and related costs are discounted, so that these assets and liabilities are recognized on an accrual basis. Subsequently, these interest rates are relocated under Financial income (expenses) in P&L at their effective interest rate in relation to contractual cash flows. Implied interest rates are determined based on assumptions and are considered as accounting estimates. At financial statement date, the Company and its subsidiaries had not adjustment to present value of significant amounts.

3.22 Earnings per share

The Company calculates earnings per share using the weighted average number of outstanding common and preferred shares for the period in accordance with CPC 41 (IAS 33).

Basic earnings per share are calculated by dividing the net income for the period by the weighted average number of shares issued. Diluted earnings calculation is affected by instruments convertible into shares, as mentioned in Note 22 (e).

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

3. Summary of significant accounting practices (Continued)

3.23 Concession contracts (ICPC 01 and OCPC 05 – IFRIC 12)

As from January 1, 2009, the Company adopted and used the provisions of ICPC 01, issued by the Brazilian FASB (CPC) (“equivalent to IFRIC 12, referring to the international accounting standards as issued by the IASB”), for classification and measurement of concession activities. This interpretation provides guidance to concessionaires about how to account for utility concessions to private entities, when:

- The granting party controls or regulates which services shall be rendered, to whom these services shall be rendered and the price to be charged; and
- The granting party controls – through ownership, usufruct or otherwise – any significant residual interest in infrastructure at the end of the concession term.

For the concession contracts qualified for application of ICPC 01 (IFRIC 12), the infrastructure built, extended, reinforced or improved by the operator is not recorded under the operator’s fixed assets because the concession contract does not transfer the controlling right over (or the ownership of) this utility infrastructure to the concessionaire. The standard referred to above only provides for the concession of these goods for the provision of public services, given that they (the fixed assets) are reversed to the granting party upon termination of the concession contract. The concessionaire has the right to operate the infrastructure for provision of public services on behalf of the granting party, under the conditions therein provided.

Accordingly, the concessionaire operates as a service provider under the terms of the concession contracts, in accordance with ICPC 01 (IFRIC 12). The concessionaire builds, expands, reinforces or improves the infrastructure (construction services) used for provision of public services, and also operates and maintains this infrastructure (operation and maintenance services) for a certain length of time. The concessionaire shall record and measure the revenue from services rendered in accordance with CPC 17 – Construction Contracts (equivalent to IAS 11, as issued by the IASB) and CPC 30 – Revenue (equivalent to IAS 18, as issued by the IASB). In the event that the concessionaire provides more than one service (i.e. construction or improvement services and operation services) governed by a single contract, the remuneration received or receivable shall be allocated based on their fair value if their value is identified separately. Therefore, the remuneration for construction or improvement services referring to concession assets is classified under financial assets, intangible assets or both.

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

3. Summary of significant accounting practices (Continued)

3.23 Concession contracts (ICPC 01 and OCPC 05 – IFRIC 12) (Continued)

Financial assets are generated to the extent that the operator has the unconditional contractual right to receive cash or other financial assets from the party granting the construction services; the granting party has few or no option to avoid the payment, usually because the contract is executable by law. The concessionaire has the unconditional right to receive cash if the granting party contractually ensures the payment (a) of predefined or determinable amounts or (b) insufficiency, if any, of amounts received from users of public services related to predefined or determinable amounts, even if the payment is conditioned to the granting party's guarantee that the infrastructure meets the specific quality or efficiency requirements. Intangible assets are generated to the extent that the operator is granted the right (authorization) to charge the users of public services. This rights does not constitute unconditional right to receive cash, because the amounts are conditioned to the use of the aforementioned services by the public. In the event that the concessionaire construction services are partially paid by financial assets and partially paid by intangible assets, it is necessary to account for each of the concessionaire's remuneration components separately. The remuneration received or receivable for both components shall be initially recorded at fair value received or receivable.

The criteria used for adoption of the interpretation of concessions held by the Company and the impact of it initial adoption is described below:

The interpretation ICPC 01 (IFRIC 12) was considered applicable to all public-private service contracts to which the Company figures as a party.

All concessions were classified based on the financial assets model, given that the initial recognition of revenue and cost of work related to the formation of financial assets was based on evolution percentage method. Financial assets from indemnification are recognized when the construction is concluded, and recorded as remuneration from construction services.

The provisions of ICPC 01 (IFRIC 12) were applied for concession of the subsidiaries IEMadeira, IESul, IENNE, IEMG, Serra do Japi and Pinheiros. Considering the impossibility to reliably rebuild the historical date, the prospective application – as from January 1, 2009 – was adopted for concession contracts executed by CTEEP, existing at that date.

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

3. Summary of significant accounting practices (Continued)

3.23 Concession contracts (ICPC 01 and OCPC 05 – IFRIC 12) (Continued)

As defined the aforementioned contracts, the concession termination shall determine, by operation of law, the reversal to the granting power of the goods linked to the service, given that the due analysis shall be performed, and the indemnification amount due to the concessionaire determined, observing the amounts and dates of their incorporation to the electric system. The Company considers that the indemnification amount shall correspond to the New Replacement Value adjusted by each item's accumulated depreciation. Considering the current market uncertainties, the Company estimated the indemnification amount of its assets based on their respective book value, given that this is the amount that Management considers the minimum guaranteed by the laws in force. Considering that Management constantly monitors the segments regulations, in case of changes in these regulations affecting the estimate of the indemnification amount of assets, the accounting effects of these changes will be treated in a prospective manner in the financial statements. However, the Company's Management reiterates its commitment to continue to defend the interests of the Company's shareholders for realization of these assets, aiming at maximizing returns on capital invested in this concession, within the legal limits. This indemnification is a part of the remuneration for construction services, and is recognized upon completion of the work.

The Company determined the fair value of construction services considering that the projects include sufficient margin to cover construction costs plus other expenses incurred during the construction. The effective interest rate remunerating the financial assets from construction services was determined considering the expected return of shareholders on assets with these characteristics.

Financial assets were classified as loans and receivables, and the financial income monthly determined is directly recorded in P&L.

Revenues from construction and financial income from construction financial assets are subject to deferral of the cumulative Contribution Tax on Gross Revenue for Social Integration Program (PIS) and the Contribution Tax on Gross Revenue for Social Security Financing (COFINS), recorded under Deferred taxes in non-current liabilities.

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

4. Standards and new and reviewed interpretations but not yet adopted

New pronouncements, amendments in existing pronouncements and new interpretations listed below have been published and are mandatory for financial years beginning at January 1, 2012 or later.

CPC has not yet issued the respective pronouncements and amendments related to new and reviewed IFRS presented in this note. Due to the commitment of CPC and CVM of keeping updated the set of standards issued based on the updates made by IASB, it is expected that these pronouncements and amendments are issued by CPC and approved by CVM through the date of its mandatory application.

The Company and its subsidiaries did not adopt in advance such amendments to its consolidated financial statements of December 31, 2011 and did not have the opportunity to evaluate any impacts caused by the adoption of these changes.

a) IAS 1 – Presentation of Financial Statements

In June 2011, IASB made amendments in IAS 1, related to the presentation of items recorded in adjustments in equity method (other comprehensive income), under equity. These changes require that the Company group the items present in this heading in accordance with their potential realization (transfer) to retained earnings (accumulated losses).

IAS 12 – Income Taxes

This amendment clarified the determination of deferred tax on properties of investment measured at fair value. This introduces the rebuttable assumption the deferred tax on investment properties measured at fair value provided for by IAS 40 should be defined based on the fact that the book value will be recovered through sale. This amendment enters into effect for the annual period starting on or after January 1, 2012.

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

4. Standards and new and reviewed interpretations but not yet adopted (Continued)

b) IAS 19 – Benefits to Employees

In June 2011, IASB amended IAS 19 in order to introduce improvements to the following areas: (a) recognition of changes in asset/net liabilities of defined benefit plans; (b) changes, cuts in benefits or plan settlement; (c) disclosure about defined benefit plans; (d) accounting of benefits related to dismissal; and (e) sundry items related to (i) classification of employee benefits; (ii) mortality estimates; (iii) administrative and tax costs; (iv) shared risks and index conditional aspects. This standard enters into effect for the years starting on January 1, 2013. The key impacts caused by this standard are (i) elimination of the corridor criteria and (ii) calculation of estimated return on assets used at the same discount rate used on calculation of actuarial liabilities. The application of this standard will require the discontinuity of the corridor method and subsequent recording of actuarial gains or losses not recorded in a match account to the equity pickup account, using a discount tax of actuarial liabilities on calculation of returns on assets.

c) IAS 27 – Consolidated and Separate Financial Statements

IAS 27 was amended in 2011 following the issuance of IFRS 10 – Consolidated Financial Statements. Accordingly, IAS 27 now contains requirements related only to the preparation of separate financial statements. This standard will be effective for years starting January 1, 2013.

d) IAS 28 – Investments in Subsidiaries and Joint Ventures

IAS 28 was amended in 2011 in order to include joint ventures in the scope of this standard since the equity method is applicable for both investments in subsidiaries and investment in joint ventures. This standard will be effective for years starting January 1, 2013.

e) IFRS 9 – Financial Instruments – Classification and Measurement

IFRS 9 concludes the first part of the project for replacement of “IAS 39 – Financial Instruments: Recognition and Measurement”. IFRS 9 requires that all financial assets are classified under the same business model used for administration of financial assets and in the contractual characteristics of financial assets cash flows. Assets are initially measured at their fair value adjusted according to transaction costs, except for assets value at fair value through profit or loss. Assets are subsequently value by amortized cost or fair value. The standard also requires the adoption of a single method to determine impairment losses of assets. This standard will be effective for years starting January 1, 2013.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

4. Standards and new and reviewed interpretations but not yet adopted (Continued)

f) IFRS 10 – Consolidated Financial Statements

IFRS 10 requires the controlling company to disclose consolidated financial statements. IFRS 10 defines the control principles and also the these controls are the base for determination of which entities should be included in the consolidated financial statements. Investors control investees when these are exposed – or if they are entitled to – variable returns from their involvement with these investees and are capable of impacting such returns through the power exercised over these investees. This standard will be effective for years starting January 1, 2013.

g) IFRS 11 – Joint Arrangements

This IFRS supersedes IAS 31 – Interests in Joint Ventures. IFRS 11 requires that a participant of a joint arrangement determines the type of contract to which it is involved through evaluation of its rights and obligations arising therefrom. IFRS classifies joint arrangements under 2 types – joint operations and joint ventures. In joint operations, the parties maintain their rights over contract-related assets and liabilities. In joint arrangements, the parties have right over the equity. The evaluation of rights and obligation by the parties of such joint arrangement shall consider its structure and legal form, its contractual terms and other facts and circumstances, if relevant. This standard will be effective for years starting January 1, 2013.

h) IFRS 12 – Disclosure of interest in other entities

IFRS 12 requires disclosure of information in order to enable users to: (i) understand the judgments and assumptions used to determine the nature of the interest in other entities or joint arrangements; (ii) non-controlling interest in the group's activities and cash flow; (iii) assess the nature and extension of the access or use of assets and settlement of group liabilities; (iv) evaluate the nature of (and changes in) the risks related to interest in consolidated entities; (v) the nature and extension of their interest in non-consolidated entities, as well as the nature of (and changes in) the risks associated to these entities; (vi) the nature and extension of their interest in arrangement with other investors, as well as the nature of (and changes in) risks associated with these operations; (vii) assess the changes in the controlling interest in subsidiaries, when it does not lead to changes in control; and (viii) assess the consequences of loss of control in subsidiaries during the period in course. This standard will be effective for years starting January 1, 2013.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

4. Standards and new and reviewed interpretations but not yet adopted (Continued)

i) IFRS 13 – Fair Value Measurement

IFRS 13 defines the fair value as the price that could be received for the sale of assets, or paid for transfer of liabilities, in transactions between market participants on an evaluation date (i.e. an exit price). This fair value definition highlights that the fair value is based on market evaluation and not in a specific evaluation of a given entity. Therefore, the intention of an entity of maintaining assets or settling liabilities is not relevant for determination of their fair value. This standard will be effective for years starting January 1, 2013.

CVM approved the following CPC pronouncements:

- CPC 15 R1 – Business Combinations - CVM Rule No. 665 of August 4, 2011;
- CPC 19 R1 – Investments in Associates – CVM Rule No. 666 of August 4, 2011.
- CPC 35 R1 – Separate Financial Statements - CVM Rule No. 667 of August 4, 2011;
- CPC 36 R2 – Consolidated Financial Statements - CVM Rule No. 668 of August 9, 2011;
- CPC 20 R1 – Borrowing Costs – CVM Rule No. 672 of October 20, 2011;
- CPC 21 R1 – Interim Financial Statements – CVM Rule No. 673 of October 20, 2011;
- CPC 00 R1 – Conceptual Framework for Preparation and Disclosure of Financial Reports – CVM Rule No. 675 of December 13, 2011;
- CPC 26 R1 – Disclosure of Financial Statements – CVM Rule No. 676 of December 13, 2011;
- ICPC 01 R1 – Concession Contracts – CVM Rule No. 677 of December 13, 2011; and
- ICPC 17 – Concession Contracts: Disclosure – CVM Rule No. 677 of December 13, 2011.

5. Cash and cash equivalents

	Company		Consolidated	
	2011	2010	2011	2010
Cash and banks	830	599	1,876	628
Short-term investments (i)	150,191	39,735	205,419	54,355
	151,021	40,334	207,295	54,983

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

5. Cash and cash equivalents (Continued)

(i) Short-term investments are broken down as follows:

	CDI (%)	Company		Consolidated	
		2011	2010	2011	2010
CDB	97.5% to 103.0%	21,047	39,735	50,146	54,355
Repurchase agreements (*)	97.0% to 102.3%	129,144	-	155,273	-
		150,191	39,735	205,419	54,355

Short-term investments are measured at fair value through profit or loss and have daily liquidity.

Management analysis on exposure of these assets to interest rate risks, among others, are presented in Note 29 (c).

(*) Repurchase agreements are securities issued by banks for repurchase by the bank and resale by the customer with at defined rates and predetermined terms pegged to private or public securities depending on the bank's availability, and are recorded with CETIP.

6. Accounts receivable (concession assets)

The accounts receivable are as follows:

	Company		Consolidated	
	2011	2010	2011	2010
Receivables from construction services (a)	4,616,717	4,401,528	6,565,661	5,405,440
Receivables from O&M services (b)	240,810	175,510	244,160	175,912
Acknowledgment of indebtedness and payment agreement (c)	-	68,347	-	68,347
	4,857,527	4,645,385	6,809,821	5,649,699
Current	1,434,110	1,413,681	1,474,794	1,424,390
Non-current	3,423,417	3,231,704	5,335,027	4,225,309

(a) This refers to the amount receivable regarding the construction services, expansion and reinforcement of electric power transmission facilities and includes the estimated amount of investments made and not amortized until the end of the concession and to which the Company will be entitled to receive cash or other financial assets, on the termination of the concession contract. They are remunerated by the actual interest rate calculated for each concession contract.

(b) O&M – This refers to the portion of monthly sales reported by ONS allocated for remuneration of operation and maintenance services, with average receipt term of less than 60 days.

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

6. Accounts receivable (concession assets) (Continued)

(c) On January 13, 2009, the Company signed an "acknowledgment of indebtedness and payment agreement" with dealers who presented accounts receivable due. This agreement provides for the receipt of the balance in 36 installments. By December 2011, all installments have been received as provided for.

These financial assets are classified as loans and receivables.

Accounts receivable mature as follows:

	Company		Consolidated	
	2011	2010	2011	2010
Falling due	4,832,256	4,628,894	6,784,301	5,633,208
Overdue				
Up to 30 days	1,121	1,498	1,353	1,498
From 31 to 60 days	581	846	598	846
Over 61 days (i)	23,569	14,147	23,569	14,147
	25,271	16,491	25,520	16,491
	4,857,527	4,645,385	6,809,821	5,649,699

(i) Certain participants of the system have judicially challenged the balances billed referring to the Basic Chain. Due to this discussion, judicial deposits of the amounts considered as due by these participants are made. The Company believes that the amounts billed are in accordance with the authorizations from regulatory bodies and, therefore, no provision for losses related to them was set up.

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

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

6. Accounts receivable (concession assets) (Continued)

Changes in accounts receivable are as follows:

	<u>Company</u>	<u>Consolidated</u>
Balances at 12.31.2009	4,628,295	5,087,285
Revenue from construction	147,659	693,803
Financial income	1,371,585	1,398,245
Revenue from operation and maintenance	440,789	442,469
Settlement	(1,942,943)	(1,972,103)
Balances at 31.12.2010	4,645,385	5,649,699
Revenue from construction	265,387	1,103,686
Financial income	1,476,988	1,589,969
Revenue from operation and maintenance	540,616	555,127
Settlement	(2,070,849)	(2,088,660)
Balances at 31.12.2011	4,857,527	6,809,821

7. Amounts receivable – Department of Finance – Company and consolidated (Continued)

	<u>2011</u>		<u>2010</u>	
	<u>Current</u>	<u>Non-current</u>	<u>Total</u>	<u>Total</u>
Contract of acknowledgment and recognition of liabilities (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 proceedings – Law 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 Instrument of Recognition and Consolidation of Obligations was executed with the Treasury State Office, on which the State recognizes and admits that it owes to the Company the values corresponding to the disbursements originally made by CESP from 1990 to 1999, for supplementary retirement remuneration, arising from benefits under State Law 4819/58, and the amount then acknowledged updated until January 2002, according to the variation of the Fiscal Unit of the State of São Paulo - UFESP, and from February 2002, according to the monthly variation of IGP-M plus 6% per year. The compensation will be made in 120 monthly installments, beginning on August 1, 2002 and termination expected for July 1, 2012.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

7. Amounts receivable – Department of Finance – Company and consolidated

- (b) On July 31, 2002, a Private Transaction Instrument was executed, with a promise of disposal of the real estate, recognition of obligations and commitment of payment, with the Treasury State Office, in which the State recognizes and admits that it owes to the Company an amount corresponding to the market value of the whole area of the real estate occupied by the state, partly used for the construction of prisons. The state is committed, therefore, to reimburse the Company said total in 120 monthly installments, beginning on August 1, 2002 and termination expected for July 1, 2012, updated according to the monthly variation of IGP-M plus 6% interest per year.
- (c) This refers to amounts receivable for settlement of a portion of payroll as for the supplementary retirement plan governed by State Law No. 4819/58, for the period from January 2005 to December 2011 (Note 33). No monetary restatement is applied to this balance and no remuneration is recorded until they are paid by the State Government. The increase in relation to the previous year is due to a transfer of funds by CTEEP to retirees, based on the amounts monthly defined by CESP Foundation.
- (d) These refer to certain labor claims settled by the Company, relating to retired employees under the protection of State Law 4819/58, which are the responsibility of the State Government. The adjustment for inflation is not applied to this balance and no income is recorded until they are approved by the State Government for the actual payment to the Company.
- (e) CESP made advances for payment of monthly expenses referring to family allowances, as provided for by State Law No. 4819/58, transferred to the Company upon CESP spin-off. Considering the expected loss, the Company's management set up allowance for doubtful accounts in non-current assets, amounting to R\$ 2,218.

There were no significant changes in the progress of the aforementioned proceedings since December 31, 2010.

8. Taxes and contributions payable

	Company		Consolidated	
	2011	2010	2011	2010
Withholding income tax	5,530	4,279	8,517	5,619
Withholding social contribution tax	797	741	939	776
COFINS	877	3,211	1,016	3,273
PIS	275	790	305	803
Other	361	759	549	759
	7,840	9,780	11,326	11,230

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

9. Tax benefit – Company’s incorporated premium – Company and Consolidated

The premium paid by ISA Capital in the acquisition of share control of CTEEP has as economic basis the perspective of earnings during the term of operation of concession and originates from the acquisition of the concession right given by the Government, under letter b, of paragraph 2, of article 14 of CVM Instruction 247 of March 27, 1996, with the amendment introduced by CVM Instruction 285 of July 31, 1998.

Aiming to prevent the amortization of the premium negatively affects the flow of dividends to the shareholders, an Allowance for Maintenance the Integrity of the Net Equity of its merging company (PMIPL) was made in accordance with CVM Instruction No. 349, of March 06, 2001.

The amortization of the premium, net of reversal of allowance and corresponding tax credit, results in null effect in the income of the year and consequently on the calculation basis of the dividends.

The premium, which on December 31, 2007 totaled R\$ 689,435 is being amortized over the remaining period of operation of the concession in monthly installments according to the projection of future profitability and, as authorized by ANEEL Resolution no. 1164 of December 18, 2007 and is composed as follows:

Year	Amortization - % p.a.		
	Concession contract		Total
	059/2001	143/2001	
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

For a better presentation of the financial and equity position of the Company in the financial statements, the net amount of R\$ 119,079 (R\$ 147,911 at December 31, 2010), which, in essence, represents the incorporated tax credit, was classified in the balance in long term receivable non-current assets as an incorporated premium tax benefit, based on the expectation of its realization.

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Notes to financial statements (Continued)

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9. Tax benefit – Company's incorporated premium – Company and Consolidated (Continued)

The changes for the year ended December 31, 2011 and 2010 are as follows:

	Premium	Allowance	Net
Balance at 12.31.2009	519,834	(343,091)	176,743
Realization in the period	(84,800)	55,968	(28,832)
Balance at 12.31.2010	435,034	(287,123)	147,911
Realization in the period	(84,800)	55,968	(28,832)
Balance at 12.31.2011	350,234	(231,155)	119,079

Amortization is recorded in P&L under the heading other expenses, net.

10. Escrows and related deposits – Company and consolidated

In non-current assets, in view of the uncertainties regarding the outcome of the actions object of deposits, the Company's procedure is to keep them at face value, not recording any kind of adjustment for inflation or income. The balance is composed as follows:

	2011	2010
Judicial deposits		
Labor (Note 19 (a) (i))	52,867	27,914
Tax – COFINS (b)	-	5,668
Social Security – INSS (Note 19 (a) (iii))	2,745	2,745
Notice assessments – ANEEL (a)	6,076	5,723
Other	198	198
	61,886	42,248

(a) These refer to deposits with the purpose of annulling ANEEL assessments:

- (i) Deposit made on January 17, 2000, amounting to R\$ 3,040, was requested in an annulment action filed by the Company against ANEEL due to tax assessment notice 001/1999-SFE that applied a fine to the Company under alleged violations for hindering the inspection work related to disturbances resulting from the interruption of transmission and distribution of electric power in Southeast, South and Midwest Regions; not meeting the stipulations of the "inspection report" and not meeting the legal duty to provide adequate service.

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

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10. Escrows and related deposits – Company and consolidated (Continued)

(ii) Deposit made on August 29, 2008, amounting to R\$ 2,139, aiming to annul the assessment notice no. 062/2007 related to the failure to meet the date for installation of 3rd 345/88 kV transformer bank of SE Baixada Santista, authorized by ANEEL Resolution no. 197 of 05/04/2004.

(iii) Deposit made on September 17, 2008, amounting to R\$ 544, aiming to annul the assessment notice no. 001/2008 related to the failure to meet the date for entry into operation of the transmission line, in 345 kV, Guarulhos - Anhanguera, authorized by ANEEL Resolution no. 064/2005 of 01/31/2005.

(iv) Deposit made on April 18, 2011, amounting to R\$ 353, aiming to annul the assessment note no. 022/10 which sets a penalty to the Company due to an issue that took place on April 1, 2009, in the area of 88kV SE Baixada Santista, consisting of an automatic interruption of the bank of transformers due to the overheating caused by the substation's cooling system.

(b) Judicial deposits – COFINS

The Company legally challenged the constitutionality of the expansion of COFINS tax basis, originally amounting to R\$ 11,132, with a favorable outcome, the receipt of which occurred in October 2009. Furthermore, in September 2011, the Company received the amount of R\$ 11,594, referring to the monetary restatement of the judicial deposits. The Company recorded gains in financial income, since the amount recorded was R\$ 5,668.

11. Investments

a) Investments in subsidiaries

	<u>Base date</u>	<u>Number of common shares</u>	<u>Interest in paid-up capital - %</u>	<u>Paid-up capital</u>	<u>Equity</u>	<u>Income for the year</u>
IEMG	12.31.2011	78,855,292	100.0	78,855	52,319	12,196
	12.31.2010	47,313,175	60.0	78,855	85,689	2,166
Pinheiros	12.31.2011	206,699,000	100.0	206,700	216,735	6,093
	12.31.2010	198,199,000	100.0	198,200	202,142	3,236
Serra do Japi	12.31.2011	75,448,000	100.0	75,448	80,180	4,211
	12.31.2010	19,348,000	100.0	19,348	19,869	520

Interligação Elétrica de Minas Gerais S.A. (IEMG)

IEMG was established on December 13, 2006, in order to exploit the concession for electricity transmission, particularly the 500 kV transmission line Neves 1 – Mesquita (state of Minas Gerais), totaling 172 Km.

In 2009, IEMG was granted authorization to operate commercially.

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

11. Investments (Continued)

a) Investments in subsidiaries (Continued)

Interligação Elétrica de Minas Gerais S.A. (IEMG) (Continued)

By means of correspondence date August 6, 2010, Cymy Holding S.A. notified CTEEP about its intention to dispose its 40% interest in IEMG to a third party by the price of R\$ 14,531 thousand. In a CTEEP Board of Directors' meeting held on September 6, 2010, it was approved the right of first refusal upon purchase of 40% of IEMG equity capital held by Cymi Holdings S.A., under the terms and conditions offered by a third party.

The transaction was subject to fulfillment of certain suspensive conditions, including the approval by the Council for Economic Defense (CADE), BNDES and ANEEL, which occurred on December 7, 2010, December 16, 2010 and December 21, 2010, respectively. In addition to the approvals mentioned above, among the suspensive conditions were documents to be provided by seller, which were presented on January 28, 2011.

Following the compliance with all suspensive conditions, on February 3, 2011, CTEEP paid, in cash, the amount of R\$ 15,283 for the acquisition of interest in IEMG, which corresponds to the offered price monetarily restated.

Management considered the amount offered by third party as the fair value of IEMG net assets.

	<u>Thousands of R\$</u>
Amount offered by third party	15,283
Interest negotiated	40%
Amount offered equivalent to 100%	<u>38,206</u>

In this regard, the Company revalued its previous 60% interest in IEMG equity capital by the fair value on acquisition date, as if the amount of R\$ 38,206 was offered to 100% of the interest in the equity capital, and recognized the resulting loss in P&L for the second quarter of 2011:

	<u>Thousands of R\$</u>
Fair value of net assets	38,206
Previous interest	60%
Investment fair value (A)	<u>22,924</u>

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

11. Investments (Continued)

a) Investments in subsidiaries (Continued)

Interligação Elétrica de Minas Gerais S.A. (IEMG) (Continued)

	<u>Thousands of R\$</u>
Net assets (at December 31, 2010)	85,690
CTEEP previous interest	60%
Investment book value (B)	<u>51,414</u>
Loss on acquisition of IEMG controlling interest (B – A)	<u>28,490</u>

As a result of this transaction, the balance of the Company's investment in IEMG at transaction date became the fair value, i.e. R\$ 38,206, different from IEMG equity book value.

The fair value of identifiable assets and liabilities acquired from IEMG are as follows:

	Book value at 12.31.2010	Adjustments at fair value	Fair value of net assets
Cash and cash equivalents	5,436	-	5,436
Trade accounts receivable	10,898	-	10,898
Other current assets	545	-	545
Accounts receivable – concession	150,341	(68,342)	81,999
Deferred income and social contribution taxes	-	24,461	24,461
Other non-current assets	2,977	-	2,977
	<u>170,197</u>	<u>(43,881)</u>	<u>126,316</u>
Loans and financing	(5,291)	-	(5,291)
Suppliers	(1,428)	-	(1,428)
Other current liabilities	(1,045)	-	(1,045)
Loans and financing – non-current	(57,425)	-	(57,425)
Deferred income and social contribution taxes	(3,778)	-	(3,778)
Deferred PIS and COFINS	(15,540)	-	(15,540)
Provision for contingencies	-	(3,603)	(3,603)
	<u>(84,507)</u>	<u>(3,603)</u>	<u>(88,110)</u>
	<u>85,690</u>	<u>(47,484)</u>	<u>38,206</u>

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Notes to financial statements (Continued)
Years ended December 31, 2011 and 2010
(In thousands of reais, except where indicated otherwise)

11. Investments (Continued)

a) Investments in subsidiaries (Continued)

Interligação Elétrica de Minas Gerais S.A. (IEMG) (Continued)

The methodology used by the Company for determining the fair value of accounts receivable from concession was the future cash flow discounted by the effective interest rate at acquisition date. The adjustment to fair value of accounts receivable is made to the same extent of the financial cash flows, and recognized in P&L (Note 26).

Interligação Elétrica Pinheiros S.A. (Pinheiros)

Pinheiros was incorporated on July 22, 2008 with the aim of exploring the concession of electric power transmission public utility, particularly the transmission lines and substations auctioned in Lots E, H and K of ANEEL Auction No. 004/2008 and Lot K of Auction No. 004/2011:

Lot	Composition	Voltage (kV)
E	Transmission line Interlagos – Piratininga II (SP)	345
	Substation Piratininga II (SP)	345/138/88
H	Substations Mirassol II, Getulina e Araras (SP)	440/138
K	Substation Atibaia II (SP)	345/138
K	Substation Itapeti (SP)	345/88

The project for lots E, H and K of Auction No. 004/2008 has an estimate investment of R\$ 349.0 million and annual revenue allowed (RAP) of R\$ 24.0 million (Note 1.2). Substation Araras entered into operation on September 5, 2010. Substation Getulina entered into operation on March 10, 2011, and substation Mirassol entered into operation on April 17, 2011. Substation Piratininga II entered into operation on December 26, 2011. Substation Atibaia II is expected to enter into operation in the second quarter of 2012.

The project of lot K of Auction No. 004/2011 has an estimate investment of R\$ 43.0 million and RAP of R\$ 4.4 million. It is expected to enter into operation in August 2013.

Interligação Elétrica Serra do Japi S.A. (Serra do Japi)

Serra do Japi was incorporated on July 01, 2009 with the aim of exploring the concession of electric power transmission public utility, particularly substations of Jandira and Salto auctioned in Lot I of ANEEL Auction No. 001/2009.

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

11. Investments (Continued)

a) Investments in subsidiaries (Continued)

Interligação Elétrica Serra do Japi S.A. (Serra do Japi) (Continued)

This project has an estimated investment of R\$ 175.4 million and RAP of R\$ 25.2 million (Note 1.2). Substation Salto entered into operation on January 18, 2012, and substation Jandira is expected to enter into operation in the first quarter of 2012.

b) Information on investments in joint ventures

	<u>Base date</u>	<u>Number of common shares</u>	<u>Interest in paid-up capital (%)</u>	<u>Paid-up capital</u>	<u>Equity</u>	<u>Income for the year</u>
IENNE	12.31.2011	81,554,000	25.0	326,214	367,859	27,771
	12.31.2010	81,079,000	25.0	324,314	338,188	9,305
IESul	12.31.2011	60,303,999	50.0	120,607	127,424	4,751
	12.31.2010	44,135,999	50.0	88,272	90,339	1,744
IEMadeira	12.31.2011	346,800,000	51.0	680,000	740,360	50,538
	12.31.2010	123,164,490	51.0	241,499	251,321	8,430
IEGaranhuns	12.31.2011	1,020,000	51.0	2,000	2,000	-
	12.31.2010	-	-	-	-	-

Interligação Elétrica Norte e Nordeste S.A. (IENNE)

IENNE was incorporated on December 3, 2007 with the aim of exploring the concession of electric power transmission public utility, particularly the transmission lines Colinas (Tocantins) - Ribeiro Gonçalves (Piauí) and Ribeiro Gonçalves - São João do Piauí (Piauí), both in 500 kV, totaling 720 km.

In 2011, IENNE was granted authorization and started operating commercially.

Interligação Elétrica Sul S.A. (IESul)

IESul was incorporated on July 23, 2008 with the aim of exploring the concession of electric power transmission public utility, particularly the transmission lines and substations auctioned in Lots F and I of ANEEL Auction No. 004/2008:

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

11. Investments (Continued)

b) Information on investments in joint ventures (Continued)

Interligação Elétrica Sul S.A. (IESul) (Continued)

Lot	Breakdown	Voltage (kV)
F	Transmission line Nova Santa Rita – Scharlau (RS)	230
	Substation Scharlau (RS)	230/138
I	Transmission line Joinville Norte (SC) – Curitiba C2 (PR)	230
	Transmission line Jorge Lacerda B – Siderópolis C3 (SC)	230
	Substation Forquilha (SC)	230/69

This project has an estimated investment of R\$ 187.5 million and RAP of R\$ 12.5 million (Note 1.2). Transmission line Nova Santa Rita - Scharlau and substation Scharlau entered into commercial operation on December 6, 2010. Substation Forquilha entered into operation on October 10, 2011. Transmission line Jorge Lacerda B - Siderópolis is expected to enter into operation in the first quarter of 2012. The transmission line Joinville Norte - Curitiba is expected to enter into operation in the second quarter of 2013.

Interligação Elétrica do Madeira S.A. (IEMadeira)

IEMadeira was incorporated on December 18, 2008 with the aim of exploring the concession of electric power transmission public utility, particularly the transmission lines and substations auctioned in Lots D and F of ANEEL Auction No. 007/2008:

Lot	Description	Voltage (kV)
D	Transmission line Coletora Porto Velho – Araraquara 2, No. 01, In CC, 2375 Km	500/600
F	Rectifying station No. 02 CA/CC, 3150 MW; Inverter station No. 02 CC/CA, 2950 MW	500/600

This project has an estimated investment of R\$ 3,150.4 million and RAP of R\$ 328.0 million (Note 1.2), base November 2008. The respective facilities are expected to enter into operation in 2012 (lot D) and 2013 (lot F).

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

11. Investments (Continued)

b) Information on investments in joint ventures (Continued)

Interligação Elétrica Garanhuns S.A. (IEGaranhuns)

IEGaranhuns was incorporated on October 7, 2011 in order to exploit the concession of transmission of electricity, particularly the transmission lines and substations purchased in Lot L of Auction No. 004/2011 of ANEEL:

Lot	Description	Voltage (kV)
L	Transmission line Luiz Gonzaga – Garanhuns (AL, PE)	500
	Transmission line Garanhuns – Pau Ferro (PE)	500
	Transmission line Garanhuns – Campina Grande III (PE, PB)	500
	Transmission line Garanhuns – Angelim I (PE)	500
	Substation Garanhuns (PE)	500/230
	Substation Pau Ferro (PE)	500

This project has an estimated investment of R\$ 650.0 million and RAP of R\$ 68.9 million, base September 2011. The Company's has a 51% interest in IEGaranhuns equity capital. It is expected to enter into operation in June 2014.

c) Changes in investments

	Balance at 12.31.2009	Paid-up capital	Equity pickup	Losses in interest variation	Balance at 12.31.2010
Pinheiros	127,877	71,029	3,236	-	202,142
Serra do Japi	10,204	9,145	520	-	19,869
IENNE	48,044	34,177	2,326	-	84,547
IEMG	50,114	-	1,300	-	51,414
IESul	7,157	37,300	872	(160)	45,169
IEMadeira	53,341	70,533	4,299	-	128,173
	296,737	222,184	12,553	(160)	531,314

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

11. Investments (Continued)

c) Changes in investments (Continued)

	Balance at 12.31.2010	Acquisition of interest	Paid- up capital	Equity pickup	Loss on acquisition of controlling interest	Realization of loss in acquisition of controlling interest	Dividends receivable	Balance at 12.31.2011
IEMG	51,414	15,283	-	12,196	(28,490)	2,445	(529)	52,319
Pinheiros	202,142	-	8,500	6,093	-	-	-	216,735
Serra do Japi	19,869	-	56,100	4,211	-	-	-	80,180
IENNE	84,547	-	475	6,943	-	-	-	91,965
IESul	45,169	-	16,167	2,376	-	-	-	63,712
IEMadeira	128,173	-	223,636	25,775	-	-	-	377,584
IEGaranhuns	-	-	1,020	-	-	-	-	1,020
	531,314	15,283	305,898	57,594	(28,490)	2,445	(529)	883,515

12. Fixes assets

These refer mainly to the property used by the Company and not linked to the concession contract.

					Company
			2011	2010	Average annual depreciation rate
	Cost	Accumulated depreciation	Net	Net	- %
Machinery and equipment	10,283	(4,901)	5,382	4,685	16.0%
Improvements to third-party properties	3,148	(3,086)	62	818	20.0%
Furniture and fixtures	2,632	(997)	1,635	1,708	10.0%
Vehicles	1,536	(803)	733	943	21.0%
Other	1,111	(268)	843	890	4.0%
	18,710	(10,055)	8,655	9,044	

					Consolidated
			2011	2010	Average annual depreciation rate
	Cost	Accumulated depreciation	Net	Net	- %
Machinery and equipment	10,371	(4,935)	5,436	4,775	16.0%
Improvements to third-party properties	3,148	(3,086)	62	818	20.0%
Furniture and fixtures	2,728	(1,018)	1,710	1,768	10.0%
Vehicles	1,536	(803)	733	943	21.0%
Other	1,111	(268)	843	890	4.0%
	18,894	(10,110)	8,784	9,194	

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

12. Fixes assets (Continued)

Changes in fixed assets are as follows:

					Company
	Balance at				Balance at
	12.31.2009	Additions	Depreciation	Exclusions	12.31.2010
Machinery and equipment	5,144	2,524	(1,839)	(1,144)	4,685
Improvements to third-party properties	1,530	25	(737)	-	818
Furniture and fixtures	2,168	202	(272)	(390)	1,708
Vehicles	304	824	(185)	-	943
Other	940	-	(50)	-	890
	10,086	3,575	(3,083)	(1,534)	9,044

					Company
	Balance at				Balance at
	12.31.2010	Additions	Depreciation	Exclusions	12.31.2011
Machinery and equipment	4,685	2,219	(1,503)	(19)	5,382
Improvements to third-party properties	818	-	(756)	-	62
Furniture and fixtures	1,708	176	(248)	(1)	1,635
Vehicles	943	70	(280)	-	733
Other	890	-	(47)	-	843
	9,044	2,465	(2,834)	(20)	8,655

					Consolidated
	Balance at				Balance at
	12.31.2009	Additions	Depreciation	Exclusions	12.31.2010
Machinery and equipment	5,213	2,558	(1,853)	(1,143)	4,775
Improvements to third-party properties	1,530	25	(737)	-	818
Furniture and fixtures	2,241	197	(282)	(388)	1,768
Vehicles	336	825	(187)	(31)	943
Other	940	-	(50)	-	890
	10,260	3,605	(3,109)	(1,562)	9,194

					Consolidated
	Balance at				Balance at
	12.31.2010	Additions	Depreciation	Exclusions	12.31.2011
Machinery and equipment	4,775	2,197	(1,517)	(19)	5,436
Improvements to third-party properties	818	-	(756)	-	62
Furniture and fixtures	1,768	206	(257)	(7)	1,710
Vehicles	943	70	(280)	-	733
Other	890	2	(46)	(3)	843
	9,194	2,475	(2,856)	(29)	8,784

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

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13. Intangible assets

Substantially refers to the expenses incurred in the implementation /structuring project of ERP-SAP, except for training expenses that were recorded in the income. The project started in April 2008 and completed in February 2009, is being linearly amortized within 5 years.

Changes in intangible assets are as follows:

	<u>Company</u>	<u>Consolidated</u>
Balance at 12.31.2009	12,882	12,882
Additions	-	-
Amortization	(2,938)	(2,938)
Balance at 12.31.2010	9,944	9,944
Additions	2,284	2,336
Amortization	(3,282)	(3,282)
Balance at 12.31.2011	8,946	8,998

14. Loans and financing

Loans and financing are broken down as follows:

In reais	Charges	Maturity	<u>Company</u>	
			2011	2010
BNDES (a) (i)	2.3% p.a. over long-term interest rate	06.15.2015	328,318	421,146
BNDES (a) (ii)	1.8% p.a. over long-term interest rate	06.15.2015	196,251	160,605
Promissory Notes				
4 th issue (b) (i)	CDI + 0.4% p.a.	01.12.2012	223,048	-
5 th issue (b) (iii)	CDI + 0.4% p.a.	07.05.2012	316,885	-
Eletrobras	8.0% p.a.	11.15.2021	391	441
Financial lease			619	1,702
Total in reais			1,065,512	583,894

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

14. Loans and financing (Continued)

Foreign currency with hedge accounting	Charges	Maturity	2011	2010
CCB Internacional - Banco IBBA (c) (i)	US\$ variation + 4% p.a.	04.26.2013	122,077	-
Commercial Paper - JP Morgan (c) (ii)	US\$ variation + 2.1% p.a.	10.21.2013	159,116	-
Total in foreign currency			281,193	-
Total in reais and foreign currency			1,346,705	583,894
Current			693,472	133,317
Non-current			653,233	450,577

In reais	Charges	Maturity	Consolidated	
			2011	2010
BNDES (a) (i)	2.3% p.a. over long-term interest rate	06.15.2015	328,318	421,146
BNDES (a) (ii)	1.8% p.a. over long-term interest rate	06.15.2015	196,251	160,605
BNDES (a) (iii)	2.4% p.a. over long-term interest rate	04.15.2023	57,631	37,630
BNDES (a) (iv)	2.8% p.a. over long-term interest rate	07.15.2012	229,947	185,134
BNDES (a) (v)	2.8% p.a. over long-term interest rate	07.15.2012	71,890	-
BNDES (a) (vi)	2.4% p.a. over long-term interest rate	05.15.2025	9,568	-
BNDES (a) (vii)	2.6% p.a. over long-term interest rate	05.15.2025	125,434	-
BNDES (a) (viii)	1.9% p.a. over long-term interest rate	06.15.2026	48,282	-
BNDES (a) (viii)	1.5% p.a. over long-term interest rate	06.15.2026	42,217	-
Promissory Notes				
4 th issue (b) (i)	CDI + 0.4% p.a.	01.12.2012	223,048	-
5 th issue (b) (iii)	CDI + 0.4% p.a.	07.05.2012	316,885	-
Banco Bradesco (d)	CDI + 2.0% p.a.	-	4,365	1,396
Banco do Nordeste (e)	10.0% p.a.	05.19.2030	55,898	56,094
Citibank (f)	CDI + 1.5% p.a.	03.11.2011	-	8,297
Eletrobras	8.0% p.a.	11.15.2021	391	441
Financial lease			619	1,702
Total in reais			1,710,744	872,445

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

14. Loans and financing (Continued)

Foreign currency with hedge accounting	Charges	Maturity	2011	2010
CCB Internacional - Banco IBBA (c) (i)	US\$ variation + 4% p.a.	04.26.2013	122,077	-
Commercial Paper - JP Morgan (c) (ii)	US\$ variation + 2.1% p.a.	10.21.2013	159,116	-
Total in foreign currency			281,193	-
Total in reais and foreign currency			1,991,937	872,445
Current			1,007,673	332,413
Non-current			984,264	540,032

(a) BNDES

- (i) On September 17, 2007, CTEEP signed a loan contract with Banco Nacional de Desenvolvimento Economico e Social - BNDES of R \$ 764.2 million, reduced to R\$ 601.7 million in December 2008. The amount corresponds to 70.0% of total investment, which includes works of systemic improvements, reinforcements, upgrades of existing transmission system and new projects, and is part of the Multi-year Investment Plan 2006/2008, the amortization of which is in 78 monthly installments beginning in January 2009. As guarantee, the Company offered bank guarantees contracted in effect until December 15, 2015, with banks Bradesco, Santander and Banco do Brasil, at the cost of 0.7% p.a., with quarterly maturity. The financial indicators contractually provided are: Net Debt/EBITDA = 3.5 and Net Debt/(Net Debt + Equity) = 0.6.
- (ii) On November 18, 2008, CTEEP signed a loan contract with BNDES at the amount of R \$ 329.1 million, with amortization as from January 2011 in 54 monthly installment payments, given that up to the beginning of the amortization, payments were made on a quarterly basis. As guarantee, the Company offered bank guarantee contracted in effect until June 15, 2015 with bank Bradesco, at the cost of 1.2% per year, with quarterly maturity. The financial indicators contractually provided are: Net Debt/EBITDA = 3.5 and Net Debt/(Net Debt + Equity) = 0.6.
- (iii) On January 14, 2009 the subsidiary IEMG signed a loan contract with BNDES at the amount of R \$ 70.6 million, whose amount was released on March 27, 2009. The fund is intended to finance approximately 50.0% of the Transmission line (TL) between substations Neves 1 and Mesquita, with amortization as from May 15, 2009 in 168 monthly installment payments. As guarantee a contracted bank guarantee was offered in effect until March 18, 2010, with HSBC bank. The bank guarantee was dismissed by BNDES, given that IEMG has a Debt Service Coverage Ratio (ICSD) at 1.3 and met the conditions provided in the financing contract.

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14. Loans and financing (Continued)

- (iv) On August 11, 2010 subsidiary IEMadeira signed a loan contract with BNDES, at the amount of R\$ 292.6 and R\$ 108.7 million. The amounts of R\$ 163.0, R\$ 110.0, R\$ 37.7, R\$ 36.7, R\$ 40.0 and R\$ 13.9 million were released on August 30, October 26, November 24 and December 27, 2010, June 27 and December 14, 2011, respectively. These funds will be used to finance the construction of transmission lines and substations, in accordance with the concession contracts. The amortization, in a single installment with charges, was postponed from January 15, 2012 to July 15, 2012 (Note 34). Bank guarantees with Bradesco, Banco Espírito Santo (BES) and Santander were given as collateral at a remuneration of 0.7% p.a.
- (v) On December 14, 2011, the subsidiary IEMadeira signed a loan contract with BNDES, at the amount of R\$ 280.0 million. The amount of R\$ 140.4 million was released on December 29, 2011. This fund will be used to finance the construction of transmission lines and substations, in accordance with the concession contracts. This amount will be amortized in a single installment plus charges on July 15, 2012. A bank guarantee with Itaú BBA at the remuneration rate of 0.3 p.a. was given as collateral.
- (vi) On December 21, 2010, the subsidiary IESul entered into a loan contracted with BNDES amounting to R\$ 18.1 million, given that this amount was released on February 24, 2011. This fund will be used to finance the construction of transmission lines and substations, in accordance with the concession contracts. The amortization is made in 168 monthly installment payments as from June 15, 2011. A bank guarantee with Banco do Brasil with remuneration of 0.95% p.a. was given as collateral, maturing on a half-yearly basis. IESul needs to maintain, during the whole amortization period and following the release of these funds, the Debt Service Coverage Ratio - ICSD of at least 1.3, determined on a yearly basis.
- (vii) On December 30, 2010, the subsidiary Pinheiros entered into a loan agreement with BNDES amounting to R\$ 119.9 million. The amounts of R\$ 91.3 million and R\$ 28.6 million were released on January 28 and April 27, 2011, respectively. The objective of these funds is financing the construction of transmission lines and substations provided for in the concession contracts. These funds will be amortized in 168 monthly installment payments as from September 15, 2011. A bank guarantee with Bradesco, effective through January 17, 2013, at the cost of 0.48% p.a. with maturity on a quarterly basis, was given as collateral. Pinheiros needs to maintain, during the whole amortization period and following the release of these funds, the ICSD of at least 1.3, determined on a yearly basis.
- (viii) On October 28, 2011, the subsidiary Serra do Japi entered into a loan agreement with BNDES amounting to R\$ 93.3 million. The amounts of R\$ 75.0 and R\$ 15.0 million were released on November 18 and December 12, 2011, respectively. The other released are expected for February 2012. These funds will be used to finance the transmission lines and substations, in accordance with the concession contract. These funds will be amortized in 168 monthly installment payments as from June 15, 2012. A bank guarantee with Banco Bradesco S.A., effective through February 28, 2014, at the cost of 0.65% p.a. with maturity on a quarterly basis, was given as collateral. Serra do Japi needs to maintain, during the whole amortization period and following the release of these funds, the Debt Service Coverage Ratio - ICSD of at least 1.2, determined on a yearly basis.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

14. Loans and financing (Continued)

(b) Promissory Notes

- (i) 4th issue – Issued on January 17, 2011, amounting R\$ 200.0 million to be settled on January 11, 2012 (Note 34 (a)). The nominal charges correspond to CDI + 0.4 p.a. Issue costs of these promissory notes totaled R\$ 132 and, in accordance with CPC 08 (IAS 39), were recorded less financing costs and allocated to P&L within the transaction term. No guarantees were given for these promissory notes.
- (ii) 5th issue – Issued on July 11, 2011, amounting to R\$ 300.0 million, maturing on July 5, 2012. Nominal charges correspond to CDI + 0.4% p.a. Issue costs of these promissory notes totaled R\$ 190 and, in accordance with CPC 08 (IAS 39), were recorded less financing costs and allocated to P&L within the transaction term. No guarantees were given for these promissory notes.

The promissory notes issued by the subsidiary IEMadeira on May 18, 2011, amounting to R\$ 180.0 million, were settled on September 15, 2011.

The promissory notes issued by the subsidiary Serra do Japi on April 27, 2011, amounting to R\$ 70.0 million, were settled on July 27, 2011.

(c) Foreign currency with hedge accounting

- (i) On April 20, 2011, CTEEP executed the international bank credit bill with Banco Itaú BBA Nassau, under the terms of Law No. 4131 of September 3, 1962, amounting to US\$ 63,694,267.52 remunerated by foreign exchange variation (VC) + 4% p.a. Additionally, CTEEP contracted a swap instrument with Banco Itaú BBA, with Notional of R\$ 100.00 million and restatement factor of 103.50% of CDI. The effects of this transaction are described in Note 29. This transaction matures on April 26, 2013. Banco Itaú BBA has the credit rights arising from any positive adjustment to the swap transaction as guarantee.
 - (ii) On October 17, 2011, an external long-term loan agreement was entered into with JP Morgan Chase, amounting to US\$ 85,787,818.12, maturing on October 21, 2013, and remuneration at foreign exchange variation (VC) + 2.1% p.a. Additionally, CTEEP contracted a Swap instrument with JP Morgan, with Notional of R\$ 150.00 million and restatement factor of 98.3% of CDI. The effects from this instrument are described in Note 29.
- (d) Escrow account with limit of R\$ 20.0 million of subsidiary IENNE with Banco Bradesco S.A. The nominal charges correspond to 100.0% of CDI + 2.0% p.a.
 - (e) On May 19, 2010, the subsidiary IENNE entered into a financing agreement with Banco Nordeste do Brasil S.A., amounting to R\$ 220.0 million, the amount of which was released on July 20 and 30, September 3 and October 11, 2010. This fund is used to financing approximately 40% of the transmission line between Colinas do Tocantins to São João do Piauí. This amount will be amortized in 216 monthly installment payments as from June 2012, given that, up to the beginning of the amortization, the charges will be paid on a quarterly basis. A bank guarantee effective through July 15, 2011, with Banco Bradesco S.A., was given as collateral, at the cost of 1.8% p.a. maturing on a quarterly basis. On June 9, 2011, the effectiveness of this bank guarantee was extended to July 8, 2012.

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

14. Loans and financing (Continued)

- (f) On August 4, 2010, the subsidiary IESul entered into a bank credit bill with Citibank S.A., with a limit of R\$ 17.0 million and settled on March 3, 2011. The charges on this transaction were paid on a monthly basis.

All covenants set out in these contracts are being duly observed and met by the Company and its subsidiaries up to the present date.

The maturity dates of the short-term installments are as follows:

	Company		Consolidated	
	2011	2010	2011	2010
2012	-	128,771	-	132,449
2013	429,482	128,671	451,771	132,963
2014	149,036	128,626	172,425	133,201
2015	74,521	64,316	98,201	69,183
2016	43	43	23,975	5,161
After 2016	151	150	237,892	67,075
	653,233	450,577	984,264	540,032

Changes in loans and financing are as follows.

	Company	Consolidated
Balances at 12.31.2009	938,476	1,049,410
Loan additions	160,428	444,869
Payments (principal and interest)	(578,839)	(673,895)
Changes in interest in subsidiary (IESul)	-	(11,768)
Interest, currency and foreign exchange variations	63,829	63,829
Balances at 12.31.2010	583,894	872,445
Additions	834,830	1,350,266
Payments (principal and interest)	(197,448)	(383,161)
Interest, currency and foreign exchange variations	125,429	152,387
Balances at 12.31.2011	1,346,705	1,991,937

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

15. Debentures

	Maturity	Number	Charges	Company		Consolidated	
				2011	2010	2011	2010
1 st series	15.12.2014	49,100	CDI + 1.3% p.a.	490,736	490,405	490,736	490,405
2 nd series	15.12.2017	5,760	IPCA + 8.1% p.a.	67,117	65,388	67,117	65,388
Single Series IEMadeira	15.09.2012	420	106.5 % of CDI p.a.	-	-	221,608	-
				557,853	555,793	779,461	555,793
Current				168,217	2,154	389,825	2,154
Non-current				389,636	553,639	389,636	553,639

In December 2009, CTEEP issued 54,860 debentures totaling R\$ 548.6 million, with financial settlement in January 2010. The 1st series will be amortized on the following dates: December 15, 2012, 2013 and 2014, and the remuneration will be paid semiannually on June and December 15 every year, the third occurred on June 15, 2011 and the fourth on December 15, 2011.

The 2nd series will be amortized on the following dates: June 15, 2014, December 15, 2015, 2016 and 2017, and the remuneration will be paid on the following dates: June 15, 2011, 2012, 2013, 2014, December 15, 2015, 2016 and 2017, the first occurred on June 15, 2011.

The contractual financial indicators are: Net Deb/EBITDA = 3.5 and EBITDA/Financial income (expenses) = 3.0.

In September 2011, IEMadeira issued 420 debentures amounting to R\$ 420.0 million, with entry of 400 debentures on September 15, 2011 and 20 debentures on October 3, 2011. These debentures are expected to be redeemed in its entirety with proceeds from the long-term financing with BNDES.

All covenants set out in these contracts are being duly observed and met by the Company and its subsidiaries up to the present date.

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

15. Debentures (Continued)

The maturity dates of the short-term installments are as follows:

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

Changes in debentures are as follows:

	Company	Consolidated
Balances at 12.31.2009	-	-
Additions	548,589	548,589
Payments (principal and interest)	(54,852)	(54,852)
Interest, currency and foreign exchange variations	62,056	62,056
Balances at 12.31.2010	555,793	555,793
Additions	-	204,000
Payments (principal and interest)	(70,213)	(70,213)
Interest, currency and foreign exchange variations	72,273	89,881
Balances at 12.31.2011	557,853	779,461

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

16. Taxes and social charges payable

	Company		Consolidated	
	2011	2010	2011	2010
Income tax	38,249	45,952	38,391	45,952
Social contribution tax	13,924	16,633	13,983	16,633
COFINS	7,678	7,141	7,976	7,210
PIS	1,665	1,549	1,730	1,564
Scholarship	864	1,542	864	1,542
Social security	6,430	6,014	7,524	6,206
ISS	2,790	3,630	3,421	3,936
Other	5,871	5,270	6,384	5,702
	77,471	87,731	80,273	88,745

17. Taxes paid in installments - Law No. 11941 – Company and consolidated

Due to issues related to the filling in method, the Company rectified the Federal Tax Debts and Credits statements (DCTFs) from 2004 to 2007 determining debits substantially related to the contributions to PIS and COFINS. For settlement of debt the Company joined the program of installments of tax debts provided for by Law no. 11941 of May 27, 2009, paying R\$ 141,162 on November 30, 2009, with the benefit of reducing penalties and interest amounting to R\$ 42,257. The remainder will be paid in 180 months from November 2009.

On June 30, 2011, the Company consolidated tax debts before the Brazilian IRS and opted for the payment in 180 monthly installments for calculation of the portion to be paid from June 30, 2011. The advances made in the period from November 30, 2009 to May 31, 2011 which represented 19 installments already paid were deducted from the total installments. Following this deduction, 161 installments were generated to be paid as from June 30, 2011, amounting to R\$ 975, subject to monetary restatement based on accumulated SELIC as from December 2009.

Due to the option payment in 180 months, the Company generated a reduction revenue of fine and interest amounting to R\$ 21,013 over the total amount due, recognized in financial income (expenses). This income for income and social contribution taxes is not be part of the Company's taxable income, under Law No. 11941/09.

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

17. Taxes paid in installments - Law No. 11941 – Company and consolidated (Continued)

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

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

(*) Up to approval of this payment in installments by the Brazilian IRS, the monthly payments totaled R\$ 100.00 (on hundred reais).

18. Regulatory charges payable

	Company		Consolidated	
	2011	2010	2011	2010
Research & Development (R&D) (i)	50,086	39,033	50,364	39,114
Energy Development Account (CDE)	1,834	2,179	1,834	2,179
Fuel consumption account (CCC)	2,592	3,620	2,592	3,620
Global Reversal Reserve (RGR)	4,050	5,443	4,917	5,629
Program for Support to Alternative Electricity Sources (PROINFRA)	1,269	1,143	1,269	1,143
Inspection Fee (ANEEL)	-	-	182	48
	59,831	51,418	61,158	51,733
Current	27,497	49,244	28,824	49,559
Non-current	32,334	2,174	32,334	2,174

(i) The Company and its subsidiaries recognized liabilities related to amounts already billed (1% of Net operating revenue), but not yet applied in Research & Development Program- R&D, monthly restated as from the 2nd month following its recognition up to the amount of its effective realized based on SELIC rate in accordance with ANEEL Resolution No. 300/2008 and 316/2008. The balances of these projects will be settled upon their conclusion.

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

19. Provisions

	Company		Consolidated	
	2011	2010	2011	2010
Vacation and social charges	17,405	16,417	17,840	16,795
Profit sharing	5,419	5,786	5,419	5,786
Voluntary Resignation Program (PDV)	6	87	6	87
Contingencies (a)	101,832	161,682	101,844	161,682
	124,662	183,972	125,109	184,350
Current	22,830	22,284	23,277	22,662
Non-current	101,832	161,688	101,832	161,688

(a) Provision for contingencies

On a quarterly basis, the contingencies are evaluated and classified according to probability of loss for the Company, as shown below:

	Company		Consolidated	
	2011	2010	2011	2010
Labor (a)	87,795	145,993	87,807	145,993
Civil	3,347	3,844	3,347	3,844
Tax - IPTU (ii)	7,608	7,527	7,608	7,527
Social security (INSS) (iii)	1,439	3,635	1,439	3,635
ANEEL (iv)	1,643	683	1,643	683
	101,832	161,682	101,844	161,682

(i) Labor

The Company assumed responsibility for certain proceedings filed with different courts, arising mainly from the partial spin-off of CESP and EPTE. The Company has labor judicial deposits amounting to R\$ 52,867 (R\$ 27,914 at December 31, 2010), as presented in Note 10.

(ii) Tax - IPTU

The Company sets up provision for debts with local government of various cities of the State of São Paulo, related to regularization proceedings of areas, amounting to R\$ 7,608.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

19. Provisions (Continued)

(iii) Social security – INSS

On August 10, 2001, the Company was notified by the National Institute of Social Security - INSS for not collecting contributions on remunerations paid to employees as meal vouchers, morning snack, basket of food staples and transportation ticket, related to the period from April 1999 to July 2001. The Management began defense procedure by making a court deposit at the amount of R\$ 8,243, recorded in non-current assets, under "Escrows and related deposits". In January 2010, the decision unfavorable to the Company in the proceedings related to meal vouchers, morning snack and part of the basket of food staples became unappealable. Consequently, the installment corresponding to the amounts deposited in court, amounting to R\$ 5,498, were reversed to the Federal Government and written-off against the income, considering that no allowance was made for such contingency.

(iv) ANEEL

The Company was notified by ANEEL for failure to meet the date set for installation of 3rd 345/88 kV transformer bank of SE Baixada Santista, authorized by ANEEL Resolution no. 197 of 05/04/2004 with penalty at the amount of R\$ 1,981, and for failure to meet the date set for entry into operation of the transmission line, in 345 kV, Guarulhos - Anhanguera, authorized by Authorizing Resolution no. 064/2005 of 01/31/2005 with penalty at the amount of R\$ 886, totaling R\$ 2,687. On June 30, 2010, an allowance was reversed against the income, under general administrative expenses.

Additionally, the Company maintains provision relating to the fees for loss of lawsuit of ANEEL tax assessment notice 001/1999-SFE which imposed a penalty, related to interruption of transmission and distribution of electric power in Southeast, South and Midwest.

(v) Procedures with potential losses

The Company has tax, labor and civil proceedings, involving risk of losses which the Management, based on the assessment of its legal counsel, classified as possible, amounting to approximately R\$ 119,512 (R\$ 101,252 in 2010), especially for labor proceedings, totaling R\$ 65,736 in 2011 (R\$ 59,517 in 2010), for which no provision was set up.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

19. Provisions (Continued)

(vi) Changes in provision for contingencies:

	Company					Total
	Labor	Civil	Tax - IPTU	Social security - INSS	ANEEL	
Balances at 12.31.2009	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
Balances at 12.31.2010	145,993	3,844	7,527	3,635	683	161,682
Set up	25,908	1,948	-	-	-	27,856
Reversal/payment	(85,781)	(2,668)	(79)	(2,381)	-	(90,909)
Restatement	1,675	223	160	185	960	3,203
Balances at 12.31.2011	87,795	3,347	7,608	1,439	1,643	101,832

	Consolidated					Total
	Labor	Civil	Tax - IPTU	Social security - INSS	ANEEL	
Balances at 12.31.2009	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
Balances at 12.31.2010	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
Balances at 12.31.2011	87,807	3,347	7,608	1,439	1,643	101,844

20. Amounts payable – CESP Foundation – Company and consolidated

The Company sponsors supplementary retirement remuneration and pension plans and health care and maintained with CESP Foundation, which presents balance of R\$ 6,244 at December 31, 2011 (R\$ 6,503 in 2010), referring to monthly installments payable as fund contributions.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

20. Amounts payable – CESP Foundation – Company and consolidated (Continued)

a) Plan "A" - supplementary retirement remunerations

Governed by State Law 4819/58, which applies to employees hired before May 13, 1974, provides for supplementary retirement remuneration benefits, leave and the family allowance. The resources needed to face the charges taken on therein are sole responsibility of the competent bodies of the state government of São Paulo, with no additional risk and cost to the Company (Note 33).

b) Plan "B" and "B1" - retirement supplementation

Plans "B" and "B1", regulated by Law 6435/77 and managed by CESP Foundation, are sponsored by the Company, providing retirement supplementation and pension benefits, whose reserves are determined by the capitalization system.

The so-called Plan "B" refers to Proportional Supplementary Benefit Settled - BSPS, calculated on December 31, 1997 (CTEEP) and March 31, 1998 (EPTE), according to rules in force, and its actuarial financial and economic balance equated on that time. The annual actuarial technical result of this plan (deficit or surplus) is sole responsibility of the Company.

On January 1, 1998 (CTEEP) and April 1, 1998 (EPTE), the Company, respectively, implemented Plan "B1", which defines parity responsibilities and contributions between the Company and participants in order to maintain the actuarial financial and economic balance of the plan. This plan provides retirement and pension benefits to its employees, former employees and respective beneficiaries, in order to supplement the benefits provided by the official Social Security system. The plan has as its main feature the mixed model, composed of 70% as Defined Benefit - BD and 30% as Defined Contribution - CD. On the date of retirement the Defined Contribution Benefit Plan - CD becomes Defined Benefit - BD.

c) PSAP Plan - Transmissão Paulista

On January 1, 2004, the plans sponsored by the Company, as well as the extinct EPTE were merged financially, maintaining the individual characteristics of the respective plans, thus becoming the PSAP Plan - Transmissão Paulista.

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

20. Amounts payable – CESP Foundation – Company and consolidated (Continued)

d) Actuarial evaluation

In the actuarial evaluation, prepared by independent actuaries, the social security plans PSAP sponsored by the Company was adopted using the projected unit credit method. The main economic and financial information, in compliance with CPC no. 33 and CVM Instruction no. 600 (IAS 19), based on actuarial opinions is the following:

(i) *Reconciliation of assets and liabilities*

	<u>2011</u>	<u>2010</u>
Fair value of assets	2,684,582	2,515,067
Present value of the defined benefit liability	(2,008,168)	(1,800,653)
Restriction of recognition of assets	(676,414)	(714,414)
Net liabilities	-	-

(ii) *Changes in plan assets*

	<u>2011</u>	<u>2010</u>
Fair value of assets at the beginning of the year	2,515,067	2,001,707
Employer contributions	2,036	2,128
Employee contributions	2,886	2,707
Return from investments	281,493	612,858
Benefits paid	(116,900)	(104,333)
Fair value of assets and the end of the year	2,684,582	2,515,067

(iii) *Changes in actuarial liabilities*

	<u>2011</u>	<u>2010</u>
Present value of the net actuarial liability at the beginning of the year	1,800,653	1,628,613
Cost of current services	911	(200)
Interest costs	188,384	178,110
Contribution from participants	2,886	2,707
Actuarial gains (losses)	132,234	95,756
Benefits paid	(116,900)	(104,333)
Present value of net actuarial liabilities at the end of the year	2,008,168	1,800,653

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

20. Amounts payable – CESP Foundation – Company and consolidated (Continued)

d) Actuarial evaluation (Continued)

(iv) *Participants of the plan (number of people)*

	2011	2010
Active	1,447	1,446
Inactive		
Retirees	1,882	1,852
Retirees for disability	37	40
Pensioners	103	85
	2,022	1,977
	3,469	3,423

(v) *Actuarial assumptions used*

	2011	2010
Discount rate of the present value of actuarial liabilities	10.50%	10.75%
Expected return rate on the plan assets	11.50%	12.00%
Future salary increase rate	4.50%	7.64%
Adjustment index of continued provision granted benefits	4.50%	4.50%
Overall mortality	AT-83	AT-83
Overall disability	Light-Average	Light-Average
Mortality of disabled people	AT-49	AT-49

21. Special liabilities – Reversal/Amortization

Refer to resources from the reserve of reversal, amortization and installment withheld in the Company, from the monthly shares of Global Reversal Reserve - RGR, related to applications of resources in investments for expansion of public utility of electric power and amortization of loans obtained for the same purpose, occurred until December 31, 1971. Annually, according to ANEEL order, the Company pays 5% on the value of the Reserve, referring to interest. The Granting Power did not define the form of settlement of these obligations.

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Notes to financial statements (Continued)

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22. Equity

a) Capital

The authorized capital of the Company on December 31, 2011 and 2010 is R\$ 1,469,090, of which R\$ 615,696 in common shares and R\$ 853,394 in preferred shares, all nominative, book-entry shares with no par value.

The subscribed, paid-up capital is R\$ 1,162,626 (R\$ 1,119,911 in 2010) and is represented by common and preferred shares, as follows:

	2011	thousands of R\$	2010	thousands of R\$
ON	64,484,433	491,095	63,860,513	471,044
PN	88,177,132	671,531	87,968,467	648,867
	152,661,565	1,162,626	151,828,980	1,119,911

The common shares grant their holders the right of one vote to make resolutions in general meetings.

The preferred shares have no voting rights, however, they have priority on reimbursement of capital and receipt of 10% dividends over the year; also, they are non-cumulative and calculated over paid-up capital corresponding to this kind of shares.

In a Board of Directors' meeting held on March 8, 2010, it was approved an increase in equity capital of up to R\$ 76,881, upon private issuance of new shares at the unit price of R\$ 48.50 per share. Of the total increase amount, R\$ 28,832, equivalent to 594,477 shares, are held by the controlling shareholder and are paid-up upon capitalization of the capital reserve (special reserve of goodwill upon incorporation), corresponding to the tax benefit – Company's goodwill incorporate (Note 9) arising from corporate restructuring concluded in February 2008.

Under the terms of Article 171 of Law No. 6404/76, the shareholders were granted a 30-day period for exercise of the preemptive right. Following this period, on April 7, 2010, 661,263 common shares amounting R\$ 32,071 and 511,158 preferred shares amounting to R\$ 24,791 were subscribed.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

22. Equity (Continued)

a) Capital (Continued)

In a Board of Directors' meeting held on April 23, 2010:

CTEEP's capital increase was unanimously approved; approved in a Board of Directors' meeting held on March 8, 2010, in the amount and quantity mentioned in the prior paragraph, besides the cancelling of 3,709 common shares and 409,053 preferred shares, all issued by CTEEP and non-subscribed by the shareholders within the term defined in the Board of Directors' meeting held on March 8, 2010.

In a Board of Directors' meeting held on April 15, 2011, ratified on May 6, 2011, it was approved the capital increase amounting to R\$ 76,673 upon private issue of up to 1,508,487 new shares at the unit price of R\$ 51.66 per common share and R\$ 50.24 per preferred share. Of the total increase amount, R\$ 28,832, equivalent to 558,113 shares are held by the controlling shareholder and are paid-up upon capitalization of the capital reserve (special reserve of goodwill upon incorporation), corresponding to the tax benefit – Company's goodwill incorporated (Note 9) arising from corporate restructuring concluded in February 2008.

Under the terms of Article 171 of Law No. 6404/76, the shareholders were granted a 30-day period for exercise of the preemptive right. Following the aforementioned period, on May 26, 2011, 560,915 common shares amounting to R\$ 28,977 and 105,596 preferred shares amounting to R\$ 5,305 were subscribed.

Still under the terms set out in Article 171 of Law No. 6404/76, the shareholders who subscribed shares within the aforementioned period were granted the option to subscribe the remaining shares proportionally to the subscriptions effected of their preemptive rights during the period from June 2 - 9, 2011, at the same price and under the same conditions, fully paid-up upon subscription.

As determined after period for subscription of the remaining shares, from June 2 to June 9, 2011, 198 common shares and 215,545 preferred shares were subscribed at the issue price of R\$ 51.66 per common share and R\$ 50.24 per preferred share, totaling R\$ 10,839 of capital increase.

On October 28, 2011, CVM authorized the Record of Public Offer of the Company's Remaining Shares. The auction of the remaining shares was held on November 4, 2011 from 4 p.m. to 4:15 p.m. at BM&FBovespa. The minimum prices were the same practiced in the previous phases to the capital increase process, and the amounts offered corresponded to the unsubscribed remaining shares.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

22. Equity (Continued)

a) Capital (Continued)

At the end of the auction, 63,146 common shares, corresponding to R\$ 3,262, were subscribed, thus 563,087 unsubscribed preferred shares were left. Therefore, the Company granted its shareholders who subscribed the shares for capital increase the right to review their decision in relation to the subscription of shares, whether totally or partially, up to November 11, 2011. After this period, there was the retraction of 112,815 shares, corresponding to R\$ 5,668, which were cancelled. Finally, 675,902 unsubscribed shares were left, 339 common shares and 675,563 preferred shares, respectively.

In a Board of Directors' meeting held on December 21, 2011:

(i) CTEEP's capital increase was unanimously approved; in the Board of Directors' meeting held on April 15, 2011, ratified on May 6, 2011 it was approved the capital increase amounting to R\$ 42,715, upon issuance of 623,920 common shares, and 208,665 preferred shares.

(ii) It was unanimously approved the cancelling of 339 common shares and 675,563 preferred shares, all issued by CTEEP and not subscribed by the shareholders in the term provided by the Board of Directors' meeting held on April 25, 2011, ratified on May 6, 2011.

b) Dividends and interest on equity

At special meetings held on January 11, March 30 and June 28, 2010, the Board of Directors decided on the payment on January 22, April 20 and July 23, 2010, of dividends for the profit of 2009 at the amount of R\$ 161,000, R\$ 129,980 and R\$ 77,302, corresponding to R\$ 1.068656, R\$ 0.862756 and R\$ 0.509143 per share, respectively.

In 2010, the Board of Directors decided on the distribution of interest on shareholders' equity and interim dividends as follows:

RCA Date	Interest on equity		Interim dividends		Payment
	Total	Per share	Total	Per share	
03.30.2010	61,920	0.411002	-	-	04.20.2010
06.28.2010	62,926	0.414452	63,671	0.419364	07.23.2010
09.30.2010	63,720	0.419682	146,280	0.963453	10.25.2010
12.17.2010	63,027	0.415119	112,073	0.738152	01.28.2011
	251,593	1.660255	322,024	2.120969	

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

22. Equity (Continued)

b) Dividends and interest on equity (Continued)

In the meetings held on March 31 and June 30, 2011, the Board of Directors approved the payment of dividends, on April 29, 2011 and July 28, 2011, referring to 2010 profit, amounting to R\$ 181,307, R\$ 16,714, corresponding to R\$ 1.194154 and R\$ 0.110087 per share, respectively.

In 2011, the Board of Directors approved the payment of interest on equity and interim dividends, as follows:

RCA Date	Interest on equity		Interim dividends		Payment
	Total	Per share	Total	Per share	
03.31.2011	65,693	0.432676	-	-	04.29.2011
06.30.2011	63,461	0.417975	160,525	1.057275	07.28.2011
09.30.2011	61,228	0.403273	172,772	1.137935	10.31.2011
12.21.2011	64,158	0.420264	169,842	1.112539	01.30.2012
	254,540	1.674188	503,139	3.307749	

Total dividends and interest on equity paid in 2011 is R\$ 915,216 (R\$ 751,675 in 2010).

The balance of dividends and interest on equity payable to related parties is R\$ 84,827 (Note 28) and R\$ 147,329 for the other shareholders.

The Company's Articles of Incorporation provides for mandatory dividends corresponding to 10% of its capital, equivalent to R\$ 116.2 million, whenever there is profit balance after the legal reserve is set up.

	2011	2010
Net income for the year	915,260	812,171
Set up of legal reserve	(16,762)	(40,609)
Realization of income reserve	2,217	3,240
Dividends and interest on prescribed equity	2,156	2,522
Dividends calculation basis	902,871	777,324
Minimum mandatory dividends	(116,263)	(111,991)
Additional interim dividends	(641,416)	(461,626)
Set up of statutory reserve	(4,272)	(5,686)
Set up of retained earnings reserve	(109,571)	-
Allocation of additional dividends proposed	31,349	198,021

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

22. Equity (Continued)

c) Capital reserves

	<u>2011</u>	<u>2010</u>
Grants for investments (CRC) (i)	1,264,084	1,264,084
Remuneration of constructions in progress (ii)	633,053	633,053
Donations and subventions for investments	150,489	150,489
Tax grants (FINAM)	6,743	6,743
Special Goodwill Reserve on Incorporation (Note 9)	147,912	176,744
	<u>2,202,281</u>	<u>2,231,113</u>

(i) Subvenções para investimentos - CRC

The Income Accounting Payable (CRC) was established by Decree No. 41019/1957 and Law No. 5655/1971 to remunerate the concessionaires of electric power for certain investments made by it. Law No. 8631/1993 extinguished CRC and, later, Law No. 8724/1993 established that the credits of CRC, were recorded in net equity as subsidy for investment on account of "Capital Reserve".

As allowed by CPC 13, the Company chose to maintain the existing balance on December 31, 2007 regarding CRC, as well as other gifts and grants for the investments recorded as capital reserve in the net equity, until its total use as provided for in the Corporate Law.

(ii) Remuneration of constructions in progress

These are credits resulting from the capitalization of remuneration calculated on the resources of shareholders' equity used during the construction of fixed assets applied to works in progress and that can only be used for capital increase. From 1999, the Company abandoned this practice, as allowed by the Accounting Manual of Electric Power Public Utility.

d) Retained earnings

	<u>2011</u>	<u>2010</u>
Legal reserve (i)	232,525	215,763
Statutory reserve (ii)	116,263	111,991
Reserve of unrealized profit (iii)	31,076	33,293
Retained earnings (iv)	762,648	653,077
	<u>1,142,512</u>	<u>1,014,124</u>
Additional dividends proposed	31,349	198,021
	<u>1,173,861</u>	<u>1,212,145</u>

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

22. Equity (Continued)

d) Retained earnings (Continued)

(i) Legal reserve

Set up at 5% of net income of the year, before any allocation, up to 20% of the capital. At December 31, 2011, legal reserve already represents 20% of the Company's capital.

(ii) Statutory reserve

The Company's Bylaws provides for the establishment of reserves for investment in expansion of activities at a rate of 20% of net income of the year, net of legal reserve and the minimum mandatory dividends, up to 10% of the capital. At December 31, 2011, the statutory reserve already represents 10% of the Company's capital.

(iii) Reserve of unrealized profit

Unrealized profits result from positive balance of adjustment for inflation net of balance by 1995.

Essa reserva é realizada na proporção da depreciação do ativo imobilizado. This reserve is made in proportion to the depreciation of fixed assets. The amounts realized are transferred to the account "Retained earnings" on a monthly basis.

(iv) Retained earnings

In accordance with the Corporate Law, the remaining installment of net income of distributions and other statutory allocations were allocated to this reserve to meet the capital budget, as well as for the working capital of the Company.

e) Earnings per share

Basic earnings per share are calculated through the income attributable to the Company's controlling and non-controlling shareholders based on the weighted average of common and preferred outstanding shares in the respective period. Diluted earnings per share is calculated through the referred to average number of outstanding shares, adjusted by instruments potentially convertible into shares, with diluted effects in the periods presented.

In order to calculate the diluted earnings per share which will be issued through goodwill capitalization in favor of the controlling shareholder, the Company's Management made an estimation for disclosure purposes at December 31, 2011.

In accordance with the CVM Instruction No. 319, to the extent that the tax benefit is realized from the goodwill special reserve upon incorporation, included in the Company's equity, this benefit can be capitalized in favor of its controlling entity, given that the other shareholders will have a participation in this capital increase, in order to keep their equity interest in the Company.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

22. Equity (Continued)

e) Earnings per share (Continued)

The shares issued in accordance with this realized will be considered as diluting shares for the calculation of the Company's earnings per share, considering the circumstance where all conditions for their issuance are met. At December 31, 2011, the conditions for issued of equity capital shares related to goodwill amortization were met.

The table below presents P&L and shares data used to calculated basic and diluted earnings per share:

	<u>2011</u>	<u>2010</u>
Basic and diluted earnings per share		
Net income – In thousands of R\$	915,260	812,171
Weighted average shares		
Common shares	63,877,151	63,655,793
Preferred shares	87,974,031	87,810,218
	151,851,182	151,466,011
Adjusted weighted average shares		
Common shares	66,959,787	67,266,926
Preferred shares	87,974,031	87,810,218
	154,933,818	155,077,144
Basic earnings per share	6.02735	5.36207
Diluted earnings per share	5.90743	5.23721

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

23. Net operating income

23.1 Breakdown of net operating income

	Company		Consolidated	
	2011	2010	2011	2010
Gross revenue				
Construction (a)	265,387	147,659	1,103,686	693,803
Operation and maintenance (a)	540,616	440,789	555,127	442,469
Financial (b)	1,476,988	1,371,585	1,589,969	1,398,245
Rents	13,703	12,797	13,703	12,797
Rendering of services	6,004	4,228	6,204	4,229
Total gross revenue	2,302,698	1,977,058	3,268,689	2,551,543
Taxes on revenue				
COFINS	(104,089)	(85,236)	(177,541)	(128,896)
PIS	(22,378)	(18,487)	(38,325)	(27,967)
ISS	(301)	(212)	(301)	(212)
	(126,768)	(103,935)	(216,167)	(157,075)
Regulatory charges				
Fuel Consumption Account (CCC)	(40,737)	(32,524)	(40,737)	(32,524)
Energy Development Account (CDE)	(26,021)	(27,197)	(26,021)	(27,197)
Global Reversal Reserve (RGR)	(52,730)	(46,808)	(54,042)	(46,972)
Research & Development (R&D)	(18,177)	(16,117)	(18,499)	(16,202)
Program for Support to Alternative Electricity Sources (PROINFA)	(12,418)	(15,287)	(12,418)	(15,287)
	(150,083)	(137,933)	(151,717)	(138,182)
	2,025,847	1,735,190	2,900,805	2,256,286

a) Construction and operation and maintenance services

Revenue related to construction or improvement services under the service concession contract is recognized based on stage of completion of the work. The revenue of the operation and maintenance services are recognized in the period in which services are provided by the Company. When the Company provides more than one service in a service concession contract, the remuneration received is allocated by reference to the fair value relative to the services delivered.

b) Financial income

Financial income is recognized when it is probable that future economic benefits will flow into the Company and the amount of revenue can be reliably measured. Interest revenue is recognized by the straight line method based on time and the actual interest rate on the outstanding principal amount, and the actual interest rate is the one that exactly discounts the estimated future cash receipts during the estimated life of the financial assets in relation to the initial net book value of such assets.

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

23. Net operating income (Continued)

23.2 Regular review of the annual revenue allowed - RAP

In accordance with the concession contracts, through ANEEL, at every four and five years, following the execution date of these contracts, ANEEL will carry out the periodical review of electricity transmission RAP, observing its efficiency to maintain affordable fees.

The review includes the reallocation of revenue by determining:

- a) regulatory remuneration base for RBNI;
- b) the efficient operating costs;
- c) the optimal capital structure and definition of remuneration of the transmitter;
- d) identification of the value to be considered as fee reducer - Other Revenues.

- First round of regular fee review

Through Resolution no. 488 of June 26, 2007, the outcome of the first regular fee review was approved by the Company, by reducing annual revenue allowed - RAP by 26.15%, which was applied on the Basic Grid New Facilities - RBNI and Other Installations New Investments - RCDM in force on July 1, 2005.

The result of this repositioning had effect retroactive to the date of July 1, 2005. The greatest collection in the period from July 2005 to June 30, 2007, at the amount of R\$ 66,688, was offset in 24 (twenty four) months, through contractual mechanism of adjustment installment.

- Second round of regular fee review

The regular review provided for in contract to be performed in July 2009 was postponed to July 2010. On December 21, 2009, ANEEL published Normative Resolution no. 386, which sets forth the general concepts, applicable methodologies and procedures for conducting the Second Cycle of Regular Fee Reviews - RTP of electric power transmission public utilities concessionaires.

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

23. Net operating income (Continued)

23.2 Regular review of the annual revenue allowed – RAP (Continued)

- Second round of regular fee review

Article 6 of Normative Resolution no. 386/09 defines that the income of fee adjustment will apply from July 1, 2009. Considering such retroactivity and reduction of the capital cost, for this second cycle from 9.18% to 7.24%. Positive and negative adjustments arising from fee reallocation affect the expected cash flows of the Company for its financial assets classified as loans and receivables and, therefore, are recognized as adjustments in financial income, when incurred.

The result of the second round of regular fee review was approved by ANEEL Resolution No. 994 of June 8, 2010, thus the Company's fees were adjusted below 20.4% to be applied to RBNI and RCDM effective on June 1, 2009.

Because of the retroactive effect of new revenue, the amount of R \$ 82,086 over-collected for the period from July 1, 2009 through June 30, 2010, was offset in 12 (twelve) months, through the contractual mechanism of adjustment installment.

23.3 Variable Installment - PV and Additional payment to RAP

Normative Resolution No. 270, of July 9, 2007, regulates the Variable Installment - PV and Additional payment to RAP. The Variable Installment is the discount on RAP of the transmitters due to unavailability of operating restrictions of the facilities of the Basic Grid. The additional payment to RAP corresponds to the value to be added to the revenue of transmitters as incentive to improve the availability of transmission facilities. They are recognized as operation and maintenance revenue during the period in which they occur.

23.4 Annual adjustment of revenue

On June 28, 2010, Approving Resolution no. 1171 was published, establishing that CTEEP annual revenue allowed, for availability of transmission facilities of the Basic Grid and Other Transmission Facilities for the round of 12 months, including the period from July 1, 2011 and June 30, 2012.

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

23. Net operating income (Continued)

23.4 Annual adjustment of revenue (Continued)

According to the aforementioned resolution, CTEEP RAP, totaling R\$ 1,760,758 on July 1, 2010, increased to R\$ 2,008,277 on July 1, 2011, an increase of R\$ 247,519, equivalent to 14.1%. The Company's RAP, together with its subsidiaries, which totaled R\$ 1,861,195 on July 1, 2010, increased to R\$ 2,120,592 on July 1, 2011, having an increase of R\$ 259,397, equivalent to 13.9%.

The Company's RAP to be earned in twelfths from July 1, 2011 through June 30, 2012 is broken down as follows, at the basis of June 2011:

Concession contract	Basic Grid			Other Transmission Facilities (DIT)			Total	
	Existing assets	New investments	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

The Company's RAP to be earned in twelfths from July 1, 2011 through June 30, 2012 is broken down as follows, at the basis of June 2011:

Concession contract	Basic Grid			Other Transmission Facilities (DIT)			Total	
	Existing assets	New investments	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

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Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

24. Costs of construction and operation and maintenance services and general and administrative expenses

			Company	
	Costs	Expenses	2011 Total	2010 Total
Personnel	(166,772)	(37,392)	(204,164)	(196,777)
Services	(223,469)	(40,838)	(264,307)	(203,991)
Depreciation	-	(6,116)	(6,116)	(6,021)
Material	(170,457)	(1,303)	(171,760)	(128,543)
Leases and rents	(8,272)	(4,760)	(13,032)	(10,661)
Contingencies	-	(1,598)	(1,598)	(31,522)
Other	(19,410)	(24,798)	(44,208)	(21,135)
	(588,380)	(116,805)	(705,185)	(598,650)

			Consolidated	
	Costs	Expenses	2011 Total	2010 Total
Personnel	(169,516)	(41,235)	(210,751)	(201,592)
Services	(422,100)	(45,659)	(467,759)	(380,682)
Depreciation	-	(6,138)	(6,138)	(6,047)
Material	(703,797)	(1,481)	(705,278)	(425,779)
Leases and rents	(8,298)	(4,878)	(13,176)	(10,661)
Contingencies	-	(1,598)	(1,598)	(31,522)
Other	(19,698)	(26,028)	(45,726)	(29,920)
	(1,323,409)	(127,017)	(1,450,426)	(1,086,203)

The Company's construction costs totaled R\$ 240,839 in 2011 and R\$ 134,001 in 2010. The consolidated construction costs totaled R\$ 970,176 in 2011, (R\$ 604,495 in 2010). The respective revenue from construction, presented in Note 23.1 is calculated by adding PIS and COFINS rates to the investment's cost value, given that the projects include sufficient margin to cover construction costs plus certain expenses for the construction period.

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

25. Financial income (expenses)

	Company		Consolidated	
	2011	2010	2011	2010
Revenues				
Short-term investment yield	16,708	24,234	25,635	28,237
Active interest	9,493	9,451	9,495	9,451
MTM adjustments (CCB International and Commercial Paper)	2,478	-	2,478	-
Currency variations	-	8,382	-	8,382
Foreign exchange variations (CCB International and Commercial Paper)	17,975	-	17,975	-
Hedge adjustments (Swap - CCB International and Commercial Paper)	69,778	-	69,778	-
Hedge adjustments (NDF)	-	-	7,263	-
Other	2,466	1,486	3,433	1,487
	118,898	43,553	136,057	47,557
Expenses				
Interest on loans	(50,587)	(56,685)	(72,891)	(71,892)
Interest expenses	(13,896)	(8,922)	(14,934)	(9,690)
Promissory note expenses	(40,340)	(7,911)	(44,129)	(7,911)
Debenture expenses	(68,253)	(57,686)	(75,603)	(57,686)
Expenses (CCB International and Commercial Paper)	(5,312)	-	(5,312)	-
Currency variation	(2,212)	-	(2,212)	-
Foreign exchange variations (CCB International and Commercial Paper)	(48,474)	-	(48,474)	-
Swap adjustments (CCB International and Commercial Paper)	(47,197)	-	(47,197)	-
Hedge adjustments (NDF)	-	-	(3,440)	-
Other	(1,580)	(2,508)	(22,385)	(5,074)
	(277,851)	(133,712)	(336,577)	(152,253)
	(158,953)	(90,159)	(200,520)	(104,696)

At the end of the year, amounts raised internationally present net foreign exchange losses of R\$ 30,499 and expenses of R\$ 2,834. On the other hand, swap adjustments generated net revenue of R\$ 22,581.

Two operations were made to raise funds abroad:

CCB International with Banco Itaú BBA presented – accumulated in the year – net foreign exchange losses of R\$ 19,553 and expenses of R\$ 4,663. On the other hand, swap adjustments generated net revenue of R\$ 15,686 for the same period to which maintains the cost at 103.5% of CDI.

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

25. Financial income (expenses) (Continued)

The amount raised from JP Morgan under the Law No. 4131 presented – accumulated in the year – net foreign exchange expenses of R\$ 10,946 and expenses at 2.1% p.a. of R\$ 649 and at MTM (mark to market) generated revenue of R\$ 2,478. On the other hand, swap adjustment obtained net revenue of R\$ 6,895 for the same period to which maintains the cost at 98.3% of CDI.

In subsidiary IEMadeira, the accumulated positive hedge adjustment (NDF) is R\$ 7,263 and the accumulated negative hedge adjustment (NDF) is R\$ 3,440. The balances are proportional to the Company's interest in the subsidiary.

26. Other operating income (expenses)

Other operating income (expenses) refer significantly to: losses on acquisition of IEMG controlling interest (Note 11 (a)), amounting to R\$ 28,490; amortization of the Company's incorporated goodwill (Note 9), amounting to R\$ 28,832; and the sale of land occurred in the third quarter of 2011, amounting to R\$ 26,427.

27. Income and social contribution taxes

The Company monthly accrues the installments for the income tax and social Contribution on net income, according to the accrual basis.

Under Transition Tax Regime (RTT) only the Company and its subsidiaries IEMG, IENNE, IESul and Pinheiros are presenting income for tax purposes. Taxes are calculated according to the taxable profit regime.

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

27. Income and social contribution taxes (Continued)

The expense for income tax and social Contribution for the year can be reconciled with book profit as follows:

	Company		Consolidated	
	2011	2010	2011	2010
Income before income and social contribution taxes	1,188,425	1,035,092	1,219,104	1,041,547
Nominal rates in effect	34%	34%	34%	34%
Estimate expenses with income and social contribution taxes	(404,065)	(351,931)	(414,495)	(354,126)
Income and social contribution taxes on permanent differences				
Interest on equity	86,258	85,541	86,258	85,541
Decrease in fine and interest (REFIS benefit (Note 17))	7,144	-	7,144	-
Reversal of Provision for Maintenance of Equity Integrity (Note 9)	19,029	19,029	19,029	19,029
Equity pickup	19,582	4,267	-	-
Other	(1,113)	20,173	(1,780)	20,180
Effective income and social contribution tax expenses	(273,165)	(222,921)	(303,844)	(229,376)
Income and social contribution taxes				
Current	(243,130)	(222,549)	(244,206)	(222,630)
Deferred	(30,035)	(372)	(59,638)	(6,746)
	(273,165)	(222,921)	(303,844)	(229,376)
Effective rate	22.9%	21.5%	24.9%	22.0%

The rate used for reconciliations in 2011 and 2010 is 34%, due to legal entities in Brazil on taxable profit, as provided by the tax legislation of this jurisdiction.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

27. Income and social contribution taxes (Continued)

The balances of deferred income and social contribution tax assets and liabilities are as follows:

	Company		Consolidated	
	2011	2010	2011	2010
Assets (liabilities)				
Provision for contingencies	34,623	55,307	34,623	55,307
Concession Contracts (ICPC 01)	(94,606)	(46,955)	(134,800)	(56,307)
Provision for losses (i)	35,926		35,926	
Deferred tax on tax losses	-	-	718	115
Provision for income and social contribution taxes on tax losses (ii)	-	-	(718)	(115)
Other temporary differences	22,075	19,698	22,075	19,698
Net	(1,982)	28,050	(42,176)	18,698
Assets	-	28,050	-	28,050
Liabilities*	1,982	-	42,176	9,352

* At December 31, 2010, the positive consolidated balance refer to the balance of subsidiaries, hence it is not net.

- (i) This basically refers to the provision recorded at December 31, 2011 amounting to R\$ 82,121, resulting from procedures carried out to meet ANEEL Resolution No. 367/2009, which defined the "New Manual for Equity Control in the Electricity Segment". The Company prepared a physical inventory of all its fixed assets; this work resulted in the identification of all overstatements, which are still being reconciled. The Management elected to set up provision for the overstatements identified up to the moment, and upon conclusion of these reconciliations, the remaining balance will be recognized as effective loss. For IFRS purposes, this amount was adjusted through review of the fair value of financial assets, recorded under accounts receivable (concession assets).
- (ii) The subsidiaries IEMG, IENNE and IESul have accumulated tax losses. Since these subsidiaries do not have history of taxable profits, because the commercial transactions are recent, the Management elected to set up provision for the total amount of deferred income and social contribution taxes.

The Company's management considers that the deferred income and social contribution taxes arising from temporary differences will be realized to the extent of the contingencies and events that led to the set up of provisions for losses, within approximately 5 years.

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

28. Transactions with related parties

The key balances and transactions with related parties for the year are as follows:

Nature of transaction	Related party	12.31.2011		12.31.2010		2011	2010
		Assets	Liabilities	Assets	Liabilities	Income (Expenses)	Income (Expenses)
Short-term benefits*	Key management personnel	-	-	-	-	(5,145)	(5,966)
Dividends	ISA Capital	-	84,827	-	65,844	-	-
	IEMG	529	-	-	-	-	-
Sublease	ISA Capital	43	-	39	-	252	249
	IEMG	7	-	1	-	34	15
	IENNE	8	-	8	-	99	100
	Pinheiros	-	-	3	-	58	32
	IESul	5	-	-	-	82	-
	Serra do Japi	15	-	2	-	85	24
Rendering of services	ISA Capital	-	-	7	-	86	86
	IEMG	-	-	132	-	-	1,658
	Pinheiros	30	-	-	-	105	-
	IEMadeira	3,226	-	-	-	3,226	-
Loan	IESul	-	-	-	-	-	1,571
	Pinheiros	-	-	52,651	-	543	1,231
	Serra do Japi	-	-	3,687	-	1,025	24

*This refers to management fees, as disclosed in the Company's income statements and, in the consolidated statements, this balance is R\$ 6,383 (R\$ 8,082 in 2010).

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

The sublease contract encompasses the area occupied by ISA Capital and the subsidiaries at the Company's headquarter building, as well as the apportionment of condominium-related and maintenance expenses, among others.

In 2008, a service agreement was entered into with ISA Capital encompassing, among others, the accounting and tax services, determination of taxes and payroll processing.

In 2009, the contract which sets forth that the Company shall provide maintenance and operation services for IEMG facilities became effective. In 2011, the aforementioned contract was terminated, and the services ceased.

In 2011, the contract which sets forth that the Company shall provide maintenance and operation services for Pinheiros facilities became effective.

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28. Transactions with related parties (Continued)

In 2010, a loan contract was entered into with IESul amounting up to R\$ 63,000, used totally or partially for up to 24 months. The charges incurred over this transaction correspond to CDI rate plus 2.5%. On December 31, 2011, there are no outstanding balances referring to this contract.

In 2010, a loan contract was entered into with Pinheiros amounting up to R\$ 100,000, used totally or partially for up to 24 months. The charges incurred over this transaction correspond to CDI rate plus 1.3%. On December 31, 2011, there are no outstanding balances referring to this contract.

In 2010, a loan contract was entered into with Serra do Japi amounting up to R\$ 55,500, used totally or partially for up to 24 months. The charges incurred over this transaction correspond to CDI rate plus 1.3%. On December 31, 2011, there are no outstanding balances referring to this contract.

In 2011, a contract that sets forth that the Company shall provide Technical Consulting Services for Management of Owner's Engineer Services, to be performed by IEMadeira and/or companies outsourced by IEMadeiras, entered into force.

These transactions are performed under specific conditions, and contractually negotiated between the parties.

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

29. Financial instruments

a) Identification and valuation of financial instruments

	Company		Consolidated	
	2011	2010	2011	2010
Financial assets				
Fair value through profit or loss				
Cash and cash equivalents	151,021	40,334	207,295	54,983
Loans and receivables				
Trade accounts receivable				
Current	1,434,110	1,413,681	1,474,794	1,424,390
Non-current	3,423,417	3,231,704	5,335,027	4,225,309
Values receivable – Department of Finance				
Current	14,906	22,938	14,906	22,938
Non-current	810,750	681,129	810,750	681,129
Loans with subsidiaries	-	56,338	-	-
Escrows and related deposits	61,886	42,248	61,886	42,248
Derivative financial instruments				
Current	-	-	1,673	-
Non-current	53,736	-	54,195	-
Financial liabilities				
Amortized cost				
Loans and financing				
Current	693,472	133,317	1,007,673	332,413
Non-current	653,233	450,577	984,264	540,032
Debentures				
Current	168,217	2,154	389,825	2,154
Non-current	389,636	553,639	389,636	553,639
Suppliers	48,781	48,856	83,056	93,964
Interest on equity and dividends payable	232,156	193,822	232,156	193,822
Fair value through profit or loss				
Derivative financial instruments				
Current	27,226	-	27,226	-
Non-current	-	-	-	-

The book values of the financial instruments, assets and liabilities, when compared to the values that could be obtained on their trade in a active market or, on its absence, with adjusted net present value based on the interest rate in force in the market, substantially approximates to their corresponding market values. There are no financial instruments traded in an active market, given that these were value according to Level II, as required by the CPC pronouncement in force.

On April 26 and October 17, 2011, the Company entered into an agreement for swap derivative instruments, in order to hedge against foreign exchange risks related to the Loan in Foreign Exchange made under the terms of Law No. 4131 of September 3, 1962.

On April 29, 2011, the subsidiary IEMadeira entered into a derivative financial instrument contract in order to hedge against foreign exchange risks related to the purchase of steel and aluminum angles and aluminum cables.

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

29. Financial instruments (Continued)

a) Identification and valuation of financial instruments (Continued)

The Company and its subsidiary IEMadeira classify the derivatives contracted as fair value hedge and, according to the standards described in CPC 38 and IAS 39, the Company adopted the hedge accounting method.

These instruments are managed according to the Full Risk Management Policy and the Financial Risk Guidelines of the Company and its subsidiaries. The results obtained from these transactions and application of said risk management controls are part of the monitoring of financial risks adopted by the Company and its subsidiaries, as follows:

				Company Amount receivable (payable)
Short-term	Maturity	Notional value	Fair value	12.31.2011
		12.31.2011	12.31.2011	12.31.2011
Asset position:				
Swap (Itaú)	April 2012	7,135	7,135	-
Swap (JP Morgan)	October 2013	6,823	6,823	-
Liability position:				
Swap (Itaú)	April 2012	(7,135)	(14,396)	(7,261)
Swap (JP Morgan)	October 2013	(6,823)	(26,788)	(19,965)
Net		-	(27,226)	(27,226)

				Amount receivable (payable)
Long-term	Maturity	Notional value	Fair value	12.31.2011
		12.31.2011	12.31.2011	12.31.2011
Asset position:				
Swap (Itaú)	April 2012	114,941	114,941	-
Swap (JP Morgan)	October 2013	152,293	152,293	-
Liability position:				
Swap (Itaú)	April 2012	(114,941)	(88,063)	26,878
Swap (JP Morgan)	October 2013	(152,293)	(125,435)	26,858
Net		-	53,736	53,736

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

29. Financial instruments (Continued)

a) Identification and valuation of financial instruments (Continued)

Short-term	Maturity	Notional value	Fair value	Consolidated
				Amount receivable (payable)
		12.31.2011	12.31.2011	12.31.2011
Asset position:				
Swap (Itaú)	April 2012	7,135	7,135	-
Swap (JP Morgan)	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
Liability position:				
Swap (Itaú)	April 2012	(7,135)	(14,396)	(7,261)
Swap (JP Morgan)	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		-	(25,553)	(25,553)
Long-term				
	Maturity	Notional value	Fair value	Amount receivable (payable)
		12.31.2011	12.31.2011	12.31.2011
Asset position:				
Swap (Itaú)	April 2012	114,941	114,941	-
Swap (JP Morgan)	October 2013	152,293	152,293	-
NDF (Financial Institutions)	June to September 2013	14,039	14,498	459
		281,273	281,732	459
Liability position:				
Swap (Itaú)	April 2012	(114,941)	(88,063)	26,878
Swap (JP Morgan)	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		-	54,195	54,195

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

29. Financial instruments (Continued)

b) Financing

The rate of book value of loans and financing and debentures is bound to the long-term interest rate (TJLP), CDI and IPCA variation and approximates to the market value.

Debt ratio

The debt ratio at the end of the period is as follows:

	Company		Consolidated	
	2011	2010	2011	2010
Loans and financing				
Current	693,472	133,317	1,007,673	332,413
Non-current	653,233	450,577	984,264	540,032
Debentures				
Current	168,217	2,154	389,825	2,154
Non-current	389,636	553,639	389,636	553,639
Total debt	1,904,558	1,139,687	2,771,398	1,428,238
Cash and cash equivalents	151,021	40,334	207,295	54,983
Net debt	1,753,537	1,099,353	2,564,103	1,373,255
Equity	4,539,434	4,563,835	4,539,434	4,563,835
Net debt ratio	38.6%	24.1%	56.5%	30.1%

CTEEP and its subsidiaries have loan and financial contracts with covenants determined based on debt ratios. The companies comply with all clauses and contractual requirements as mentioned in Note 14.

c) Risk management

The main risk factors inherent in the Company's operations may be identified as follows:

- (i) Credit Risk – The Company has contracts with the National Electric System Operator - ONS, concessionaires and other agents, regulating the provision of its services related to the basic grid to 216 users, with a bank guarantee clause. Also, the Company has contracts regulating the provision of its services in other transmission facilities - DIT with 30 concessionaires and other agents, also with a bank guarantee clause.

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

29. Financial instruments (Continued)

c) Risk management (Continued)

- (ii) Price Risk – The revenue of the Company are under concession contract, adjusted annually by ANEEL, by IGP-M variation, and part of the revenue subject to regular review every four years (Note 23.2).
- (iii) Interest rate risk – The update of the financing contracts is bound to TJLP, IPCA and CDI variation (Notes 14 and 15).
- (iv) Foreign exchange risk – The Company eliminated foreign exchange risks from its liabilities by engaging into swap derivative instruments designated as fair value hedge of the Loan Agreement in Foreign Currency (Note 14 (c)). The subsidiary IEMadeira eliminated the foreign exchange risk by engaging into swap derivative instruments designated as fair value hedge. The Company and its subsidiaries do not have accounts receivable and other assets in foreign currency. Other exposure to foreign exchange variation effects are considered irrelevant and correspond to occasional import of equipment.
- (v) Risco de captação – The Company and its subsidiaries may in the future face difficulties in raising funds with costs and terms of reimbursements appropriate for its cash generation profile and/or its debt reimbursement obligations.
- (vi) Insurance risk – The Company and its subsidiaries hire operating risk and civil liability insurance for its substations. However, given the difficulties in hiring insurance companies to cover any damage to transmission lines against losses from fire, lightning, explosion, short circuits and power outages, they do not make insurance against such risks. Therefore, any damage to the transmission lines may incur significant additional costs and investments.
- (vii) Liquidity risk – The main cash source of the Company is from its operations, primarily from the use of its power transmission system by other concessionaires and agents of the industry. Its annual amount represented by the RAP facilities bound to the basic grid and other transmission facilities - DIT is defined under the law in force, by ANEEL. The Company manages liquidity risk by keeping bank credit facilities and funding credit facilities to raise loans that it deems appropriate, through the continuous monitoring of expected and actual cash flows, and the combination of the maturity profiles of financial assets and liabilities.

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Notes to financial statements (Continued)

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29. Financial instruments (Continued)

d) Sensitivity analysis

Pursuant to CVM Ruling No. 475 of December 17, 2008, the Company conducts analysis of sensitivity to interest and currency risks. The Company Management does not consider exposure to the other previously described risks material.

At the Company, the currency risk arises from the possibility of loss due to increase in foreign exchange rates, leading to an increase in the balances of foreign currency loans and financing liabilities. Funds were raised in the international market through issue of CCB Internacional, 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 14 (c)). To ensure that significant fluctuations in the foreign currency quote to which the liability is subject do not impact P&L and cash flows, the Company operates with derivative financial instruments, Swap – currency hedge, representing 100% of the principal of such debts.

At the subsidiary IEMadeira, the risk arises from the possibility of loss due to increase in foreign exchange rates, leading to an increase in the balances of agreements to supply angle steel bars, aluminum and aluminum cables in foreign currency. To ensure that significant fluctuations in the foreign currency quote to which the liability is subject do not impact P&L and cash flows, the subsidiary IEMadeira operates with derivative financial instruments, currency hedge, representing 100% of the principal of such debt.

For purposes of defining a likely scenario of sensitivity analysis of the exchange rate risk, interest and price rate, we used the same assumptions established in the Company's long-term economic financial planning. These assumptions consider, among other factors, the country's macro-economic scenario and market expert opinions.

As such, to analyze the effects of the variation in the Company's cash flow, the sensitivity analysis below considers the foreign exchange rate and interest at March 31, 2012 as the likely scenario, informed in the Currency Risk and Interest Rate risk tables. Positive and negative variations of 25% and 50% were applied on such rates.

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

29. Financial instruments (Continued)

d) Sensitivity analysis (Continued)

Currency risk – Effects on the Cash Flow - Company

Table 1 – with rate appreciation

Operation	Risk	Probable scenario	Thousands of reais	
			Scenario II	Scenario III
Financial assets and liabilities				
CCB Internacional (Banco Itaú)	USD	111,937	139,922	167,906
Commercial Paper (JP Morgan)	USD	145,900	182,376	218,851
Swap receivable – CCB Internacional (Banco Itaú)	USD	(111,937)	(139,922)	(167,906)
Swap receivable – Commercial Paper (Banco JP Morgan)	USD	(145,900)	(182,376)	(218,851)
Variation		-	-	-
		Appreciation of the rate	25%	50%
Reference for financial assets and liabilities				
USD/R\$ rate		1.72	2.15	2.58

Table 2 – with rate depreciation

Operation	Risk	Probable scenario	Thousands of reais	
			Scenario II	Scenario III
Financial assets and liabilities				
CCB Internacional (Banco Itaú)	USD	111,937	83,953	55,968
Commercial Paper (JP Morgan)	USD	145,900	109,425	72,950
Swap receivable – CCB Internacional (Banco Itaú)	USD	(111,937)	(83,953)	(55,968)
Swap receivable – Commercial Paper (Banco JP Morgan)	USD	(145,900)	(109,425)	(72,950)
Variation		-	-	-
		Depreciation of the rate	25%	50%
Reference for financial assets and liabilities				
USD/R\$ rate		1.72	1.29	0.86

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

29. Financial instruments (Continued)

d) Sensitivity analysis (Continued)

Currency risk – Effects on the Cash Flow - Consolidated

Table 1 – with rate appreciation

Operation	Risk	Probable scenario	Thousands of reais	
			Scenario II	Scenario III
Financial assets and liabilities				
CCB Internacional (Banco Itaú)	USD	111,937	139,922	167,906
Commercial Paper (JP Morgan)	USD	145,900	182,376	218,851
NDF (Financial Institutions) payable	GBP	46,164	57,663	69,332
NDF (Financial Institutions) payable	USD	2,266	2,832	3,399
Swap receivable – CCB Internacional (Banco Itaú)	USD	(111,937)	(139,922)	(167,906)
Swap receivable – Commercial Paper (Banco JP Morgan)	USD	(145,900)	(182,376)	(218,851)
NDF (Financial Institutions) receivable	GBP	(46,164)	(57,663)	(69,332)
NDF (Financial Institutions) receivable	USD	(2,266)	(2,832)	(3,399)
Variation		-	-	-
Reference for financial assets and liabilities	Appreciation of the rate		25%	50%
USD/R\$ rate		1.72	2.15	2.58
GPB/R\$ rate		2.69	3.36	4.04

Table 2 – with rate depreciation

Operation	Risk	Probable scenario	Thousands of reais	
			Scenario II	Scenario III
Financial assets and liabilities				
CCB Internacional (Banco Itaú)	USD	111,937	83,953	55,968
Commercial Paper (JP Morgan)	USD	145,900	109,425	72,950
NDF (Financial Institutions) payable	GBP	46,164	34,666	23,168
NDF (Financial Institutions) payable	USD	2,266	1,699	1,133
Swap receivable – CCB Internacional (Banco Itaú)	USD	(111,937)	(83,953)	(55,968)
Swap receivable – Commercial Paper (Banco JP Morgan)	USD	(145,900)	(109,425)	(72,950)
NDF (Financial Institutions) receivable	GBP	(46,164)	(34,666)	(23,168)
NDF (Financial Institutions) receivable	USD	(2,266)	(1,699)	(1,133)
Variation		-	-	-
Reference for financial assets and liabilities	Depreciation of the rate		25%	50%
USD/R\$ rate		1.72	1.29	0.86
GPB/R\$ rate		2.69	2.02	1.35

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

29. Financial instruments (Continued)

d) Sensitivity analysis (Continued)

Interest rate risk – Effects on the Cash Flow - Company				
Table 1 – Risk of increase in indices				
Operation	Risk	Probable scenario	Thousands of reais	
			Scenario II	Scenario III
Financial assets				
Short-term investments	101% CDI	402	498	593
Financial liabilities				
Promissory notes – 4 th issue	CDI+0.40%	1,833	1,834	1,849
Promissory notes – 5 th issue	CDI+0.48%	7,944	9,755	11,536
Debentures 1 st series	CDI+1.30%	13,396	16,221	19,000
Debentures 2 nd 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
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
Net effect of variation		(41,657)	(49,779)	(57,796)
Reference for financial assets and liabilities				
101% CDI (March 2012)		9.98%	12.47%	14.97%
Reference for financial liabilities				
101% CDI (March 2012)		9.98%	12.47%	14.97%
100% CDI (March 2012)		9.88%	12.35%	14.82%
103.5% CDI		10.23%	12.78%	15.34%
98.30% CDI		9.71%	12.14%	14.57%
TJLP% p.a.		6.00%	7.50%	9.00%
IPCA % (accumulated 12 months)		6.00%	7.50%	9.00%

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

29. Financial instruments (Continued)

d) Sensitivity analysis (Continued)

Table 2 – Risk of decrease in indices

Operation	Risk	Probable scenario	Scenario II	Thousands of reais	
				Scenario III	
Financial assets					
Short-term investments	101%CDI	402	304		205
Financial liabilities					
Promissory notes – 4 th issue	CDI+0.40%	1,833	1,407		973
Promissory notes – 5 th issue	CDI+0.48%	7,944	6,102		4,229
Debentures 1 st series	CDI+1.30%	13,396	10,523		7,600
Debentures 2 nd 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
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
Net effect of variation		(41,657)	(32,984)		(24,175)
Reference for financial assets					
101% CDI (March 2012)		9.98%	7.48%		4.99%
Reference for financial liabilities					
101% CDI (March 2012)		9.98%	7.48%		4.99%
100% CDI (March 2012)		9.88%	7.41%		4.94%
103.5% CDI		10.23%	7.67%		5.11%
98.30% CDI		9.71%	7.28%		4.86%
TJLP% p.a.		6.00%	4.50%		3.00%
IPCA % (accumulated 12 months)		6.00%	4.50%		3.00%

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Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

29. Financial instruments (Continued)

d) Sensitivity analysis (Continued)

Interest rate risk – Effects on the Cash Flow - Consolidated				
Table 1 – Risk of increase in indices				
Operation	Risk	Probable scenario	Thousands of reais	
			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 – 4 th issue	CDI+0.40%	1,833	1,834	1,849
Promissory notes – 5 th issue	CDI+0.48%	7,944	9,755	11,536
Debentures 1 st series	CDI+1.30%	13,396	16,221	19,000
Debentures 2 nd 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% do 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
Net effect of variation		(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%

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

29. Financial instruments (Continued)

d) Sensitivity analysis (Continued)

Table 2 – Risk of decrease in indices

Operation	Risk	Probable scenario	Thousands of reais	
			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 – 4 th issue	CDI+0.40%	1,833	1,407	973
Promissory notes – 5 th issue	CDI+0.48%	7,944	6,102	4,229
Debentures 1 st series	CDI+1.30%	13,396	10,523	7,600
Debentures 2 nd 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% do 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
Net effect of variation		(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%

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

30. Commitments assumed – Operating leases

The major commitments assumed by the Company and its subsidiaries refer to operating lease of vehicles and information technology (IT) equipment, the minimum future payments of which, in total and for each of the periods, is presented

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

Lease transactions in which the Company is the lessee refer to sub-lease for its parent company and subsidiaries, as disclosed in Note 28 - Related Party Transactions.

31. Insurance

The risk type and insurance effectiveness are specified below:

<u>Type</u>	<u>Effectiveness</u>	<u>Amount insured – thousands of reais</u>	<u>Company Premium – thousands of reais</u>
Property (a)	09/01/11 to 09/01/12	2,401,635	2,643
General civil liability (b)	09/01/11 to 09/01/12	20,000	223
National transport (c)	09/30/11 to 09/30/12	214,613	34
Accident insurance – Group (d)	05/01/11 to 05/01/12	26,767	1
Auto (e)	03/02/11 to 03/02/12	Market value	35
			<u>2,936</u>

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

31. Insurance (Continued)

Type	Effectiveness	Amount insured – thousands of reais	Consolidated Premium – thousands of reais
Property (a)	07/09/09 to 12/19/12	2,635,324	2,947
General civil liability (b)	09/01/09 to 12/19/12	33,000	415
National transport (c)	07/16/09 to 12/15/12	231,632	51
Accident insurance – Group (d)	05/01/11 to 05/01/12	26,767	1
Auto (e)	03/02/11 to 03/02/12	Market value	35
			3,449

Property - Coverage against risks of fire and electrical damage to the main equipment installed in transmission substations, buildings and respective contents, supplies and facilities, according to Concession Contract No. 059/2001, Clause Four, Sub-Clause Eight, II, Item D, where the transmitter shall maintain insurance policies to ensure adequate coverage of the most important equipment of the transmission system facilities, in addition to defining the items and facilities to be insured.

(a) General Civil Liability - Coverage to repair unintentional damage, personal and/or property damage caused to third parties as a result of the Company's operations.

(b) National Transport - Coverage for damage caused to Company items and equipment, transported within the national territory.

(c) Accident insurance – Group - Insurance against personal injury to officers and apprentices.

(d) Auto - Coverage against collision, fire, theft and third parties.

The assumptions adopted to take out insurances, given their nature, are not within the scope of an audit. Therefore, they were not examined by our independent auditors.

32. Eletrobras collection suit against Eletropaulo and EPTE

In 1989, Centrais Elétricas Brasileiras S.A. – ELETROBRAS filed an ordinary collection suit against Eletropaulo - Eletricidade de São Paulo S.A. current Eletropaulo Metropolitana Eletricidade de São Paulo S.A. - "Eletropaulo"), regarding the financing agreement balance. Eletropaulo disagreed with the inflation adjustment criterion of said financing agreement and deposited in court the values considered as actually owed. In 1999 a decision was rendered on said suit whereby Eletropaulo was sentenced to pay the balance determined by ELETROBRAS.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

32. Eletrobras collection suit against Eletropaulo and EPTE (Continued)

Under the agreement for partial spin-off of Eletropaulo, performed on December 31, 1997, which implied the incorporation of EPTE and other companies, the obligations of any nature relating to acts performed through the spin-off date are the sole responsibility of Eletropaulo, except for contingent liabilities whose provisions have been allocated to the surviving companies. In this case, at the time of the spin-off, no provisions were allocated to EPTE for this purpose, thus making it clear for CTEEP Management and its legal counsel that the responsibility for said contingency was exclusively of Eletropaulo. At the time of the spin-off, only EPTE assets of the judicial deposit were transferred at the historical value of R\$ 4.00, set up in 1988 by Eletropaulo, referring to the value it understood to be due to ELETROBRAS in connection with the balance of said financing agreement, in addition to allocation in EPTE liabilities of equal value related to this balance.

As a result of the Eletropaulo partial spin-off agreement, EPTE would own the assets transferred and Eletropaulo would be responsible for contingent liability related to the amount in dispute by ELETROBRAS. In October 2001, ELETROBRAS promoted the execution of the decision related to such financing agreement, collecting R\$ 429 million from Eletropaulo and R\$ 49 million from EPTE, understanding that EPTE would pay this part with the adjusted funds of the judicial deposit. CTEEP acquired EPTE on November 10, 2001, becoming its successor in the related obligations and rights.

On September 26, 2003, an appellate decision of the Court of Justice of the State of Rio de Janeiro was published excluding Eletropaulo from the execution of the mentioned decision. Due to the facts, ELETROBRAS filed an Appeal to the High Court of Justice and an Appeal to the Supreme Court on December 16, 2003, aiming to maintain the aforementioned collection against Eletropaulo. Appeals similar to those of ELETROBRAS were filed by CTEEP.

On June 29, 2006, the Superior Court of Justice granted CTEEP's Appeal to review the decision of the Court of Justice of the State of Rio de Janeiro that had excluded Eletropaulo as defendant in the execution action filed by ELETROBRAS.

As a result of said grant of the Superior Court of Justice, on December 4, 2006, Eletropaulo filed a motion for clarification, which was denied according to appellate decision published on April 16, 2007, as well as the Appeals to the High Court and to the Supreme Court that maintained the decision of the Superior Court of Justice, which became unappealable on October 30, 2008. As such decisions understood that the challenges prior to procedures to determine grounds for execution filed by Eletropaulo were unreasonable, the execution action filed by ELETROBRAS follows its normal course as originally proposed.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

32. Eletrobras collection suit against Eletropaulo and EPTE (Continued)

CTEEP aiming to enable an additional discovery phase to determine the actual responsibility attributed in the partial spin-off agreement, filed a declaratory action against the other parties involved in connection with the execution action.

In connection with this debt and given the formal documents relating to the partial spin-off of Eletropaulo, CTEEP, based on the opinion of its Management and legal counsel, owns only the judicial deposit transferred as assets constituted in 1988, and should continue defending such right. On the other hand, the Company did not set up provision for the contingency, which it considers responsibility of Eletropaulo and is thus being collected by ELETROBRAS.

33. Supplemental retirement plan governed by Law No. 4819/58

The supplemental retirement plan governed by State Law No. 4819/58, which addressed the creation of the State Social Assistance Fund, is applicable to employees of government agencies, of corporations in which the State held the majority of shares, and of industrial services owned and managed by the state, hired until May 13, 1974, and provided for supplemental retirement and pension benefits, additional leave entitlement and family allowance. The funds necessary to cover the charges assumed in this plan are the responsibility of the related São Paulo State Government agencies, and the implementation took place under an agreement between the Sao Paulo State Finance Office and the Company on December 10, 1999, effective until December 31, 2003.

This procedure was carried out regularly until December 2003 by Fundação CESP, with funds from the State Finance Office, transferred by CTEEP. From January 2004, the Finance Office started to directly process those payments, without the intervention of CTEEP and Fundação CESP.

A decision of the 49th Labor Court of the State of São Paulo was communicated to CTEEP on July 11, 2005 granting interim relief for Fundação CESP to process again the payments of benefits arising from State Law No. 4819/58, according to respective rules, as performed until December 2003, with funds transferred by CTEEP. In order to fulfill the aforementioned court decisions, CTEEP requests the necessary funds to the Sao Paulo State Finance Office to transfer to Fundação CESP, which must process the respective payments to the beneficiaries.

Since September 2005, the State Finance Office has been transferring to CTEEP an amount lower than the one required for the faithful compliance with the mentioned decision of the 49th Labor Court.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

33. Supplemental retirement plan governed by Law No. 4819/58 (Continued)

As a result of the above-mentioned facts and by operation of the decision by the 49th Labor Court of the State of São Paulo, in addition to the decision by the Superior Court of Justice, CTEEP transferred to Fundação CESP from January 2005 to December 2011, the amount of R\$ 1,927,563 for payment of benefits of State Law No. 4819/58, having received from the State Finance Office the amount of R\$ 1,268,799 for such purpose. The difference between the values transferred to Fundação CESP and reimbursed by the Finance Office, in the amount of R\$ 658,764 (Note 7 (c)), was initially requested in an administrative proceeding filed by the Company, and in December 2010 a collection lawsuit was filed against the São Paulo State Finance.

CTEEP is still committed to annul the decision of the 49th Labor Court in order to allow the return of the procedure of direct payment of the benefits of State Law No. 4819/58 by the Finance Office. CTEEP reiterates the understanding of its legal area and outside legal counsel that the expenses arising from State Law No. 4819/58 and respective regulation are the full responsibility of the Sao Paulo State Finance Office and continues adopting additional measures to protect the interests of the Company. As a result of the above facts, the Company records this difference as receivables from the State Finance Office (Note 7 (c)).

34. Subsequent events

a) Loans and financing

On January 11, 2012, the 6th issue of promissory notes, in the amount of R\$ 400.0 million took place, maturing in January 5, 2013. The nominal charges correspond to 104.9% of CDI.

On January 11, 2012, the 4th issue of promissory notes was settled.

On January 13, 2012, amendments to the financing agreements between BNDES and the subsidiary IEMadeira were signed (Note 14 (iv)), changing the maturity date from January 15, 2012 to July 15, 2012 or the date of disbursement of the first installment of the credit facility to be opened by BNDES by means of long-term financing agreement, whichever occurs first.

b) Start-up of substation

The Salto substation of the subsidiary Serra do Japi started operating on January 18, 2012.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements (Continued)

Years ended December 31, 2011 and 2010

(In thousands of reais, except where indicated otherwise)

34. Subsequent events (Continued)

c) Dividends and interest on equity capital

On January 30, 2012, the Company paid dividends and interest on equity capital and/or made them available, as approved at the Board of Directors' meeting held on December 21, 2011 (Note 22 (b)).

35. Approval of financial statements

The financial statements were approved and authorized for disclosure by the Board of Directors on March 6, 2012.

These financial statements, as well as the statutory financial statements mentioned in Note 2.5, will be available on the Company's site on March 15 and April 30, respectively.

Supervisory Board Opinion

The Supervisory Board of CTEEP - Companhia de Transmissão de Energia Elétrica Paulista (Company), in exercising its legal and statutory duties, pursuant to article 163 of Law No. 6404/76 has examined the Company's Financial Statements for the year ended December 31, 2011, prepared in accordance with the principles set forth in Chapter XV of the mentioned law and the Management Report on the corporate business activities and major administrative facts that took place during the year. Based on the examination conducted and the Independent Auditor's Report, the Advisory Board is of the opinion that the financial statements and supplementary information are in conditions to be submitted to appreciation and approval of the Shareholders.

São Paulo, March 7, 2012

Manuel Domingues de Jesus e Pinho

Antonio Luiz de Campos Gurgel

Celso Clemente Giacometti

Egídio Schoenberger

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 6, 2012.

César Augusto Ramírez Rojas
CEO

Pío Adolfo Bárcena Villarreal
Chief Administrative Officer

Marcio Lopes Almeida
CFO and Investor Relations Officer

Celso Sebastião Cerchiari
Chief Operating Officer

Jorge Rodríguez Ortiz
Chief Project Officer

Statement of Officers on the Financial Statements

The Company Officers declare that they have reviewed, discussed and agreed on the Financial Statements.

São Paulo, March 6, 2012.

César Augusto Ramírez Rojas
CEO

Pío Adolfo Bárcena Villarreal
Chief Administrative Officer

Marcio Lopes Almeida
CFO and Investor Relations Officer

Celso Sebastião Cerchiari
Chief Operating Officer

Jorge Rodríguez Ortiz
Chief Project Officer