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ISA Capital do Brasil S.A.

**Consolidated Financial Statements at
December 31, 2007 and 2006
Management Report and
Report of Independent Auditors**

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MANAGEMENT REPORT - FISCAL YEAR 2007

Dear Shareholders,

ISA Capital do Brasil S.A. Management, by complying with legal and statutory provisions, hereby submits to your appreciation the Management Report and the corresponding Accounting Statements, with the Independent Auditors' opinions concerning the fiscal year ended December 31, 2007.

ISA Capital is a Brazilian holding company controlled by Interconexión Eléctrica S.A. E.S.P., a Colombian mixed-capital company controlled by the Colombian Government, with the main purpose of operating and maintaining the electric energy transmission network.

As the controller of CTEEP – Companhia de Transmissão de Energia Elétrica Paulista as of July 26, 2006, ISA Capital closed 2007 by controlling 55,924,465 common shares issued by CTEEP, representing 89.40% of the voting capital and 37.46% of the total capital. Such share in CTEEP's capital on December 31, 2007 is registered in the investment account of ISA Capital Accounting Statements, which amounts to R\$ 2.2 billion.

The above is the greatest share obtained by the Grupo ISA in the course of its expansion process, thus ratifying the Group leadership in the electric energy transmission industry in Latin America

ISA Capital and its Controller Interconexión Eléctrica S.A. E.S.P. are committed to ensure, promote and improve the quality of the electric energy transmission services supplied by the controlled company CTEEP, therefore aiming at improving its economic-financial results upon the employment of the best worldwide management practices and models, to the benefit of all its shareholders and of the community.

Luis Fernando Alarcón Mantilla
Chairman of the Board of Directors

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1. COMPANY PROFILE

ISA Capital do Brasil S/A (“ISA Capital” or “Company”) is a Brazilian holding company constituted as a private limited company on April 28, 2006 and converted into a joint stock company on September 19, 2006. Later on, on January 4, 2007, it has obtained from CVM - Comissão de Valores Mobiliários (Securities Commission) its registration as an open capital company.

The Company’ purposes comprise the participation in other companies’ capital or in other enterprises, as an associate or shareholder, a partner in joint ventures, a member of consortiums, or in any other corporate-cooperation way.

ISA Capital is controlled by the Interconexión Eléctrica S.A. E.S.P. (“ISA”), a Colombian mixed-capital company controlled by the Colombian government, with the main purpose of operating and maintaining the energy transmission network, besides participating in activities that are related to the electric energy services.

As of July 26, 2006 ISA Capital has been the CTEEP - Companhia de Transmissão de Energia Elétrica Paulista Controller; that was the date of the financial liquidation of the public sale bid of CTEEP controlling group’ shares, as promoted by the Government of the State of São Paulo at the São Paulo Stock Exchange - BOVESPA on June 28, 2006.

Through the acquisition of the 31,341,890,064 common shares representing 50.1% of the common shares issued by CTEEP and 21.0% of the total capital, the Company paid to the Government of the State of São Paulo the amount of R\$1.2 billion, corresponding to R\$ 38.09 by batch of one thousand shares. In addition to such payment, ISA Capital paid to the Government of São Paulo the amount of R\$ 19.4 million as an additional price for the shares purchased at the bid, so as to compensate the discount provided to CTEEP’s employees for their purchase of a specific batch of shares. Such amount paid for the CTEEP control is subject to adjustments, according to the CTEEP shares’ purchase and sale agreement, to be determined based on the effectively paid amounts by CTEEP with regards the former employees’ benefit and pension complement in accordance to State Law 4.819/58.

Later on, on September 12, 2006, the Company purchased another 10,021,687 CTEEP common shares, representing 0.016% of the common shares, for the amount of R\$ 229 thousand. Those shares have been acquired in reason of the remaining CTEEP common shares from the bid

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promoted by the Government of the State of São Paulo to CTEEP employees, according to CTEEP Privatization Notice SF/001/2006.

On January 09, 2007, in accordance with article 254-A of the Corporation Law, as well as with the above mentioned Notice and the CTEEP Shares Purchase and Sale Agreement, ISA Capital has held in São Paulo Stock Exchange - BOVESPA a stock purchase public bid ("OPA") of shares issued by CTEEP still outstanding in the market, for an amount corresponding to 80% of the amount paid by the shares in CTEEP's control batch. Such bid has resulted in the Company's purchase of 24,572,554,070 common shares issued by CTEEP, representing 39.28% of all common shares for the amount of R\$ 30.74 for each batch of one thousand shares, therefore amounting to R\$ 755.4 million.

As of such acquisition, ISA Capital owns a total of 55,924,465,821 common shares issued by CTEEP, representing 89.40% of the voting capital and 37.46% of CTEEP total capital. As of the share grouping performed by CTEEP in August 2007, such number of common shares owned by the Company is 55,924,465.

2. FINANCING FOR THE CTEEP SHARES PURCHASE

CTEEP shares acquisition has been financed through a combination of debt and own capital, in several stages.

On January 29, 2007 the Company closed a well-succeeded operation in the international stock market, through a bonus issuance in the amount of US\$ 554 million. Such issue has been made with the support of the J.P. Morgan and the ABN Amro, and was split in two series of notes (senior notes), being one in the amount of US\$ 200.0 million, with a 5-year period, at a 7.875% annual interest rate, with a Call option for the years 2010 and 2011, maturity in 2012, and the other in the amount of US\$ 354.0 million, a 10-year term and 8,800% annual interest rate, due on 2017 ("Notes"). From the total issue, 60% have been distributed in the United States, 36% in Europe, 2% in Latin America and 2% in Asia. The bonuses are registered in the Luxembourg Stock Exchange and may be transacted in the NASDAQ Portal Market.

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The success of such issue was based in the investors' trust in the operation financial structure, in the Group ISA support to its investments in Brazil, in CTEEP positive projection in Brazilian energy industry and also in the credit risk qualifications at the international level, performed by Standard & Poor's (BB- positive prospect) and Fitch Ratings (BB stable prospect). Such qualifications are similar to those of the Federative Republic of Brazil, therefore reflecting the low risk of the energy-transmission business and the expansion prospects for the industry.

The resources from the Notes bid have been used to settle loans made by the Company with the banks J.P. Morgan e ABN Amro.

The Notes are guaranteed by a first-degree pledge on CTEEP shares owned by the Company. After the first series of Notes issued by the Company with maturity in 2012 have been paid, part of CTEEP shares given as guarantee may be released.

In reason of the above mentioned bonus issuance, on February 12 and March 20, 2007, the Company has negotiated some financial instruments operations that are meant to fulfill its operational needs of reducing its exposure to exchange risks. Such risk management is performed through the strategies' determination, control systems implementation and the definition of exposure limits. The details of this operation can be found in the Company's Accounting Statements, at explanation notes number 16 and 28.

3. TAKEN-OVER COMMITMENTS

In the process of CTEEP control acquisition, the Company has taken over several commitments and obligations, in accordance with the Public Notice SF/001/2006, all of which have already been settled. The CTEEP shares purchase and sale agreement, executed on July 26, 2006 has also imposed some obligations on the Company and its Controller to be observed in the course of CTEEP administration, as regards the settlement of previous agreements, corporate governing rules, CTEEP employees' rights protection, quality maintenance preservation of the electric energy transmission services, among others. The Company management has been strictly accomplishing all the assumed responsibilities.

In accordance with the market practices, the Company has undertaken several commitments and obligations with the Notes' financing banks and purchasers, which reduce the availability and

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feasibility of the Company's equity commitment in other operations. Besides the obligations, the credit agreements and the Notes issuance documents have also several provisions concerning CTEEP, stating that if for any reason CTEEP fails to obey the conditions provided in the referred documents, the Company creditors shall be allowed to constitute the Company in culpable delay and declare the Company's debt as overdue.

As regards the financial commitments, they have been strictly accomplished by the Company. During the year of 2007, ISA Capital has settled its loans with the J.P. Morgan and the ABN Amro banks, paid the first half-yearly interest as provided in the bonus agreement, paid an installment concerning the derivative agreements, and settled other obligations related to the Company operation.

4. RECEIVING OF THE CONTROLLED COMPANY'S REVENUES

As a consequence of its share in CTEEP's capital, 37.46% of the total capital, ISA Capital has received, during the year of 2007 revenues amounting to R\$ 284.3 million. From such total, R\$ 54.5 million refer to the fiscal year of 2006 and R\$ 229.8 million to the present fiscal year.

The receipt of those revenues has allowed the Company to settle its commitments with financial institutions and other creditors.

5. INDEPENDENT AUDITORS

For the purposes as provided in Regulation CVM – 381, dated January 14, 2003, ISA CAPITAL informs that PriceWaterhouseCoopers Auditores Independentes, hired in May, 2007 to provide auditing services to its Accounting Statements for a one-year period, has ever since exclusively provided external-auditing related services.

Administration

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BALANCE SHEETS AT DECEMBER 31, 2007 AND 2006

(In thousands of reais)

ASSETS	Note	12/31/2007		12/31/2006	
		Parent Company	Consolidated	Parent Company	Consolidated (Reclassified)
CURRENT ASSETS					
Cash and cash equivalents	5	64,253	254,830	6,655	521,126
Trade accounts receivable	6	-	216,399	-	164,001
Inventories		-	31,881	-	36,992
Interest on own Capital and Dividends receivable - Subsidiary		12,458	-	30,596	-
Amounts receivable - State Finance Department	7	-	16,030	-	14,036
Deferred income tax and social contribution	9	-	8,224	-	126,099
Taxes and contributions to offset	8	13,482	69,101	777	88,873
Pledges and restricted deposits	10	41,767	41,770	-	3,541
Prepaid expenses	11	2,831	6,644	-	3,954
Other		<u>108</u>	<u>18,061</u>	<u>-</u>	<u>17,215</u>
Total current assets		<u>134,899</u>	<u>662,940</u>	<u>38,028</u>	<u>975,837</u>
NON CURRENT					
Long-term receivables					
Trade accounts receivable	6	-	52,430	-	-
Accounts receivable - parent company	12	45,705	45,705	55,266	55,266
Amounts receivable - State Finance Department	7	-	321,953	-	207,326
Deferred income tax and social contribution	9	-	60,805	-	118,974
Pledges and restricted deposits	10	-	49,794	-	66,199
Prepaid expenses	11	15,663	20,507	3,011	11,102
Other		<u>-</u>	<u>7,556</u>	<u>-</u>	<u>3,494</u>
		<u>61,368</u>	<u>558,750</u>	<u>58,277</u>	<u>462,361</u>
Permanent assets					
Investment	13	2,168,717	1	1,326,920	-
Property, plant and equipment	14	51	4,079,198	12	3,822,077
Intangible assets	15	-	747,035	-	597,817
Deferred charges		<u>2</u>	<u>3,257</u>	<u>3</u>	<u>3</u>
		<u>2,168,770</u>	<u>4,829,491</u>	<u>1,326,935</u>	<u>4,419,897</u>
Total non current assets		<u>2,230,138</u>	<u>5,388,241</u>	<u>1,385,212</u>	<u>4,882,258</u>
TOTAL ASSETS		<u>2,365,037</u>	<u>6,051,181</u>	<u>1,423,240</u>	<u>5,858,095</u>

The accompanying notes are an integral part of these financial statements.

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BALANCE SHEETS AT DECEMBER 31, 2007 AND 2006

(In thousands of reais)

	Note	12/31/2007		12/31/2006	
		Parent Company	Consolidated	Parent company	Consolidated (Reclassified)
LIABILITIES AND STOCKHOLDERS' EQUITY					
CURRENT LIABILITIES					
Loans and financng	16	55,249	187,440	792,272	792,328
Suppliers		193	29,318	-	134,967
Taxes and social charges payable	17	6,352	65,058	786	23,149
Regulatory charges payable	18	-	33,122	-	26,038
Interest on own capital and dividends payable		-	27,757	-	141,348
Provisions	19	-	46,627	-	419,255
Amounts payable Law 4,819/58 - State Finance Department	4	5,838	5,838	-	-
Amounts payable Law 4,819/59 - OPA	4	3,680	3,680	-	-
Amounts payable - Fundação CESP	20	-	13,529	-	14,627
Insurance payable		-	4,401	-	2,379
Other		-	37,566	1,236	3,696
Total current liabilities		<u>71,312</u>	<u>454,336</u>	<u>794,294</u>	<u>1,557,787</u>
NON CURRENT					
Long-term liabilities					
Loans and financing	16	1,257,433	1,658,146	-	586
Provisions	19	-	179,632	-	348,391
Amounts payable - Fundação CESP	20	-	129,022	-	222,566
Amounts payable Law 4,819/58 - State Finance Department	4	192,657	192,657	186,018	186,018
Amounts payable Law 4,819/59 - OPA	4	120,779	120,779	-	-
Special liabilities - reversal/amortization	21	-	24,053	-	24,053
Deferred income tax and social contribution		-	-	-	16,374
Other		-	16,665	-	-
Total non current liabilities		<u>1,570,869</u>	<u>2,320,954</u>	<u>186,018</u>	<u>797,988</u>
DEFERRED INCOME -EPTE negative goodwill		-	83,510	-	100,495
MINORITY INTEREST		-	2,469,525	-	2,958,897
STOCKHOLDERS' EQUITY					
Capital	22	828,267	828,267	506,201	506,201
Accumulated losses		(105,411)	(105,411)	(63,273)	(63,273)
		<u>722,856</u>	<u>722,856</u>	<u>442,928</u>	<u>442,928</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		<u>2,365,037</u>	<u>6,051,181</u>	<u>1,423,240</u>	<u>5,858,095</u>

The accompanying notes are an integral part of these financial statements.

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STATEMENTS OF OPERATIONS
YEAR ENDED DECEMBER 31, 2007 AND EIGHT-MONTH PERIOD ENDED DECEMBER 31, 2006
(In thousands of reais, except for thousand shares)

	Note	12/31/2007		12/31/2006	
		Parent company	Consolidated	Parent company	Consolidated 6-MONTH PERIOD (Reclassified)
GROSS OPERATING REVENUE					
Revenue from the usage of electric network	23	-	1,548,248	-	712,470
Other revenue		-	15,046	-	7,043
			<u>1,563,294</u>		<u>719,513</u>
DEDUCTIONS FROM OPERATING REVENUES					
COFINS (tax on revenue)		-	(64,723)	-	87,043
PIS (tax on revenue)		-	(14,036)	-	18,896
Fuel Consumption Account - CCC		-	(56,413)	-	(30,394)
Energy Development Account- CDE		-	(41,922)	-	(18,889)
Quota for Global Reserve for Reversion - RGR		-	(35,706)	-	(18,280)
Research and Development - P&D		-	(21,437)	-	(8,104)
Program for the Incentive to the Alternative Sources of Electrical Energy (PROINFA)		-	(10,174)	-	(2,720)
Regulatory asset		-	(3,247)	-	(85,562)
ISSQN (Service Tax)		-	(222)	-	(104)
			<u>(247,880)</u>		<u>(58,114)</u>
NET OPERATING REVENUE			<u>1,315,414</u>		<u>661,399</u>
COST OF SERVICE	24	-	<u>(102,280)</u>	-	<u>(177,786)</u>
GROSS PROFIT			<u>1,213,134</u>		<u>483,613</u>
OPERATING INCOME (EXPENSES)					
General and administrative	24	(5,960)	(258,420)	(9,011)	(652,309)
Management fees	24	(982)	(5,440)	-	(643)
Financial expenses	25	(672,932)	(855,046)	(67,049)	(75,961)
Financial income	25	406,576	436,787	28,807	122,067
		<u>(273,298)</u>	<u>(682,119)</u>	<u>(47,253)</u>	<u>(606,846)</u>
EQUITY IN THE RESULTS OF INVESTEES			-	<u>(16,020)</u>	-
OPERATING PROFIT (LOSS)		<u>47,297</u>	<u>531,015</u>	<u>(63,273)</u>	<u>(123,233)</u>
NON OPERATING RESULT		-	<u>78,210</u>	-	<u>(32,870)</u>
PROFIT (LOSS) BEFORE INCOME TAX AND SOCIAL CONTRIBUTION		<u>47,297</u>	<u>609,225</u>	<u>(63,273)</u>	<u>(156,103)</u>
INCOME TAX AND SOCIAL CONTRIBUTION					
Current	26	-	(90,380)	-	(133,608)
Deferred	26	-	(175,397)	-	165,887
PROFIT (LOSS) BEFORE MINORITY INTEREST AND REVERSAL OF INTEREST ON OWN CAPITAL		<u>47,297</u>	<u>343,448</u>	<u>(63,273)</u>	<u>(123,824)</u>
MINORITY INTEREST		-	<u>(534,888)</u>	-	<u>60,551</u>
REVERSAL OF INTEREST ON OWN CAPITAL		<u>(89,435)</u>	<u>149,302</u>	-	-
LOSS FOR THE YEAR/PERIOD		<u>(42,138)</u>	<u>(42,138)</u>	<u>(63,273)</u>	<u>(63,273)</u>
LOSS FOR THE YEAR/PERIOD PER THOUSAND SHARES AT THE END OF THE YEAR/PERIOD - R\$		<u>(50.87)</u>		<u>(125.00)</u>	

The accompanying notes are an integral part of these financial statements.

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STATEMENTS OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 2007 AND EIGHT-MONTH PERIOD ENDED DECEMBER 31, 2006
(In thousands of reais)

	Parent company	
	12/31/2007	12/31/2006
Composition of financial resources provided by (used in) operations		
Loss for the year/period	(42,138)	(63,273)
Expenses (income) not affecting working capital:		
Amortization of goodwill in subsidiaries	91,089	26,190
Depreciation and amortization	5	-
Monetary variations and interest on non-current assets and liabilities	84,702	283
Equity in the results of subsidiaries	(320,595)	16,020
Funds provided by (used in) operations	(186,937)	(20,780)
Financial resources were provided by		
Transfer to uses	186,937	20,780
Stockholders and related parties		
Payment of capital	322,066	506,201
Third parties		
Increase in non-current liabilities	1,338,038	186,018
Transfer from long-term receivables to current assets	5,702	-
Interest on own capital and dividends	268,380	-
	<u>1,612,120</u>	<u>186,018</u>
Total funds provided	<u>1,934,186</u>	<u>692,219</u>
Financial resources were used in		
Operations	186,937	20,780
Long-term receivables	17,760	58,558
Permanent assets:		
Investments	880,670	1,369,131
Property, plant and equipment	45	13
Increase in deferred charges	-	3
Transfer from non current to current liabilities	28,921	-
	<u>1,114,333</u>	<u>1,448,485</u>
Total funds used	<u>1,114,333</u>	<u>1,448,485</u>
Increase (decrease) in working capital	<u>819,853</u>	<u>(756,266)</u>
Changes in working capital		
Current assets	<u>96,871</u>	<u>38,028</u>
At the beginning of the year/period	38,028	-
At the end of the year/period	134,899	38,028
Current liabilities	<u>(722,982)</u>	<u>794,294</u>
At the beginning of the year/period	794,294	-
At the end of the year/period	71,312	794,294
Increase (decrease) in working capital	<u>819,853</u>	<u>(756,266)</u>

The accompanying notes are an integral part of these financial statements.

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STATEMENTS OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 2007 AND SIX-MONTH PERIOD ENDED DECEMBER 31, 2006
(In thousands of reais)

	Consolidated	
	12/31/2007	12/31/2006
Composition of financial resources provided by (used in) operations		
Loss for the year/period	(42,138)	(63,273)
Expenses (income) not affecting working capital :		
Amortization of goodwill in subsidiaries	74,104	68,705
Depreciation and amortization	172,667	84,940
Monetary variations and interest on non-current assets and liabilities	87,586	1,344
Voluntary Termination Program - PDV	-	25,771
Residual value of permanent asset disposals	6,211	(8,492)
Deferred income tax and social contribution	41,795	(5,851)
Provision for contingency	(121,292)	6,870
Adjustment of regulatory asset	-	85,562
Minority interest	(489,372)	(60,551)
Financial resources provided by (used in) operations	(270,439)	135,025
Financial resources were provided by		
Transfer to uses	270,439	-
Stockholders and related parties		
Payment of capital	322,066	506,201
Third parties		
Increase in non-current liabilities	1,653,871	186,018
Transfer from long-term receivables to current assets	7,405	3,342
Special liabilities - donations	-	379
	1,661,276	189,739
Total funds provided	1,983,342	830,965
Financial resources were used in		
Operations	270,439	-
Long-term receivables	205,943	154,590
Permanent assets:		
Investments	1	882,536
Property, plant and equipment	435,827	258,974
Intangible assets	240,305	-
Deferred charges	3,429	3
Supplementary dividends - Result	-	47,864
Supplementary dividends - Retained earnings	-	67,139
Transfer from non current to current liabilities	36,845	1,809
Total funds used	1,192,789	1,412,915
Increase (decrease) in working capital	790,553	(581,950)
Changes in working capital		
Current assets	(312,898)	975,837
At the beginning of the year/period	975,837	-
At the end of the year/period	662,939	975,837
Current liabilities	(1,103,451)	1,557,787
At the beginning of the year/period	1,557,787	-
At the end of the year/period	454,336	1,557,787
Increase (decrease) in working capital	790,553	(581,950)

The accompanying notes are an integral part of these financial statements.

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STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY - PARENT COMPANY
YEAR ENDED DECEMBER 31, 2007 AND EIGHT-MONTH PERIOD ENDED DECEMBER 31, 2006

(In thousands of reais)

	<u>Note</u>	<u>Capital</u>	<u>Accumulated losses</u>	<u>Total</u>
Subscription of capital on 28/04/2006 of R\$500		-	-	-
Payment of capital, in cash, on 28/06/2006		50	-	50
Payment of capital, in cash, on 18/07/2006		506,151	-	506,151
Loss for the period		-	(63,273)	(63,273)
At December 31, 2006	22	506,201	(63,273)	442,928
Payment of capital, in cash, on 10/01/2007		317,864	-	317,864
Payment of capital, in cash, on 19/03/2007		4,202	-	4,202
Loss for the year		-	(42,138)	(42,138)
At December 31, 2007	22	828,267	(105,411)	722,856

The accompanying notes are an integral part of these financial statements.



Notes to the Financial Statements at December 31, 2007 and 2006

All amounts in thousands of reais unless otherwise indicated

1. OPERATIONS

1.1. Objective

The Company is engaged in holding equity interests in other companies or ventures, as a partner or shareholder, joint-venture partner or consortium member, or any other type of business cooperation.

In a privatization auction held on June 28, 2006, on the São Paulo Stock Exchange (BOVESPA), pursuant to Notice SF/001/2006, the State Government of São Paulo, which was up to then the majority shareholder of Companhia de Transmissão de Energia Elétrica Paulista ("CTEEP" or "subsidiary"), sold 31,341,890,064 of its common shares, which account for 50.10% of the total common shares issued by CTEEP.

The winner of the auction was Interconexión Eléctrica S.A. E.S.P., with a bid of R\$38.09 per thousand shares, representing a premium of 58% on the minimum amount established in the Notice, of R\$24.11.

Interconexión Eléctrica S.A. E.S.P. is a company headquartered in Colombia, controlled by the Federal Government of that country, which holds 59% of its total capital. In addition to holding investments in electric power transmission in Colombia, the company also invests in Venezuela, Ecuador, Peru and Bolivia.

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

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

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

Due to this acquisition, ISA Capital do Brasil S.A. began holding the equivalent to 89.40% of the voting capital and 37.46% of the total capital of CTEEP. Accordingly, of a total of 62,558,662,803 common shares issued by CTEEP, 55,924,465,821 are held by ISA Capital do Brasil S.A. After the reverse split carried out by CTEEP in August 2007, the number of common shares owned by the Company changed to 55,924,465.



Notes to the Financial Statements at December 31, 2007 and 2006

All amounts in thousands of reais unless otherwise indicated

CTEEP is a publicly-traded company authorized to operate as an electric power public service concessionaire, the main activities of which are the planning, construction and operation of electric power transmission systems, as well as research and development programs related to energy transmission and activities related to available technology. Its activities are regulated and inspected by ANEEL.

1.2. Concessions

Through Ordinance 185, of June 6, 2001, of the Ministry of Mines and Energy (MME), as from July 8, 1995, the concession held by CTEEP to explore public service of electric energy transmission, including basic network and Other Transmission Facilities (DIT) was extended for 20 years.

As a result, on June 20, 2001, the Contract of Concession of Public Service for the Transmission of Electric Energy 59 was signed between CTEEP and the Conceding Power, through ANEEL.

The mentioned concession contract was amended on December 14, 2001, due to the merger of EPTE - Empresa Paulista de Transmissão de Energia Elétrica S.A. by CTEEP. The initially negotiated conditions were maintained, except for the maintenance of the level of the Allowed Annual Revenue (RAP), that has been reduced by approximately 0.58%, in July 2002, and by 3.56%, in July 2003, equivalent to 50% of the efficiency gains expected with the merger, the effects of which have been recognized in ANEEL Resolutions, for those dates.

Due to the acquisition of the shareholding control of CTEEP by ISA Capital do Brasil S.A., on June 28, 2006, the Second Amendment Term to the Concession Contract 059/2001 - ANEEL of CTEEP was signed, on January 29, 2007, in order to reflect this reality of the new controller. In this amendment, the conditions initially negotiated were maintained and a clause added defining that the goodwill paid in the auction, as well as the special liabilities and the amounts arising from the State Law No. 4819/58 determined in the Sale Notice SF/001/2006, will not be considered by ANEEL for evaluation of the financial and economic balance of the concession. Also due to this amendment, ISA Capital do Brasil S.A. and Interconexión Eléctrica S.A. E.S.P. (Colombia) are committed to increase capital in CTEEP.

With an offer of R\$ 28.9 million, CTEEP bought Batch A of the ANEEL auction 004/2007. This batch comprises the transmission lines Colinas - Ribeiro Gonçalves C2 and Ribeiro Gonçalves - São João do Piauí C2, both of 500 KV, totaling about 720 km of extension, and will be operated by Interligação Elétrica Norte e Nordeste S.A. ("IENE"), company formed on December 3, 2007.

1.3. Risk factors and risk management

Due to the activities of its subsidiary, the Company's Management assumes risks inherent to its operations related to the market, current legislation, reputation, operating and management systems, solvency, credit, liquidity, currency fluctuations, use of collateral operations, guarantees, etc., besides the risks outside its control such as moratorium, partial or total closing of markets, change in the monetary policy and sovereign risk of the country.



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The monitoring of the mentioned risks is the responsibility of the entity managers of CTEEP, using techniques, analyses and controls to minimize their effects, which, however, does not guarantee the full elimination of the inherent risk factors to which the subsidiary is subject.

2. PRESENTATION OF THE FINANCIAL STATEMENTS

These financial statements have been approved by the Company's Board of Directors on January 30, 2008.

The financial statements have been prepared in accordance with accounting practices adopted in Brazil, which are based on:

- Law No. 6404/76, amended by Law No. 9457/97 and Law No. 10303/01.
- Standards and regulations of the Brazilian Securities Commission ("CVM").
- The accounting practices issued by the Institute of Independent Auditors of Brazil ("IBRACON").
- Specific legislation standards established by the National Electric Power Agency (ANEEL) applicable to the concessionaires of public service of electric energy that include the Circular Letters of SFF/ANEEL, 2409 of November 14, 2007, No. 2396 of December 28, 2006, and 059 of January 11, 2007.

ANEEL published Order 3073 of December 28, 2006, that changed the standard in the accounting manual of the public service of electric energy, effective as from January 1, 2007, establishing the reclassification of the consumer charges: Program of Energy Efficiency, Energy Development Account (CDE), Fuel Consumption Account (CCC), Program for the Incentive of the Alternative Sources of Electric Energy (PROINFA) and Research and Development from Operating Expenses to Deductions from Operating Revenues. In addition to these, certain balances were reclassified in the financial statements for the year ended December 31, 2006 for better comparison with the financial statements of the current year.

These financial statements are in conformity with the principles, methods and criteria adopted by the Company for the year ended December 31, 2006. In addition, the financial statements for the year ended December 31, 2006 had certain balances reclassified for better comparison with the financial statements for the current year.

Consolidated Financial Statements

The consolidated financial statements include the financial statements of the Company and those of its subsidiary CTEEP.



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The consolidated financial statements were prepared in accordance with accounting practices adopted in Brazil and the standards of the Brazilian Securities Commission (CVM), as follows:

- The rights and obligations, revenues, costs and expenses arising from transactions carried out between the companies included in the consolidated financial statements have been eliminated.
- The investment of the parent company was eliminated against the net equity of the subsidiary.

Minority interest in the subsidiary's net equity and net results for the period of the subsidiary is shown separately in the balance sheet and statement of operations, respectively.

The balance of unamortized goodwill accrued upon the acquisition of the subsidiary is stated as an intangible asset in the Consolidated Balance Sheet.

3. SIGNIFICANT ACCOUNTING PRACTICES

(a) Determination of results of operations

Results of operations are determined on the accrual basis of accounting.

(b) Accounting estimates

The preparation of the financial statements in accordance with accounting practices adopted in Brazil requires management to use estimates to account for certain transactions affecting the Company's assets and liabilities, revenues and expenses, as well as the disclosure of information about the financial statement data. The final results of these transactions and information, upon their actual realization in subsequent periods, may differ from the estimates. The principal estimates related to the financial statements refer to the allowance for doubtful accounts, the provisions for contingencies and the Voluntary Termination Program (PDV).

(c) Financial charges and monetary/foreign exchange variations

Based on the provisions of Accounting Instruction 6.3.10, item 4, of the Accounting Manual for the Electric Energy Public Service, the interest and other financial charges, as well as monetary/ foreign exchange variations, relating to financing obtained from third parties, effectively applied in property, plant and equipment in progress, comprise the costs recorded in this subgroup.

(d) Current and non current assets

Financial investments

Financial investments are stated at cost plus accrued income up to the balance sheet date (Note 5).



Notes to the Financial Statements at December 31, 2007 and 2006

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- **Trade accounts receivable**

Includes the amounts billed relating to the use of the basic network systems and other transmission facilities (DIT) by the electric power public service concessionaires and companies connected to these systems (Note 6).

- **Allowance for doubtful accounts**

Comprises amounts whose realization is considered improbable at the balance sheet date.

- **Inventories**

The materials in stock are appraised and recorded at average cost of purchase, which does not exceed the replacement value.

- **Investment**

The investment in the subsidiary CTEEP is recorded on the equity method of accounting, based on the financial statements of the subsidiary, prepared on the same date as the financial statements of the Company. The goodwill recorded on the acquisition of the subsidiary is amortized over the contractual term for operating the concessions.

In CTEEP it is represented by the participation in Interligação Elétrica Norte e Nordeste S.A. ("IENE"), formed in December 2007, accounted for by the equity method.

- **Property, plant and equipment**

The items that comprise property, plant and equipment are stated at cost of acquisition and/or construction, plus price-level restatements up to December 31, 1995, the Complementary Monetary Adjustment (CMC), introduced by Law No. 8200, of June 28, 1991, interest on stockholders' equity up to December 31, 1998, financial charges, monetary and foreign exchange variations on loans and financing linked to property, plant and equipment in progress; net of the accumulated depreciation and amortization.

Depreciation is computed on the straight-line basis, at annual rates that range from 2% to 8.3% for the assets of the transmission system, 10% for furniture and fixtures and 20% for vehicles, under the terms of ANEEL's Resolution No. 002, of December 24, 1997, amended by ANEEL's Resolution No. 44, of March 17, 1999. As from 2007, depreciation is computed pursuant to ANEEL's Normative Resolution No. 240, of December 5, 2006.

- **Other current and non current assets**

Stated at net realizable value.



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(e) Current and non current liabilities

Stated at known or estimated amounts, including, when applicable, related charges and monetary or exchange rate variations incurred up to the balance sheet date.

- **Provisions**

Provisions are recorded based on an evaluation of the probability of loss of the ongoing lawsuits, supported by reports prepared by the legal counsel engaged by the Company.

- **Income tax and social contribution**

These are calculated in compliance with the provisions of applicable legislation, based on net income, adjusted by the inclusion of non-deductible expenses and the exclusion of non-taxable revenues and the inclusion and/or exclusion of temporary differences.

- **Deferred income**

Refers to the negative goodwill recorded on the purchase of 49% of the common shares of Empresa Paulista de Transmissão de Energia Elétrica S.A. (EPTE). These shares were held by the São Paulo State Finance Department and Companhia Paulista de Administração de Ativos (CPA) and were purchased on March 26, 1999 by Companhia Energética de São Paulo (CESP). Upon the partial spin-off of CESP, these shares and the negative goodwill were transferred to CTEEP. EPTE was merged into CTEEP on November 10, 2001.

This negative goodwill is being amortized monthly, on the straight-line basis, over the concession period of EPTE, the maturity of which is December 2012.

- **Employee benefits**

CTEEP sponsors pension and health care plans for its employees, which are managed by Fundação CESP. The actuarial liabilities were calculated on the projected unit credit method, as set forth by CVM's Resolution No. 371, of December 13, 2000.

(f) Changes introduced by Law 11,638/07

On December 28, 2007, Federal Law 11,638/07, which alters and revokes certain provisions of the Brazilian Corporate Law (Law 6,404, of December 15, 1976), was issued. In general terms, the new Law permits the harmonization of the accounting practices adopted in Brazil with the international accounting standards deriving from the standards issued by the International Accounting Standards Board.

The main changes introduced by the law that may impact the Company include:



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- (a) criteria for the evaluation of assets, related to investments in financial instruments, to the rights classified in intangible assets and to the asset elements arising from long-term operations, and of liabilities, related to the obligations, charges and risks classified in long-term liabilities, including in the cases of transformation, merger, combination and split-off;
- (b) in the statement of income, inclusion of information on the participations of debentures, employees and managers, even when paid in the form of financial instruments and of institutions or employee assistance and pension plans, not characterized as expense;
- (c) presentation of the statements of cash flow and added-value.

The Company's comments in relation to these changes are as follows:

Changes	Company's comments
1 Cash flow in replacement of Statement of Changes Financial Position.	Cash flow not prepared
2 Statement of added-value.	Statement of added-value not prepared.
3 Segregation of commercial and tax accounting	Evaluating together with the legislation of the Public System of Digital Bookkeeping (SPED).
4 Intangible, permanent assets and adjustments of equity evaluation.	CVM Deliberation 488/05 applies. Adjustment of Equity Evaluation will be implemented.
5 Criteria for the classification and evaluation of assets.	Applies based on Law 6,404/76 and CVM Deliberation 183/95.
6 Adjustment to present value of asset and liability operations.	Awaiting the issue of regulation by CVM.
7 Degree of recovery of intangible assets, property, plant and equipment and deferred charges.	CVM regulations apply.
8 Operations of merger, combination or split-off.	Applicable, if these occur.
9 Evaluation of associated companies on the equity method.	Applies based on CVM Instruction 247/96.
10 Creation of reserve of tax incentives.	Will be applicable, if any.
11 Elimination of revaluation reserve.	Complies with CVM Deliberation 183/95.
12 Elimination of capital reserve.	Applies CVM regulations.

The Company is analyzing the other impacts of the changes introduced by the new law mainly in relation to the creation of new sub groups of accounts, introduction of new criteria for classification and evaluation of financial instruments and to the concept of Adjustment to Present Value for the long-term asset and liability operations and for the significant short-term operations.



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4. PAYABLES FOR THE ACQUISITION OF THE SUBSIDIARY CTEEP

Pursuant to the Share Purchase and Sale Agreement, subject matter of the privatization auction described in Note 1, the Company agrees to supplement the payment of the CTEEP share purchase price should CTEEP be released from the encumbrances related to the supplementary payments to the pension plan set forth by Law No. 4819/58, currently challenged in courts, as described in Note 31.

At December 31, 2007, the supplementary purchase price comprises two different transactions, as detailed below:

- (a) The amount of R\$198,495, resulting from the acquisition of the first equity investment, at the privatization auction held on June 28, 2006, recorded under "Amounts payable - Law No. 4819/58 - São Paulo State Finance Department", R\$5,838 of which in current liabilities and R\$192,657 in non-current liabilities, with a counter entry in the amount of R\$188,895 to the caption "Investments - goodwill on acquisition of subsidiary" (Note 13). The difference of R\$ 9,600 is due to the monetary adjustment of the obligation based on the Amplified Consumer Price Index (IPC-A), as from December 31, 2005.
- (b) The amount of R\$124,459, resulting from the acquisition of the third equity investment, at the public offering auction held on January 9, 2007, recorded under "Amounts payable - Law No. 4819/59 - OPA - Public Share Offering", R\$3,680 of which in current liabilities and R\$120,779 in non-current liabilities, with a counter entry in the amount of R\$120,306 to the caption "Investments - goodwill on acquisition of subsidiary" (Note 13). The difference of R\$ 4,153 is due to the monetary adjustment of the obligation based on the Amplified Consumer Price Index (IPC-A), as from December 31, 2005.

5. CASH AND CASH EQUIVALENTS

	12/31/2007		12/31/2006	
	Parent company	Consolidate d	Parent company	Consolidate d
Cash and Banks	21	12,718	996	12,221
Financial investments	64,232	242,112	5,659	508,905
Total	64,253	254,830	6,655	521,126

Financial investments refer to Bank Deposit Certificates and Debentures, whose yield is linked to the variation of the Interbank Deposit Certificate (CDI) and have daily liquidity.



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6. TRADE ACCOUNTS RECEIVABLE

CTEEP's customers are concessionaires of public service of electric energy and free consumers, connected to CTEEP's facilities.

	<u>12/31/2007</u>		<u>12/31/2006</u>	
	<u>Consolidated</u>	<u>Consolidated</u>	<u>Consolidate</u>	<u>Consolidate</u>
	<u>Current</u>	<u>Non Current</u>	<u>d</u>	<u>d</u>
			<u>Total</u>	<u>Total</u>
Basic network	192,800	48,489	241,289	154,590
Other Transmission Facilities - DIT	23,599	3,941	27,540	9,411
Total	216,399	52,430	268,829	164,001

Trade accounts receivable fall due as follows:

	<u>12/31/2007</u>	<u>12/31/2006</u>
	<u>Consolidated</u>	<u>Consolidate</u>
		<u>d</u>
Not yet due	256,607	151,939
Overdue		
Up to 30 days	46	59
from 31 to 60 days	12	2
Over 61 days	12,164	12,001
	12,222	12,062
	268,829	164,001



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7. AMOUNTS RECEIVABLE - STATE FINANCE DEPARTMENT

	12/31/2007			12/31/2006		
	Consolidated			Consolidated		
	<u>Current</u>	<u>Non Current</u>	<u>Total</u>	<u>Current</u>	<u>Non Current</u>	<u>Total</u>
Agreement for the recognition and consolidation of liabilities (i)	13,272	47,557	60,829 193,10	11,620	53,260	64,880
Payroll processing - Law No. 4819/58 (ii)	-	193,101	1	-	92,916	92,916
Sale of property (iii)	2,758	9,885	12,643	2,416	11,070	13,486
Labor proceedings - Law No. 4819/58 (iv)	-	71,410	71,410	-	50,080	50,080
Family allowance - Law No. 4819/58 (v)	-	2,218	2,218	-	2,218	2,218
Allowance for doubtful accounts	-	(2,218)	(2,218)	-	(2,218)	(2,218)
			337,98			221,36
Total	16,030	321,953	3	14,036	207,326	2

(i) Agreement for the Recognition and Consolidation of Liabilities

On May 2, 2002, an Agreement for the Recognition and Consolidation of Liabilities was entered into with the São Paulo State Finance Department, in which the State Government acknowledges and admits that it owes to CTEEP the amounts corresponding to the disbursements originally made by CESP - Companhia Energética de São Paulo, in the period from 1990 to 1999, for paying supplemental retirement and pension payrolls, arising from benefits under the terms of State Law No. 4819. The amount admitted was adjusted up to January 2002, by the variation of the Fiscal Unit of the São Paulo State Government (UFESP), and, as from February 2002, by the monthly variation of the General Market Price Index (IGP-M), plus 6% per annum. The reimbursement will be made in 120 monthly installments, starting on August 1, 2002 and with final settlement on July 1, 2012.

(ii) Processing of the payroll - Law No. 4819/58

The amount of R\$ 193,101 refers to the remaining balance of the processing of the payroll of the supplemental pension plan regulated by State Law No. 4819/58, R\$ 1,426 of which through individual injunctions from January to August 2005 and R\$ 191,675 from September 2005 to September 2007 as a result of a court decision by the 49th Labor Court of São Paulo, whose payments are made by Fundação



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CESP, using resources received from the State Government and passed on by CTEEP (Note 31 (C)). This balance will not be monetarily adjusted and no earnings will be recorded until the State Government approves its actual payment to CTEEP.

(iii) Sale of a property

On July 31, 2002, a Private Transaction Instrument was signed, providing for the sale of a property, the recognition of liabilities and commitment to pay, with the State Finance Department, in which the State Government acknowledges and admits that it owes to CTEEP an amount corresponding to the market value of the total area of the property occupied by the State Government which is being partially used for the construction of prison units.

Therefore, the State Government committed to reimburse CTEEP of said amount in 120 monthly installments, the first of which on August 1, 2002 and final settlement on July 1, 2012, adjusted by the monthly variation of the General Market Price Index (IGP-M) plus interest of 6% per annum.

(iv) Labor proceedings - Law No. 4819/58

These refer to certain labor proceedings settled by CTEEP, relating to employees who retired supported by State Law No. 4819/58, which are the responsibility of the State Government. This balance is not monetarily adjusted and no earnings will be recorded until the State Government approves its actual payment to CTEEP.

(v) Family allowances - Law No. 4819/58

CESP - Companhia Energética de São Paulo made advances for the payment of monthly expenses related to family allowances arising from the benefits of State Law No. 4819/58, which were transferred to CTEEP upon the partial spin-off of CESP.

Considering the expectation of loss, management recorded an allowance for doubtful accounts, in non-current assets, in the amount of R\$ 2,218.



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8. TAXES AND CONTRIBUTIONS TO OFFSET

	12/31/2007		12/31/2006	
	<u>Parent company</u>	<u>Consolidated</u>	<u>Parent company</u>	<u>Consolidate d</u>
Income tax	13,482	51,994	777	27,524
Social contribution	-	14,862	-	8,596
Social Contribution on Revenues (COFINS)	-	1,091	-	22,157
Social Integration Program (PIS)	-	353	-	29,727
Other	-	801	-	869
Total	13,482	69,101	777	88,873

9. DEFERRED INCOME TAX AND SOCIAL CONTRIBUTION

These refer to tax credits on the temporary differences in the determination of taxable income, mainly the provisions for contingencies and the Voluntary Termination Program (PDV).

These credits, both current and long-term, will be realized as the contingencies and other related events are resolved.

10. PLEDGES AND RESTRICTED DEPOSITS

In January 2007, the Company obtained an amount of US\$554 million as issue of bonus, with a demand for US\$4.6 billion.

The issue had as agents JP Morgan and ABN AMRO Bank, and was divided into two tranches: the first one in the amount of US\$200 million, with 5 year term and call option in 2010 and 2011; the second tranche, of US\$354 million, with 10 year term (Note 16).

As determined in contract, the Company made two deposits in Bank of New York, in the amount of US\$7,875 and US\$15,576, as guarantee of the interest that will be paid semi-annually, related to the two tranches described above, respectively. At December 31, 2007, these deposits, recorded in current assets, amount to R\$41,767.

In the consolidated long-term receivables, in view of the uncertainties about the outcome of the lawsuits object of deposits, CTEEP's procedure is to maintain them at their nominal value, not recording any type of monetary restatement or earnings. The balance is composed as follows:



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	<u>12/31/2007</u>	<u>12/31/2006</u>
	<u>Consolidated</u>	<u>Consolidated</u>
Escrow deposits (Note 19 (b))	43,278	59,738
Assessments - ANEEL (a)	6,317	6,317
Tax on Bank Accounts Outflow (CPMF)	199	144
	<u>49,794</u>	<u>66,199</u>

(a) Refer to two deposits in connection with lawsuits to annul ANEEL assessment notices issued because of disturbances in the transmission system in February 1999 and January 2002. The first one, deposited on January 17, 2000, in the amount of R\$ 3,040, was required in an annulment action filed by CTEEP against ANEEL, arising from the assessment notice 001/1999-SFE which fined CTEEP under allegation of practice of violations for obstructing the inspection related to the disturbances arising from the interruption of the transmission and distribution of electric energy in most of Southeast, South and Middle West regions; non-compliance with the determinations of the "inspection report"; and non-compliance with the legal duty of rendering proper service. The second one, deposited on June 17, 2003, in the amount of R\$ 3,277, relates to the issue of assessment notice 005/2002-SFE, on May 7, 2002, as a consequence of punitive administrative process brought by ANEEL, for the breakage, on January 21, 2002, of one sub conductor of transmission line of 440 kV between the sub stations of the Company in the Power Plant of Ilha Solteira and Araraquara. CTEEP's legal advisors understand that it is not practicable to determine whether its position in both cases will prevail.

11. PREPAID EXPENSES - PARENT COMPANY

During the bond issuance process concluded in January 2007 (Notes 10 and 16), the Company incurred expenses and fees. These expenses were fully deferred and are being amortized over the term of the original agreements, as shown in the table below:



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	<u>12/31/2007</u>	<u>12/31/2006</u>
	<u>Parent company</u>	<u>Parent company</u>
Expenses related to the bond agreement (tranche 1) maturing in 5 years and amounting to US\$200 million	7,713	3,011
Expenses related to the bond agreement (tranche 2) maturing in 10 years and amounting to US\$354 million	13,652	-
Subtotal	21,365	3,011
Accumulated amortization	(2,871)	-
Total	18,494	3,011
Current	2,831	-
Non current	15,663	3,011
Total	18,494	3,011

12. ACCOUNTS RECEIVABLE - PARENT COMPANY

	<u>12/31/2007</u>	<u>12/31/2006</u>
	<u>Parent company</u>	<u>Parent company</u>
	<u>Non current</u>	<u>Non current</u>
Loan in foreign currency		
Principal	54,676	55,548
Interest	18	24
Foreign exchange variation	(8,989)	(306)
Total	45,705	55,266

This loan refers to the onlending of the total loan obtained from ABN AMRO BANK, denominated in U.S. dollars, in the amount of US\$ 23,800 thousand, payable in a lump sum on July 19, 2007 and bearing interest calculated based on the LIBOR rate plus 3% per annum. The Company maintained the same adjustment assumptions for this transaction. However, its maturity was agreed for an eight-year period, in a lump sum.

Since the contract determines the capitalization of interest accrued in each year, at December 28, 2007 the interest in the amount of R\$3,530 and the related negative exchange rate variation of R\$320 were capitalized.



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13. INVESTMENT IN SUBSIDIARY

	<u>12/31/2007</u>	<u>12/31/2006</u>
	<u>Parent company</u>	<u>Parent company</u>
<u>Cost:</u>		
Stockholders' equity of the investee	3,948,807	3,745,505
Percentage holding (a)	<u>37.4615%</u>	<u>21.0014%</u>
Investment - cost evaluated on the equity method	<u>1,479,282</u>	<u>786,608</u>
<u>Goodwill:</u>		
Goodwill on acquisition of shares up to December 31, 2006 (b)	380,484	380,484
Goodwill - Law No. 4819/58 - State Finance Department - supplement (e)	188,895	186,018
Goodwill on acquisition of shares up to January 9, 2007 - Public Share Offering - OPA (c)	115,143	-
Goodwill - Law No. 4819/58 - Public Share Offering - supplement (d)	120,306	-
Goodwill - other OPA costs	<u>1,882</u>	<u>-</u>
Subtotal	<u>806,710</u>	<u>566,502</u>
Accumulated amortization	<u>(117,275)</u>	<u>(26,190)</u>
Goodwill balance - net (f)	<u>689,435</u>	<u>540,312</u>
Total investment	<u>2,168,717</u>	<u>1,326,920</u>
<u>Change in Investment and Goodwill in subsidiary:</u>		
<u>Investment:</u>		
Opening balance of investment	786,608	833,224
Acquisition of shares OPA on January 9, 2007	640,482	-
Equity in the results for the year/period	320,595	(16,020)
Dividends received in the year/period	(178,968)	(30,596)
Interest on own capital received in the year	<u>(89,435)</u>	<u>-</u>
Closing balance of investment	<u>1,479,282</u>	<u>786,608</u>
<u>Goodwill:</u>		
Opening balance of goodwill	540,312	566,502
Goodwill on the acquisition of shares on January 9, 2007 - OPA	115,143	-
Goodwill - Law 4819/58 - OPA - supplement	120,306	-
Goodwill - other costs	1,882	-
Goodwill - Law 4819/58 - State Finance Department - supplement	2,880	-
Amortization of goodwill in the year/period	<u>(91,088)</u>	<u>(26,190)</u>
Closing balance of goodwill (f)	<u>689,435</u>	<u>540,312</u>



Notes to the Financial Statements at December 31, 2007 and 2006

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- (a) As a result of this acquisition, the Company started to hold 89.40% of the voting capital and 37.46% of the total capital of CTEEP. Accordingly, of a total of 62,558,662,803 common shares issued by CTEEP, 55,924,465,821 are held by the Company.

After the reverse stock split carried out by CTEEP in August 2007, the number of common shares held by the Company was 55,924,465.

- (b) On June 28, 2006, Interconexión Eléctrica S.A. E.S.P. (a company headquartered in Colombia) made the winning bid at the auction for the sale of CTEEP's shares, held on the São Paulo Stock Exchange pursuant to Notice SF/001/2006, and purchased 31,341,890,064 common shares issued by CTEEP which were directly or indirectly held by the State Government of São Paulo, corresponding to 50.10% of the total common shares of CTEEP, having offered R\$ 1,193,813 for the total common shares auctioned corresponding to R\$ 38.09 per thousand shares. The agreement for the purchase of CTEEP's shares was signed by the Company, as it is a subsidiary of Interconexión Eléctrica S.A. E.S.P.

On July 25, 2006, ANEEL approved this acquisition and, on July 26, 2006, the Company performed the financial settlement of the auction and, with its shareholders as guarantors of the obligations assumed by the Company, signed the corresponding Share Purchase and Sale Agreement with the State Government of São Paulo in the total amount of R\$1,213,170, corresponding to the sum of the auction's final price, R\$1,193,813, and the amount of R\$19,357 paid by the Company to the State Government of São Paulo as an additional price for the shares acquired at the auction, registering the acquisition of said shares and the transfer of ownership control of CTEEP to the Company.

On September 12, 2006, the Company acquired an additional 10,021,687 common shares issued by CTEEP, held by the State Government of São Paulo, for the total price of R\$229, and became the holder of 31,351,911,751 common shares issued by CTEEP, which account for 50.1% of its voting capital.

- (c) On January 9, 2007, ISA Capital do Brasil S.A. acquired, through a public offering auction for the acquisition of shares held on BOVESPA, 24,572,554,070 common shares issued by CTEEP, corresponding to 39.28% of the total of this type of shares, pursuant to the public share offering notice published on December 4, 2006. For this acquisition the Company paid the amount of R\$ 755,360 corresponding to R\$ 30.74 per thousand shares.
- (d) Note 4.b.
- (e) Note 4.a.
- (f) The balance of unamortized goodwill is classified as intangible assets in the consolidated balance sheet.



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14 PROPERTY, PLANT AND EQUIPMENT

	12/31/2007			12/31/2006	Average annual depreciation rates - %
	Restated cost	Consolidated Accumulated depreciation	Net balance	Consolidated Net balance	
Subsidiary					
In use					
Land (a)	44,538	-	44,538	44,680	
Buildings, construction and improvements	584,813	(372,080)	212,733	229,183	3.64
Machinery and equipment	5,298,974	(2,439,731)	2,859,243	2,706,096	2.96
Vehicles	15,405	(14,526)	879	2,511	20.00
Furniture and fixtures	24,198	(14,374)	9,824	10,032	10.00
Subtotal	5,967,928	(2,840,711)	3,127,217	2,992,502	
In progress	967,998	-	967,998	845,847	
Special liabilities (b)					
Donations received	(16,068)	-	(16,068)	(16,284)	
Total - Subsidiary	6,919,858	(2,840,711)	4,079,147	3,822,065	
Total - Parent Company	56	(5)	51	12	
Consolidated	6,919,914	(2,840,716)	4,079,198	3,822,077	

In accordance with articles 63 and 64 of Decree No. 41,019, of February 26, 1957, assets and installations used in the transmission of electric power are linked to these services and cannot be retired, sold or pledged as mortgage guarantees without the prior and express authorization of the regulatory body. ANEEL Resolution No. 20, of February 3, 1999, regulates the electric power utility concession assets, giving prior authorization for not restricting assets no longer serviceable to the concession, when intended for sale, and determining that the proceeds from the sale be deposited in a restricted bank account and invested in the concession.

(a) Land owned by CTEEP in São José dos Campos, whose book value is R\$114. The land has been pledged as collateral for a Municipal Real Estate Tax (IPTU) collection proceeding (Note 19 (b) (iii)).

(b) Represented by assets received from electricity concessionaires and customers for purposes of investments in the concession.



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15. INTANGIBLE ASSETS

	<u>12/31/2007</u>	<u>12/31/2006</u>
	<u>Consolidated</u>	<u>Consolidated</u>
Balance of goodwill of investment in Subsidiary	689,435	540,312
Rights of way	57,449	57,354
Others	151	151
	<u>747,035</u>	<u>597,817</u>

16. LOANS AND FINANCING

	<u>12/31/2007</u>				<u>12/31/2006</u>		
	<u>Parent company</u>		<u>Consolidated</u>		<u>Parent company</u>		<u>Consolidated</u>
	<u>Current</u>	<u>Non Current</u>	<u>Current</u>	<u>Non Current</u>	<u>Current</u>	<u>Current</u>	<u>Non Current</u>
Foreign currency							
ABN Amro Bank (a)	-	-	-	-	748,648	748,648	-
Issue of bonds (b)	55,249	1,257,433	55,249	1,257,433	-	-	-
Local currency							
ABN Amro Bank (c)	-	-	-	-	43,624	43,624	-
Eletróbrás (d)	-	-	56	536	-	56	586
Banco Safra (e)	-	-	50,172	-	-	-	-
Banco Alfa (f)	-	-	70,000	-	-	-	-
Banco do Brasil (g)	-	-	10,082	-	-	-	-
BNDES (h)	-	-	1,881	400,177	-	-	-
Total	<u>55,249</u>	<u>1,257,433</u>	<u>187,440</u>	<u>1,658,146</u>	<u>792,272</u>	<u>792,328</u>	<u>586</u>

- (a) Loan obtained from ABN Amro Bank, in US dollars, in the original amount of US\$204 million, maturing in a lump sum on July 9, 2007 and bearing interest calculated based on the LIBOR rate, plus 1.00% p.a. This loan was settled on April 11, 2007.
- (b) Issue of bonds on January 29, 2007 in the amount of US\$554 million. The agents of the issue were JP Morgan and ABN Amro Bank, and it was divided into two tranches: the first one, in the amount of US\$200 million, maturing in five years, with an interest rate of 7.875% p.a., and call option in 2010 and 2011; the



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second tranche, of US\$354 million maturing in ten years and interest rate of 8.8% p.a. Of the total bonds issued, 60% was placed in the United States, 36% in Europe, 2% in Latin America and 2% in Asia.

The Company management signed specific hedge contracts, to cover the exchange rate risks in connection with the issue of the bonds described above. This operation is segregated in two parts, as follows:

- Hedge of principal - Contracts with ABN Amro Bank and JP Morgan relating to the hedge of the two tranches. The first tranche, in the amount of US\$200 million and with a five-year term, was subject to an exchange rate of R\$2.1170 and commitment to pay IGP-M plus 2.12% per annum. The second tranche, in the amount of US\$ 354 million and with a ten-year term, was also subject to an exchange rate of R\$2.1170 and commitment to pay IGP-M plus 1.68% per annum.
- Hedge of interest - Non-deliverable currency forward contract with JP Morgan related to the hedge of semiannual interest, payable in July 2007 and January 2008, referring to the two tranches. This hedge was contracted at an exchange rate of R\$2.1190 for payment in July 2007 and at an exchange rate of R\$2.1765 for payment in January 2008.

At December 31, 2007, the Company obtained the following results from this transaction:

	<u>12/31/2007</u>
Current liabilities:	
Bond issuance - interest	34,616
Result of hedge transaction -interest exchange risk	9,217
Result of hedge transaction - principal exchange risk	11,416
Total	<u>55,249</u>
Non current liabilities:	
Bond issuance - principal	981,300
Result of hedge transaction - principal exchange risk	276,133
Total	<u>1,257,433</u>

- (c) Bank credit note - overdraft account with ABN Amro Bank, whose funding limit is US\$55 million, with revolving maturity every six months and interest calculated based on 100% of the Interbank Deposit Certificate (CDI) rate, plus 1.75% per year. This credit remains at the Company disposal and may be accessed at any moment with the same conditions previously agreed.
- (d) Refers to two contracts originally signed with Eletropaulo - Eletricidade de São Paulo S.A., which, on account of its partial spin-off, were transferred to EPTE - Empresa Paulista de Transmissão de Energia Elétrica S.A., which was merged into CTEEP, scheduled to expire in 2021, and whose principal is repaid in the amount of R\$50 per annum.
- (e) Refers to a loan contract with Banco Safra, entered into on June 28, 2007, in the amount of R\$ 50,000, effective up to March 18, 2008. This loan bears monthly charges at the rate of 103.0% of the daily average of the Interbank Deposit Certificate (CDI) falling due on the first business day of each month.



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- (f) Refers to loan contracts with Banco Alfa, entered into on July 20, 2007 and October 17, 2007 in the amount of R\$ 50,000 and R\$ 20,000, respectively, effective up to May 26, 2008. This loan bears monthly charges at the rate of 103.85% of the daily average of the CDI falling due on the last business day of each month.
- (g) Refers to a loan contract with Banco do Brasil, entered into on September 28, 2007, in the amount of R\$ 10,000, effective up to May 28, 2008. This loan bears monthly charges at the rate of 103.0% of the daily average of CDI falling due on the last business day of each month.
- (h) Refers to a loan contract signed on September 17, 2007, with the National Bank for Economic and Social Development (BNDES), in the amount of R\$ 764,200. This amount accounts for 70% of the total investment, which includes construction aimed at system improvements, reinforcements, modernization of the current transmission system and new projects, and is part of the 2006/2008 Pluriannual Investment Plan. On October 25, 2007, R\$ 400,000 was released. The remaining R\$ 364,200 should be released by October 2008. This loan bears monthly charges of 2.3% p.a. above the Long-term Interest Rate (TJLP). Repayment will be in 78 monthly installments from January 2009. Up to the beginning of repayment, interest is paid quarterly. As guarantee, the subsidiary CTEEP has given bank sureties contracted on October 10, 2007, effective up to December 15, 2015, from the banks Bradesco and Santander, at the cost of 0.70% p.a. with quarterly maturities.

The balances described in items (e), (f) and (g) above may be partially or fully repaid at any time throughout the terms of the agreements.

17. TAXES AND SOCIAL CHARGES PAYABLE

	12/31/2007		12/31/2006	
	<u>Parent company</u>	<u>Consolidated</u>	<u>Parent company</u>	<u>Consolidated</u>
Income tax	4,969	35,495	-	2,023
Social contribution	-	10,820	-	728
COFINS	1,123	6,698	-	4,579
PIS	242	1,569	-	993
FGTS	-	882	-	1,946
INSS	18	2,437	-	4,322
Scholarship program (a)	-	3,241	-	3,532
Other	-	3,916	786	5026
Total	6,352	65,058	786	23,149

- (a) Refers to obligations assumed by CTEEP under an agreement with the labor unions for reimbursing its employees for costs of elementary, high school and college education.



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18. REGULATORY CHARGES PAYABLE

	<u>12/31/2007</u> <u>Consolidated</u>	<u>12/31/2006</u> <u>Consolidated</u>
Research and Development (P&D)	14,367	10,521
Energy Development Account (CDE)	6,026	3,416
Fuel Consumption Account (CCC)	5,490	5,664
Global Reversion Reserve (RGR)	4,600	5,409
Program for the Incentive to the Alternative Sources of Electric Energy (PROINFA)	2,091	475
Inspection fee - ANEEL	548	553
Total	<u>33,122</u>	<u>26,038</u>

19. PROVISIONS

	<u>12/31/2007</u>			<u>12/31/2006</u>		
	<u>Consolidated</u>			<u>Consolidated</u>		
	<u>Current</u>	<u>Non Current</u>	<u>Total</u>	<u>Current</u>	<u>Non Current</u>	<u>Total</u>
Vacation pay and payroll charges	8,606	-	8,606	31,220	-	31,220
Profit sharing - PLR	9,290	-	9,290	17,155	-	17,155
Voluntary Termination Program - PDV (a)	24,187	16,464	40,651	370,880	25,771	396,651
Sundry indemnities	4,544	-	4,544	-	-	-
Contingencies (b)	-	163,168	163,168	-	322,620	322,620
Total	<u>46,627</u>	<u>179,632</u>	<u>226,259</u>	<u>419,255</u>	<u>348,391</u>	<u>767,646</u>

(a) Voluntary Termination Program (PDV)

CTEEP, which had 2,737 employees as of October 31, 2006, approved a Voluntary Termination Program, with an adhesion period from November 21 to November 30, 2006 obtaining 1,534 adhesions.

Due to this fact, there were 1,486 employee terminations, 1,163 of which in 2007 and 323 in 2006, which represented expenses of R\$ 356,000 and R\$ 78,979, respectively. The expenses with the PDV include financial incentives, Government Severance Indemnity Fund for Employees (FGTS) fine, prior notice and health care assistance, among others.

(b) Provision for Contingencies

On a quarterly basis, the contingencies are assessed and classified as regards the probability of an unfavorable outcome, as follows:



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<u>Type</u>	<u>12/31/2007</u>			<u>12/31/2006</u>		
	<u>Consolidated</u>			<u>Consolidated</u>		
	<u>Provision</u>	<u>Judicial deposits</u>	<u>Liabilities net</u>	<u>Provision</u>	<u>Judicial deposits</u>	<u>Liabilities net</u>
Labor (i)	139,079	(16,302)	122,777	145,407	(14,389)	131,018
Civil	4,926	-	4,926	1,023	-	1,023
Tax - IPTU (ii)	11,094	-	11,094	130,841	-	130,841
Tax - COFINS (iii)	-	(18,907)	(18,907)	38,524	(38,524)	-
Social Security - INSS (iv)	8,069	(8,069)	-	6,825	(6,825)	-
Total	<u>163,168</u>	<u>(43,278)</u>	<u>119,890</u>	<u>322,620</u>	<u>(59,738)</u>	<u>262,882</u>

Judicial deposits are recorded in current and non-current assets under "Pledges and restricted deposits".

CTEEP is a party to tax, labor and civil lawsuits, whose unfavorable outcomes are regarded as possible by management, based on the assessment of its legal counsel, in the estimated amount of R\$ 31,282 (2006 - R\$ 16,639), mainly labor lawsuits, for which no provisions have been recorded.

(i) Labor

CTEEP assumed responsibility for certain lawsuits at different courts, mainly arising from CESP's partial spin-off and the merger of EPTE - Empresa Paulista de Transmissão de Energia Elétrica S.A.

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

CTEEP recognizes a provision to cover debts with the municipal governments of São Paulo, related to administrative processes for the rectification of areas, in the amount of R\$ 11,094.

The debts with the municipality of São José dos Campos, due to the Supplementary Law 335/07, have been negotiated with that municipality and settled for R\$ 39,141, with a rebate of R\$ 21,740 recorded as gain under the caption "general and administrative expenses".

(iii) Social Contribution on Revenues (COFINS)

CTEEP is challenging in court the constitutionality of the increase in the COFINS rate and calculation basis, in the amounts of R\$ 27,392 and R\$ 11,132, respectively.

CTEEP obtained a favorable outcome as regards the increase in the calculation basis and an unfavorable outcome in relation to the increase in the rate. Accordingly, in the third quarter of 2007, it reversed the portion of the provision related to the increase in the calculation basis against results and that referring to the increase in the COFINS rate against the related judicial deposit. The Company has started a process to release the judicial deposit which, as adjusted, corresponds to R\$ 18,907.



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(iv) National Institute of Social Security (INSS)

On August 10, 2001, CTEEP received from the National Institute of Social Security (INSS) a delinquency notice for nonpayment of social security contribution on compensation paid to its employees in the form of meal tickets, morning snack and basket of food staples for the period from April 1999 to July 2001. Accordingly, management decided to establish a provision and made a judicial deposit in the amount of R\$ 8,069, recorded in non-current assets, under "Pledges and restricted deposits".

20. AMOUNTS PAYABLE - FUNDAÇÃO CESP

Based on appraisal prepared by independent actuaries to calculate the actuarial liability, CTEEP recorded in the result for the year an accumulated gain in the amount of R\$ 96,814. Accordingly, the liability balance presented represents the restated liability of CTEEP related to the supplementary pension and health assistance plans maintained with Fundação CESP.

(a) Plan "A" - Supplementary pension plan

Regulated by State Law 4819/58, applied to employees hired up to May 13, 1974, determines supplementary pension plan benefits, additional leave entitlements and family allowance. The resources necessary to cover the charges assumed in this plan are total responsibility of the applicable authorities of the State of São Paulo Government, and therefore, with no risk and additional cost to CTEEP (Note 31).

(b) Plan "B" and "B1" - supplementary pension plan

Plans "B" and "B1", regulated by Law 6435/77 and managed by Fundação CESP, are sponsored by CTEEP, providing supplementary pension plan benefits, the reserves of which are determined by the financial system of capitalization.

The so called Plan "B" refers to Benefício Suplementar Proporcional Saldado - BSPS, calculated on December 31, 1997 (CTEEP) and March 31, 1998 (EPTE), in accordance with current regulation, and its actuarial financial and economic balance was determined at the time. The annual actuarial technical result of this plan (deficit or surplus) is the full responsibility of CTEEP.

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



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(c) Plan PSAP - Transmissão Paulista

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

(d) Statement - CVM Deliberation 371/00

The main financial and economic information of the plan PSAP-Transmissão Paulista-BD (CTEEP/EPTE), in conformity with CVM Deliberation 371, of December 13, 2000, and based on the actuarial reports is as follows:

(i) Reconciliation of assets and liabilities

	<u>12/31/2007</u>	<u>12/31/2006</u>
Fair value of the asset	1,774,274	1,501,836
Total actuarial liabilities	(1,506,892)	(1,428,775)
Gains to be recognized in future years	(396,816)	(240,489)
Net liabilities	<u>(129,434)</u>	<u>(167,428)</u>

(ii) Changes in the plan assets

	<u>12/31/2007</u>	<u>12/31/2006</u>
Fair value of assets at the beginning of the year	1,501,836	1,309,879
Employer contributions	10,244	19,579
Employee contributions	2,900	4,192
Return on investments	361,421	202,239
Benefits paid	(122,242)	(34,349)
Transfer from defined contribution to defined benefit	20,115	296
Fair value of the assets at the end of the year	<u>1,774,274</u>	<u>1,501,836</u>



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(iii) Changes in actuarial liabilities

	<u>12/31/2007</u>	<u>12/31/2006</u>
Present value of the net actuarial liability at the beginning of the year	1,428,775	1,344,498
Costs of current services	8,284	9,281
Cost of interest	146,307	137,677
Actuarial gain/loss	25,653	(24,871)
Agreements paid	-	(3,757)
Benefits paid	(122,242)	(34,349)
Transfer from defined contribution to defined benefit	20,115	296
Present value of the net actuarial liability at the end of the year	<u>1,506,892</u>	<u>1,428,775</u>

(iv) Plan participants

	<u>12/31/2007</u>	<u>12/31/2006</u>
Active	<u>1,542</u>	<u>2,746</u>
Inactive		
Retired	1,534	687
Retirement for disability	30	30
Pensioners	71	65
	<u>1,635</u>	<u>782</u>
Total	<u>3,177</u>	<u>3,528</u>



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(v) Actuarial assumptions used

	<u>12/31/2007</u>	<u>12/31/2006</u>
Discount rate of the present value of actuarial liabilities - %	10.24%	10.24%
Expected return rate on the plan assets - %	11.28%	11.28%
Future salary increase rate - %	7.12%	7.12%
Index for readjustment of regular benefits granted - %	4.00%	4.00%
Capacity factor of the benefit/salary maintaining its acquisitive power - %	97.84%	97.84%
Turnover rate	Zero	Zero
General mortality chart	AT-83	UP-94
Disability chart	Light-Media	Light-Media
Mortality chart of disabled employees	AT-49	IAPB-55
Mortality chart of active employees	Hamza method	Hamza method

21. SPECIAL LIABILITIES - REVERSAL/AMORTIZATION - CONSOLIDATED

Refer to the resources arising from the reversion reserve, amortization and portion held at CTEEP, of the monthly quotas of the Global Reversion Reserve (RGR), related to investments of resources for expansion of the public service of electric energy and amortization of loans obtained for the same purpose, occurred up to December 31, 1971. The manner for the settlement of these liabilities is not defined by the Concession Authority.

22. STOCKHOLDERS' EQUITY

The Company was established on April 28, 2006, as a limited liability partnership, according to its articles of association filed with the Board of Trade of the State of São Paulo. On September 19, 2006, the Company was transformed into a corporation and its subscribed and fully paid-up capital is R\$ 828,267. (R\$506,201 in 2006).

At December 31, 2007 capital comprises 828,267,200 common shares and at December 31, 2006 comprises 506,201,000 common shares, with no par value, distributed as follows:



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<u>Shareholder</u>	<u>Number of shares</u>	
	<u>12/31/2007</u>	<u>12/31/2006</u>
Interconexión Eléctrica S.A. E S P	828,267,196	506,200,997
Javier Genaro Gutiérrez Pemberthy	-	1
Luís Fernando Alarcón Mantilla	1	-
Fernando Augusto Rojas Pinto	1	1
Guido Alberto Nule Amin	1	1
Carlos Alberto Rodríguez Lopez	1	-
Total	<u>828,267,200</u>	<u>506,201,000</u>

Stockholders are entitled to annual dividends calculated at 25% of net income, after deduction of 5% for recognition of the legal reserve until it reaches 20% of capital, as required by Brazilian Corporate Law.

23. REVENUES FROM ELECTRICITY NETWORK USAGE - CONSOLIDATED

Revenues from electricity network usage, for the year ended December 31, 2007, amounted to R\$ 1,548,248 (R\$ 712,470 in 2006). These revenues comprise the following:

	<u>Year ended 12/31/2007</u>	<u>Six-month period ended 12/31/2006</u>
	<u>Consolidated</u>	<u>Consolidated</u>
Basic network		
Existing assets	1,062,440	520,159
New investments	236,746	74,858
Surplus	11,270	12,755
Adjustment	11,799	-
Subtotal	<u>1,322,255</u>	<u>607,772</u>
Other Transmission Facilities - DIT		
Existing assets	74,951	34,203
New investments	22,722	15,578
Adjustment portion	8,751	-
Subtotal	<u>106,424</u>	<u>49,781</u>
Charges:		
Fuel Consumption Account - CCC	62,163	35,394
Energy Development Account - CDE	46,195	21,666
Alternative Source Incentive Program - PROINFA	11,211	4,043
Subtotal	<u>119,569</u>	<u>61,103</u>
Adjustments	<u>-</u>	<u>(6,186)</u>
Total	<u>1,548,248</u>	<u>712,470</u>



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(a) Allowed Annual Revenue (RAP) of Miguel Reale Substation

In December 2002, ANEEL authorized CTEEP to implement the Miguel Reale Substation Expansion project, whose investment value used to calculate the RAP was R\$ 323,236.

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

Due to the reduction in the investments in said project, the related annual amount of the RAP beginning July 2005 was then reduced by R\$32,251. CTEEP considers this reduction invalid and filed Official Circular No. OF/F/2,828, of July 8, 2005, with ANEEL requesting its restoration.

On March 2, 2006, through Official Letter No. 321/2006, the Financial and Economic Oversight Board (SFF) of ANEEL submitted an Inspection Follow-up Report (RAF) that analyzed CTEEP's request and upheld the SFF's initial position.

On March 23, 2006, through Official Letter OF/F No. 1372/06, CTEEP filed an Administrative Appeal with ANEEL, requesting a review of SFF's position.

(b) Periodic Review of Allowed Annual Revenue (RAP)

In accordance with Concession Agreement No. 59, signed with the Federal Government on June 20, 2001, through the intermediation of ANEEL, every four years as from the date on which this agreement was signed, ANEEL will make a periodic review of the Allowed Annual Revenue (RAP) of electric energy transmission related to the facilities of authorized projects whose business operations commenced after December 31, 1999, for the purpose of promoting efficiency and low rates, in accordance with the methodology approved by Normative Resolution No. 257, of March 6, 2007.

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

The effects of this rate recomposition were backdated to July 1, 2005. The difference in the amounts charged from July 2005 to June 30, 2007, amounting to R\$ 66,688, will be offset in 24 (twenty-four) months by means of the contractual mechanism for an adjustment portion. The effects referring to the period from July 1, 2007 to June 30, 2008 are considered in Authorizing Resolution No. 496.

(c) Annual Revenue Adjustment

On June 29, 2007, Authorizing Resolution No. 496 was issued, establishing CTEEP's annual allowed



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revenues for making available the transmission facilities that comprise the Basic Network and Other Transmission Facilities, for a twelve-month cycle from July 1, 2007 to June 30, 2008.

According to the mentioned Resolution, the Allowed Annual Revenue (RAP) of CTEEP, which was R\$ 1,314,400 on July 1, 2006, increased to R\$ 1,478,456 on July 1, 2007, representing an increment of R\$ 164,056 or 12.5%.

The analysis of the revenue effective from July 1, 2007 to June 30, 2008 is as follows:

Basic network	
Existing assets.....	940,542
New Investments.....	174,618
	<u>1,115,160</u>
Other Transmission Facilities - DIT.....	
Existing assets.....	270,584
New Investments.....	20,060
	<u>290,644</u>
LT Chavantes Botucatu.....	12,047
Adjustment portion.....	60,605
	<u><u>1,478,456</u></u>

24. COST OF SERVICES AND GENERAL AND ADMINISTRATIVE EXPENSES

	<u>Year ended 12/31/2007</u>		<u>Period ended 12/31/2006</u>	
	<u>Parent company</u>	<u>Consolidated</u>	<u>8-month period Parent company</u>	<u>6-month period Consolidated</u>
Personnel	982	115,560	-	654,990
Services	2,827	73,668	-	45,950
Depreciation	5	172,664	-	84,940
Amortization of expenses - bonds	2,871	2,871	-	-
Other	257	1,377	9,011	44,858
Total	<u>6,942</u>	<u>366,140</u>	<u>9,011</u>	<u>830,738</u>



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25. FINANCIAL RESULT

	<u>Year ended 12/31/2007</u>		<u>Period ended 12/31/2006</u>	
	<u>Parent company</u>	<u>Consolidated</u>	<u>8-month period Parent company</u>	<u>6-month period Consolidated</u>
INCOME				
Income from financial investments	4,811	27,658	265	34,678
Interest on assets	5,101	24,304	24	2,347
Amortization of negative goodwill	-	16,985	-	8,492
Monetary and exchange rates variations	307,212	365,895	28,518	66,569
Interest on own capital	89,435	-	-	-
Other	17	1,945	-	9,981
Total	<u>406,576</u>	<u>436,787</u>	<u>28,807</u>	<u>122,067</u>
EXPENSES				
Debts charges	(105,143)	(126,118)	(29,625)	(33,496)
Charges on RGR	-	(2,978)	-	(372)
CPMF	(7,872)	(16,731)	(393)	(3,328)
IRRF on remittance of interest	(11,213)	(11,213)	-	-
PIS on interest on own capital	(1,476)	(1,476)	-	-
COFINS on interest on own capital	(6,797)	(6,797)	-	-
Amortization of goodwill	(91,088)	(91,088)	(26,190)	(26,190)
Monetary and exchange rates variations	(137,302)	(137,302)	(8,692)	(9,856)
Interest on own capital	-	(149,302)	-	-
Other	(829)	(829)	(2,149)	(2,719)
Subtotal	<u>(361,720)</u>	<u>(543,834)</u>	<u>(67,049)</u>	<u>(75,961)</u>
Financial instruments				
Result with swap transactions - hedge	<u>(311,212)</u>	<u>(311,212)</u>	-	-
Total	<u>(672,932)</u>	<u>(855,046)</u>	<u>(67,049)</u>	<u>(75,961)</u>
FINANCIAL RESULT	<u>(266,356)</u>	<u>(418,259)</u>	<u>(38,242)</u>	<u>46,106</u>



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26. INCOME TAX AND SOCIAL CONTRIBUTION ON NET INCOME

CTEEP records monthly provisions for income tax and social contribution on the accrual basis, calculated based on monthly trial balances (for tax suspension and reduction purposes).

	Consolidated	
	Year ended 12/31/2007	Period ended 12/31/2006 6 months
Profit (loss) before income tax and social contribution	609,225	(156,105)
Rates - %	34%	34%
Income tax and social contribution expense	(207,136)	53,075
Income tax and social contribution on permanent additions	(58,641)	(85,354)
Income tax and social contribution effective expense	(265,777)	(32,279)
Income tax and social contribution		
Current	(90,380)	(133,608)
Deferred	(175,397)	165,887
	(265,777)	(32,279)

27. SALE OF ASSETS AND RIGHTS - CONSOLIDATED

Technical Center for Equipment Maintenance - CETEMEQ

On April 13, 1998, a Private Agreement for Assignment and Transfer of Rights and Obligations was signed by and between EPTE - Empresa Paulista de Transmissão de Energia Elétrica S.A., merged into CTEEP on November 10, 2001, and Eletropaulo Metropolitana Eletricidade de São Paulo S.A. ("Eletropaulo") relating to the real property located at Rua Lavapés, 463, Cambuci, São Paulo, whose market price is R\$ 70,496, payable in 21 equal and successive monthly installments, with maturity on the first business day of each month, beginning May 1998. In view of the contestation by Eletropaulo of the aforementioned amount and the fact that the installments had not been received, EPTE filed collection lawsuits on February 11, 1999 and October 18, 2000, with the 1st and 36th Civil District Courts of the Central Jurisdiction of São Paulo, respectively.

In December 2000, the net book value of this asset, in the amount of R\$ 4,904, was written off from property, plant and equipment, and the related sale, deferred taxes on the gain resulting from the sale, allowance for doubtful accounts and tax credits were recorded.



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On February 27, 2007, through a Private Transaction Agreement entered into by and between Eletropaulo and CTEEP, the parties agreed to the following:

- a) The real property subject to the collection lawsuits was appraised at R\$ 125,265, and, accordingly, CTEEP recorded financial income due to monetary adjustment of R\$ 54,769;
- b) From the agreed-upon amount mentioned in the prior item, R\$ 35,562 was deducted as IPTU (Municipal Real Estate Tax) levied on real properties that, upon the partial spin-off of Eletropaulo, were transferred to EPTE, which was in turn merged into CTEEP. This amount was originally due by CTEEP to the São Paulo Municipal Government, and settled by Eletropaulo at the time it joined REFIS (Tax Debt Refinancing Program) of the Municipality of São Paulo, resulting in Eletropaulo's receivable from CTEEP;
- c) Accordingly, on March 6, 2007, Eletropaulo made a deposit in the amount of R\$ 89,703 in an account at Banco ABN AMRO REAL S.A., whose release to CTEEP was linked to the publication of the ratification decision by one of the courts involved in this settlement, which occurred on March 19, 2007;
- d) On March 27, 2007, through letter CT/P/918/2007, CTEEP requested from Banco ABN AMRO REAL S.A. the transfer of the total amount to its investment account, thus terminating the disposal process of CETEMEQ; and
- e) Eletropaulo assumes the commitment to provide for the regularization of the ownership status of the real properties transferred by it to EPTE/CTEEP, subject of the agreement in question, as well as any others that may be in its possession but belonging to CTEEP, as a result of the Memorandum for Partial Spin-off of Eletropaulo, dated December 22, 1997.

28. FINANCIAL INSTRUMENTS

CTEEP's main source of revenues is the use of its electric power transmission system by other concessionaires and agents. Its annual revenue related to the basic network and other transmission facilities is defined by ANEEL, pursuant to prevailing legislation.

The Company entered into certain financial instrument transactions to meet its operating needs of reducing the exposure to exchange risks. These risks are managed through the establishment of strategies, implementation of control systems, and determination of exposure limits. No financial instrument transactions for speculative purposes are carried out.

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

Credit risk - CTEEP has agreements with the National Electric System Operator (ONS), concessionaires and other agents for regulating the provision of services related to the basic network for 215 users, with a bank guarantee clause. Likewise, CTEEP has agreements regulating the provision of services in other transmission facilities with 32 concessionaires and other agents, with a bank guarantee clause.



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Price risk - pursuant to the concession agreement, CTEEP's revenues are annually adjusted by ANEEL based on the variation of the General Market Price Index (IGP-M), and part of the revenues is subject to periodic review every four years (Note 23).

Interest rate risk - The Company has a bank credit note - overdraft account with ABN Amro Bank, whose funding limit is US\$25 million (US\$55 million up to July 2007), with revolving maturity every six months and interest calculated based on 100% of the Interbank Deposit Certificate (CDI) rate, plus 1.75% per year (Note 16). This credit remains at the Company's disposal and can be accessed at any time with the same conditions previously agreed. No financial instruments were contracted to swap the variable interest rate on this transaction for a fixed interest rate. Additionally, the subsidiary CTEEP has its financial agreements linked to the TJLP and CDI variation (Note 16).

Foreign Exchange Risk - The Company has transactions involving financial instruments to hedge against the effects of exchange variations on its liabilities (bonds) with net exposure in U.S. dollars. Non-cash hedge transactions are used to swap the foreign exchange variations on liabilities for the General Market Price Index (IGP-M) plus spread from 1.68% to 2.12% p.a. for the principal amount of the bond issuance transaction and also to hedge the interest of two half years, the first of which fell due in July 2007 and the other in January 2008. The loss on these transactions, in the amount of R\$311,211, was fully recognized in the statement of operations under "Gains (losses) on hedge transactions", and recorded as an increase in the corresponding loans and financing (bond). The details of the transactions are as follows:

- Hedge of principal - Contracts with ABN AMRO Bank and JP Morgan related to the hedge of the two tranches. The first tranche, in the amount of US\$200 million and with a five-year term, was subject to an exchange rate of R\$2,1170 and commitment to pay IGP-M plus 2.12% per annum. The second tranche, in the amount of US\$ 354 million and with a ten-year term, was also subject to an exchange rate of R\$2,1170, and commitment to pay IGP-M plus 1.68% per annum.
- Hedge of interest - Non-deliverable currency forward contract with JP Morgan related to hedge of the interest of two half years, the first of which fell due in July 2007, and was paid on July 25, 2007, and the other will fall due in January 2008, corresponding to the two tranches. This hedge was contracted at an exchange rate of R\$2.1190 for payment in July 2007 and an exchange rate of R\$2.1765 for payment in January 2008.

The gains (losses) on these transactions are described in Note 16.

Fair value - At December 31, 2007, the fair values of financial investments approximate the carrying amounts recorded in the financial statements due to their short-term nature. The fair values of loans and financing approximate their carrying amounts recorded in the financial statements, since these financial instruments have variable interest rates.



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The carrying amounts and fair values of the transactions involving financial instruments are as follows:

	12/31/2007	
	<u>Carrying amount (*)</u>	<u>Fair value</u>
Loans and financing (bond issuance)		
Swap transaction (Note 16 (a)) - principal	1,268,849	1,169,235
Forward transaction (Note 16 (a)) - interest	<u>43,833</u>	<u>43,820</u>
Total	<u>1,312,682</u>	<u>1,213,055</u>

(*) The Company's financial statements were prepared in accordance with Brazilian accounting practices, in particular the financial instruments, which were recorded on the accrual basis, based on the related contractual clauses effective at the balance sheet date.

29. INSURANCE COVERAGE

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

<u>Type</u>	<u>Coverage</u>	<u>Amount insured - R\$</u>	<u>Premium - R\$</u>
Assets	12/02/07 to 12/02/08	2,183,349	3,766
Civil liability	10/17/07 to 10/17/08	15,000	294
National transports	09/30/07 to 09/30/08	350,000	32
Collective personal accident	05/01/07 to 05/01/08	46,225	18
Vehicles	03/02/07 to 03/02/08	Market value	29
		<u>2,594,574</u>	<u>4,139</u>

(a) Assets

Coverage against fire and electrical damage for equipment installed in the transmission sub stations, buildings and their related contents, warehouses and facilities.

(b) Civil liability

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

(c) National transports

Coverage of damages caused to CTEEP assets and equipment, transported within Brazil.



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(d) Collective personal accidents

Coverage against personal accidents to executives, interns and trainees.

(e) Vehicles

Coverage against collision, fire, theft and third parties.

In addition, both the Company and CTEEP have a US\$ 10 million coverage for their directors (D&O - Directors and Officers Insurance), whose policy belongs to the Company.

30. LAWSUIT FILED BY ELETROBRÁS AGAINST ELETROPAULO AND EPTE

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

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

Therefore, under the partial spin-off protocol of Eletropaulo, EPTE would be liable for known and ascertained debts in the exact adjusted amount available in the escrow deposit made in 1988, and Eletropaulo would be liable for the contingent liabilities referring to the difference between the amount demanded in court by ELETROBRÁS and the adjusted amount of the escrow deposit. In October 2001, ELETROBRÁS executed the sentence referring to the financing agreement, charging R\$429,000 to Eletropaulo and R\$49,000 to EPTE, understanding that EPTE would pay its part with the adjusted amounts of the escrow deposit. EPTE was merged into CTEEP on November 10, 2001, succeeding it in its obligations.

On September 26, 2003, a decision of the Court of Justice of the State of Rio de Janeiro was published, excluding Eletropaulo from the execution of the aforementioned sentence. Due to these facts, ELETROBRÁS



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filed, on December 16, 2003, a Special Appeal in the Superior Court of Justice and an Extraordinary Appeal in the Federal Supreme Court to maintain the collection regarding Eletropaulo. Appeals similar to those of ELETROBRÁS were filed by CTEEP.

On June 29, 2006, the Superior Court of Justice accepted the special appeal filed by CTEEP, with respect to reversing the decision of the Court of Justice of the State of Rio de Janeiro that excluded Eletropaulo from the execution action filed by ELETROBRÁS. As a result, the execution action filed by ELETROBRÁS against Eletropaulo and EPTE will proceed, as per the lower court decision, ensuring CTEEP's right of defense as EPTE's successor.

Due to said acceptance by the Superior Court of Justice, on December 4, 2006 Eletropaulo filed a special appeal, which was rejected, according to the decision published on April 16, 2007. In light of the Superior Court of Justice's decision, understanding that the preexecution exception offered by Eletropaulo is not suitable, unless the execution of the decision is amended or suspended, which is not probable, the Company believes that ELETROBRÁS will insist on execution of the decision, as described above.

With respect to that debt and in view of the formal documents of the partial spin-off of Eletropaulo, CTEEP, according to the understanding of its Management and legal counsel, is only liable for the payment equivalent to the adjusted amount of the escrow deposits made in 1988 for this purpose and which is currently part of its assets, and intends to proceed in the defense of such right. On the other hand, CTEEP has not recognized a reserve for the remaining contingency, which it understands as being the liability of Eletropaulo, from which the debt is being charged by ELETROBRÁS. The total contingency is currently estimated at approximately R\$949,696.

31. SUPPLEMENTARY PENSION PLAN REGULATED BY LAW No. 4819/58

(a) Significant event

(i) July 19, 2005

"In compliance with CVM Instruction No. 358/2002, CTEEP - Companhia de Transmissão de Energia Elétrica Paulista clarifies aspects related to the supplementary pension plan regulated by State Law No. 4,819/58. This plan applies to employees hired through May 13, 1974, as mentioned in Note 22.1 to the financial statements of the Company as of December 31, 2004. The necessary funds to cover the charges of the plan are the responsibility of the applicable agencies of the Government of the State of São Paulo; this was implemented according to an agreement made on December 10, 1999 between the São Paulo State Finance Department and the Company, effective until December 31, 2003. Such procedure was regularly performed until December 2003 by Fundação CESP, with funds from the State Finance Department, transferred by CTEEP. In January 2004, the Finance Department began to directly process those payments, without the participation of CTEEP and Fundação CESP.

The decision of the 49th Labor Court of São Paulo was communicated to CTEEP on July 11, 2005 (lawsuit



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No. 1,339/2005-1), authorizing Fundação CESP to resume processing the payment of benefits established by State Law No. 4,819/58, according to the respective regulation, in the same manner that had been made until December 2003, with funds transferred by CTEEP. On July 13, 2005, the 49th Labor Court of São Paulo gave 60 days for the fulfillment of this decision. There is also on the website of the Regional Labor Court of São Paulo a summary of a similar decision (lawsuit SDC No. 20058200400002000) of June 30, 2005, determining that Fundação CESP, using the funds transferred by CTEEP, may process again the beneficiaries' retirement and pension payments established by State Law No. 4,819/58. Such decision has not been published yet nor has the Company been noticed on this matter.

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

(ii) January 27, 2006

"CTEEP - Companhia de Transmissão de Energia Elétrica Paulista, in accordance with CVM Instruction No. 358/02, announces a change in procedure by the State Finance Department, due to a recent understanding of the State Attorney General regarding the transfer of funds to CTEEP for compliance with the decision of the 49th Labor Court of São Paulo, which authorized Fundação CESP to once again process the pension plan benefit payments established by State Law No. 4,819/58 using funds received from the State of São Paulo and transferred by CTEEP. This matter has been previously addressed in Note 21 of the quarterly information of CTEEP as of September 30, 2005.

The State Finance Department transferred to CTEEP, on January 27, 2006, an amount lower than necessary to comply with the decision of the 49th Labor Court. The effective expenditure of CTEEP this month for purposes of said court decision was R\$ 19,725, transferred to Fundação CESP, having received R\$ 14,976 from the State Finance Department for this purpose. The State Finance Department informed that this month it disallowed certain expenses due to the recent understanding by the State Attorney General regarding the State's responsibility in this case. The decision of the 49th Labor Court currently applies to 5,528 beneficiaries. The State Finance Department continues directly paying 794 benefits established by State Law No. 4,819/58.

CTEEP is still endeavoring to change the decision of the 49th Labor Court so as to return the responsibility for the pension plan benefit payments established by State Law No. 4,819/58 to the State Finance Department. CTEEP confirms its legal department's understanding that expenses derived from State Law No. 4,819/58 and respective regulations are the full responsibility of the State Finance Department, and is analyzing the applicable actions to protect the Company's interests."



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(iii) February 24, 2006

"CTEEP - Companhia de Transmissão de Energia Elétrica Paulista, in accordance with CVM Instruction No. 358/2002, announces, supplementing the information included in the Significant Event Notice of January 27, 2006, that the State Finance Department transferred to CTEEP in February 2006 the amount of R\$ 12,802 to comply with the decision of the 49th Labor Court of São Paulo, which ruled that Fundação CESP must process the pension plan benefit payments established by State Law No. 4,819/58 using the funds received from the State of São Paulo and transferred by CTEEP. In February, CTEEP's total expenditure to comply with said court decision was R\$ 19,652.

CTEEP continues its efforts to change the decision of the 49th Labor Court so as to return the responsibility for the pension plan benefit payments established by State Law No. 4,819/58 to the State Finance Department, and to adopt other actions to protect the Company's interests."

(b) Decision of the 49th Labor Court of São Paulo

On May 2, 2006, the 49th Labor Court of São Paulo rendered a decision on the above-mentioned lawsuit, considering valid, in part, the claim at issue and maintaining the effects of the early relief previously granted (Significant Event Notice of July 19, 2005), in addition to ordering the payment of amounts falling due. On May 8, 2006, CTEEP filed appeals requesting clarification of the decision and amendment of certain aspects thereof.

The decision of the Superior Court of Justice issued on June 19, 2006, declaring that the State Court System has authority to judge the labor claims filed with the Labor Court directly seeking the amounts established by State Law No. 4,819/58, annulled the decision of the 49th Labor Court of São Paulo and ordered that the case be submitted to an administrative court of the State Finance Department. As a result of the decision of the Superior Court of Justice, the amounts established by State Law No. 4,819/58 will once again be paid directly by the São Paulo State Finance Department and no longer by Fundação CESP through transfer from CTEEP as occurred in accordance with the decision of the 49th Labor Court of São Paulo, now annulled.

On June 28, 2006, the Superior Court of Justice granted an injunction to suspend the effects of the decision rendered by the same court on the conflict of jurisdiction on June 19, 2006. According to the notification received by CTEEP on June 30, 2006, the decision of the 49th Labor Court of São Paulo, which ordered the payment of pension plan benefits as per State Law No. 4,819/58 by Fundação CESP, using cash resources from the State of São Paulo transferred by CTEEP, shall prevail.

(c) Current situation

As a result of the aforementioned facts and by force of said decision of the 49th Labor Court of São Paulo, as well as the decision of the Superior Court of Justice, CTEEP passed on to Fundação CESP, in the period of September 2005 to December 2007, the amount of R\$ 642,915 for payment of benefits under State Law No.



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4,819/58, having received from the State Finance Department the amount of R\$ 451,240 for that purpose. The difference between the amount passed on to Fundação CESP and the amount reimbursed by the State Finance Department, of R\$ 191,675, is being claimed by the Company at the administrative level (Note 7 (ii)).

On October 20, 2005, CTEEP received from the State Attorney General a copy of that agency's statement, dated October 6, 2005, regarding the consultation by the State Finance Department on the scope of said court decisions. In this statement, the State Attorney General concludes that the decision of the 49th Labor Court of São Paulo applies subjectively to the State Finance Department, which is the defendant in the claim. Accordingly, the State Attorney General concluded that "in the current scenario, the State Finance Department is liable for the full reimbursement of the amounts disbursed by CTEEP for compliance with the court decision regarding labor claim No. 1145/2005-6, in progress at the 49th Labor Court of São Paulo". On the other hand, in the same statement, the State Attorney General concludes that the decision issued by the Regional Labor Court, whose effects are suspended by the injunction obtained as a result of the Claim for Correction, does not fully apply to the State Finance Department, which was removed from the lawsuit at the plaintiff Union's request. In this case, the State Finance Department should, according to the State Attorney General, reimburse CTEEP, observing the strict limits of State Law No. 4,819/58, excluding possible benefits, established by the related regulation, that surpass or that are in conflict with the specific legislation.

In view of the Significant Event Notices above, the State Attorney General, by Official Letter No. 01, dated February 10, 2006, and respective Technical Note No. 01/06, changed its prior understanding, which was in effect through December 2005 for purposes of transfer of funds to CTEEP to comply with the decision of the 49th Labor Court of São Paulo. According to the current understanding of the State Attorney General, the State Finance Department must disallow certain transfers to CTEEP for purposes of transfer to Fundação CESP to comply with said court decision.

According to the Significant Event Notices mentioned above, CTEEP continues its efforts to change the decision of the 49th Labor Court of São Paulo so as to return the responsibility for the pension plan benefit payment established by State Law No. 4,819/58 to the State Finance Department. CTEEP also confirms its legal department's understanding that the expenses arising from State Law No. 4,819/58 and respective regulation are the full responsibility of the State Finance Department and is analyzing additional actions to protect the Company's interests. The Company records these disallowances as "Accounts receivable - São Paulo State Finance Department" (Note7).

32. CORPORATE RESTRUCTURING

During 2007, the Company and CTEEP issued the following significant notices:

(a) On May 14

CTEEP - Companhia de Transmissão de Energia Elétrica Paulista, in compliance with the provisions of CVM Instruction 358/02 and with the provision of paragraph 4 of article 157, of Law 6,404/76, communicates to its shareholders and investors in general that, on 04/23/2007, entered into an Association Agreement the parties



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of which are, Interconexión Eléctrica S.A. E.S.P. (ISA), Interligação Elétrica de Minas Gerais S.A. (IEMG) and CTEEP, and, on the other hand Control y Montajes Industriales S.A. (CYMI), Cymi Holding S.A. (CHSA) ("Association Agreement"). The Association Agreement objective is: (i) the transfer of IEMG control to CTEEP and to CHSA; and (ii) the participation of CTEEP and CYMI, as controlling shareholders of Albufera Projetos e Serviços Ltda. ("APS"), company that will carry out the construction of the transmission line object of the mentioned Concession Agreement. The validity of the Association Agreement is conditioned to the approval of the National Electric Energy Agency - ANEEL and to the conclusion of the negotiations related to the IEMG and APS shareholders agreement. IEMG, company controlled by ISA, is awardee of the Concession Contract for the exploitation of public service of transmission related to the Transmission Line Neves 1 - Mesquita, in 500 kV, located in the State of Minas Gerais, according to Auction 005/2006, promoted by ANEEL. On the other hand, ISA is the present controlling shareholder of CTEEP, through ISA Capital do Brasil S.A.

(b) On July 23

The managements of ISA Capital do Brasil S.A. ("ISA Brasil"), ISA Participações do Brasil Ltda. ("ISA Participações") and CTEEP - Companhia de Transmissão de Energia Elétrica Paulista, in compliance with the provisions of CVM Instruction No. 358, of January 3, 2002, as amended by CVM Instruction No. 449, of March 15, 2007, publicly inform that they will submit to the appreciation, deliberation and approval, as applicable, of the National Electric Energy Agency ("ANEEL") and, subsequently, of their stockholders and quotaholders the following corporate restructuring process:

- (i) ISA Brasil is the current controlling stockholder of CTEEP and the holder of the goodwill paid in the process for the acquisition of the share control in the mentioned company ("Goodwill"). ISA Brasil is also the controlling stockholder of ISA Participações.
- (ii) The restructuring process comprises the contribution, by ISA Brasil, of the shares held in the capital of CTEEP to the capital of ISA Participações. Subsequently, ISA Participações will be merged into CTEEP and, as a result of this transaction, the Goodwill will be transferred to CTEEP.
- (iii) There will be no transfer of the share control in CTEEP as a result of the intended restructuring.
- (iv) The managements of the companies involved understand that the current corporate restructuring will allow for better capitalization and cash flow conditions in CTEEP, as a result of the tax saving generated by the amortization of the Goodwill.
- (v) The transaction will be implemented in a manner not to cause the transfer of any debts or liabilities and to avoid any adverse impacts on future flows of dividends to the stockholders of CTEEP. The tax benefit portion will be capitalized in favor of ISA BRASIL, under the terms of Article 7 of CVM Instruction No. 319, of December 3, 1999.

The proposed operation was approved at an ANEEL meeting held on December 18, 2007 and its conclusion



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is expected for the first quarter of 2008.



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All amounts in thousands of reais unless otherwise indicated

33. SUBSEQUENT EVENTS

At the Extraordinary General Meeting held on January 15, 2008, CTEEP Board of Directors decided on the distribution of dividends to the shareholders in the amount of R\$ 170,000, corresponding to R\$ 1.138762 per share, the payment of which will be on February 11, 2008, according to announcement to the shareholders disclosed by CTEEP on January 29, 2008. Of this total the Company was entitled to the amount of R\$63,685.

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(A free translation of the original in Portuguese)



BOARD OF DIRECTORS

FERNANDO AUGUSTO ROJAS PINTO
President

CRISTIAN RESTREPO HERNANDEZ
Finance and Investor Relations Officer

SUPERVISORY BOARD

LUÍS FERNANDO ALARCÓN MANTILLA
President

FERNANDO AUGUSTO ROJAS PINTO
Vice-President

GUIDO ALBERTO NULE AMIN

CARLOS ALBERTO RODRÍGUEZ LOPEZ

ACCOUNTANT

MANOEL CARLOS VISENTIN CORONADO
CRC - 1SP139250/O-1

ORGATEC - Organização Técnica Contábil S/S Ltda.
CRC - 2SP007027/O-7

Report of Independent Auditors

To the Board of Directors and Stockholders
ISA Capital do Brasil S.A.

- 1 We have audited the accompanying balance sheet of ISA Capital do Brasil S.A. and the consolidated balance sheet of ISA Capital do Brasil S.A. and its subsidiary as of December 31, 2007, and the related statements of operations, of changes in stockholders' equity and of changes in financial position of ISA Capital do Brasil S.A., as well as the consolidated statements of operations and of changes in financial position, for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements.
- 2 We conducted our audit in accordance with approved Brazilian auditing standards, which require that we perform the audit to obtain reasonable assurance about whether the financial statements are fairly presented in all material respects. Accordingly, our work included, among other procedures: (a) planning our audit taking into consideration the significance of balances, the volume of transactions and the accounting and internal control systems of the Company and its subsidiary, (b) examining, on a test basis, evidence and records supporting the amounts and disclosures in the financial statements, and (c) assessing the accounting practices used and significant estimates made by management, as well as evaluating the overall financial statement presentation.
- 3 In our opinion, the financial statements audited by us present fairly, in all material respects, the financial position of ISA Capital do Brasil S.A. and of ISA Capital do Brasil S.A. and its subsidiary at December 31, 2007, and the results of operations, the changes in stockholders' equity and the changes in financial position of ISA Capital do Brasil S.A., as well as the consolidated results of operations and changes in financial position for the year then ended, in accordance with accounting practices adopted in Brazil.
- 4 As described in Note 31 to the financial statements, pursuant to the decision of the 49th Labor Court of São Paulo, as from September 2005, Fundação CESP started to process the payroll of the participants in the supplementary pension plan regulated by Law No. 4819/58, through funds transferred by the subsidiary Companhia de Transmissão de Energia Elétrica

Paulista - CTEEP, as carried out up to December 2003. In January 2006, the Attorneys' General Office of the State of São Paulo understood that the responsibility of the State Government is restricted to the limits set forth by the State Constitution in respect of the payment of pension benefits. Since then, the State Government started to disallow a portion of the resources transferred to CTEEP. Management of the subsidiary CTEEP, supported by its legal advisors, understands that the payment of the benefits related to the supplementary pension plan is the full responsibility of the State Government. Accordingly, the subsidiary Companhia de Transmissão de Energia Elétrica Paulista - CTEEP does not record any obligations relating to this plan in its financial statements.

- 5 The audit of the financial statements (individual and consolidated) for the year ended December 31, 2006 was conducted by other independent auditors, who issued an unqualified opinion thereon dated February 7, 2007, with emphasis of matter paragraph, related to the decision of the 49th. Labor Court on the processing of the payroll of the pension plan regulated by Law 4819/58 and the preliminary readjustment of the Allowed Annual Revenue (RAP) for the tariff cycles from July 2005 to June 2006 and from July 2006 to June 2007 and because the financial statements for the year ended December 31, 2006 have not been presented in comparison with those of the prior year since the Company was formed on April 28, 2006.

São Paulo, January 30, 2008

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5

Sérgio Eduardo Zamora
Contador CRC 1SP168728/O-4