

## **MANAGEMENT REPORT FOR THE FISCAL YEAR OF 2006**

Dear Shareholders,

In compliance with legal and corporate provisions, the Management of ISA Capital do Brasil S.A. hereby submits to your examination the Management Report and respective financial statements, together with the Independent Auditors' Opinions, for the fiscal year ended on December 31, 2006.

2006 was marked by important accomplishments. On June 28, 2006 the Government of the State of São Paulo held a public auction in the São Paulo Stock Exchange (BOVESPA) for the sale of the Company's control, with the winning bid made by the company Interconexión Eléctrica S.A. E.S.P., which by means of this company took over control of CTEEP - Companhia de Transmissão de Energia Elétrica Paulista, on that occasion acquiring 50.1% of the common shares issued by the Company. As a result of this auction and in accordance with applicable legislation, a public offering took place in January 2007 for the acquisition of common shares, which led this controlling company to currently hold a sum equal to 89.40% of the total common shares, and 37.46% of CTEEP's total equity capital.

This was the largest transaction ever undertaken by the ISA Group in its expansion program, which ratifies the Group's leadership in Latin America's electricity transmission sector.

Through this Company, Interconexión Eléctrica S.A. E.S.P. confirms its commitment of assuring, promoting, and improving the quality of the electricity transmission services provided by the CTEEP subsidiary, and also intends to improve its financial and economic performance by means of the application of better practices and world management models, to the benefit of all of its shareholders and the community.

Luis Fernando Alarcón Mantilla  
Chairman of the Board of Directors

## 1. COMPANY OVERVIEW

ISA Capital do Brasil S.A. (the "Company") is a domestic holding company organized as a limited liability company on April 28, 2006, and converted into a corporation on September 19, 2006. The Company's corporate purpose includes holding interests in other companies' shareholders' equity or in other ventures, as partner or shareholder, joint-venture partner, member of a consortium, or any other form of corporate cooperation.

The Company is controlled by Interconexión Eléctrica S.A. E.S.P. ("ISA"), a Colombian mixed capital company controlled by the Government of Colombia, and with the key activity of operating and maintaining an electricity transmission network, in addition to undertaking activities related to electricity service provision.

On June 28, 2006 a public auction was held in the São Paulo Stock Exchange (BOVESPA) for the sale of the control of CTEEP – Companhia de Transmissão de Energia Elétrica Paulista by the Government of the State of São Paulo, until that time CTEEP's controlling shareholder, pursuant to Notice No. SF/001/2006. The Company's controlling shareholder submitted the winning bid of R\$ 38.09 per 1000 common shares issued by CTEEP.

On July 26, 2006 the auction's financial settlement took place, with the acquisition by the Company of 31,341,890,064 common shares issued by CTEEP, which represented 50.1% of the common shares and 21.0% of CTEEP's total equity capital, for R\$ 1.194 billion. In addition to this acquisition, as provided for in the Notice, on that same date the Company paid the Government of the State of São Paulo the sum of R\$ 19.357 thousand as an overprice for the shares acquired in the auction, in order to offset the discount granted in the shares offered to CTEEP employees. The acquisition price is subject to an adjustment as provided for in the purchase and sale agreement of the CTEEP shares, which will be calculated based on the amounts actually paid by CTEEP in connection with the pension benefit supplementation for former employees, based on State Law no. 4819/58. Pursuant to Notice SF/001/2006, the Company agreed to acquire any CTEEP common shares remaining from the offering held by the Government of the State of São Paulo in favor of CTEEP employees. Hence, on September 12, 2006 the Company acquired an additional 10,021,687 CTEEP common shares representing 0.16% of shares of this kind, for R\$ 229 thousand.

On September 29, 2006 the Company applied to the Brazilian Securities Commission – CVM to be registered as a public company, with a view to a possible debenture public offering. The Company's public company registration was granted on January 4, 2007. In the light of the note offering in the international market, explained further on, the Company no longer intends to issue debentures in the domestic market, but should continue to meet its obligations before CVM in accordance with local legislation.

1.1. We show below progression of the Company's equity capital, as well as its share ownership.

1.1.1. Progression of equity capital in thousands of Reais

Date	Subscribed Capital	Paid in Capital
28/04/2006	500	-
28/06/2006	-	50
18/07/2006	-	450
18/07/2006	505.701	505.701
10/01/2007	317.864	317.864
Total	824.065	824.065

1.1.2. Company Share ownership after the 01/10/2007 Special Shareholders' Meeting

Shareholders	Common Shares	%	Total	%
Interconexión Eléctrica S.A E.S.P.	824.065.197	99,99	824.065.197	99,99
Luis Fernando Alarcón Mantilla	1	0,0	1	0,0
Fernando Augusto Rojas Pinto	1	0,0	1	0,0
Guido Alberto Nule Amin	1	0,0	1	0,0
Total	824.065.200	100,0	824.065.200	100,0

## 2. PUBLIC SHARE ACQUISITION OFFERING - OPA

Pursuant to article 254-A in the Brazilian Corporate Law and also as determined by Notice no. SF/001/2006, on August 24, 2006 the Company started the registration procedures at Comissão de Valores Mobiliários – CVM for the public share acquisition offering (“OPA”), of CTEEP's outstanding shares in the market, for a sum equal to 80% of the amount paid for CTEEP's controlling shares. The OPA registration was approved

by CVM on November 27, 2006 and the respective notice was published on December 4, 2006.

On January 9, 2007, by means of an auction held in the São Paulo Stock Exchange – BOVESPA, the Company acquired 24,572,554,070 common shares issued by CTEEP and representing 39.28% of the total sum of this kind of share, at a price of R\$ 30.74 per 1000 shares, totaling R\$ 755,360 thousand. As a result of the acquisition, the Company became the holder of a total of 55.924.465.821 common shares issued by CTEEP, representing 89.40% of voting shares and 37.46% of total equity capital.

### **3. FUNDING THE ACQUISITION OF CTEEP SHARES**

The acquisition of the CTEEP shares was funded through a combination of debt and the Company's own funds, in a number of stages.

On January 29, 2007 the Company concluded a successful transaction in the international capital markets, through a bond issue totaling R\$ 554 million. This issue, under the agents J.P. Morgan and ABN Amro, was divided in two series of notes (senior notes) one of which totaling US\$ 200.0 million and with a 5-year term, at 7.875% per annum and with a Call option in 2010 and 2011, maturing in 2012, and the other totaling US\$ 354.0 million and with a 10-year term, at 8.800% per annum, maturing on 2017 (the "Notes"). 60% of the total issue was distributed in the United States, 36% in Europe, 2% in Latin America, and 2% in Asia. These notes are listed in the Luxemburg Stock Exchange and may be traded in NASDAQ's Portal Market. This issue's success was based on investor confidence on the transaction's financial structure, support by the ISA Group to its investments in Brazil, the positive projections for CTEEP - Companhia de Transmissão de Energia Elétrica Paulista in the Brazilian energy market, and also had the support of international level credit risk ratings by Standard & Poor's (BB – Positive outlook), and by Fitch Ratings (BB – Stable outlook). These ratings are similar to those for the Federative Republic of Brazil and reflect the low risk for the electricity transmission business, as well as the outlook for expansion in the activity.

The funds resulting from the offering are being used to pay off loans entered into by the Company with J.P. Morgan and ABN Amro, which should be fully paid by April 10, 2007.

The loan agreements with J.P. Morgan and ABN Amro and the Notes issued by the Company are secured by first and second degree pledges, respectively, on CTEEP shares owned by the Company. After payment of the loan agreements, the Note holders will have a first degree pledge on the CTEEP shares owned by the Company. After payment of the first series of Notes issued by the Company and maturing in 2012, part of the CTEEP shares given in guarantee may be released from the pledge.

### **4. COMMITMENTS WITH CREDITORS**

According to market practice, the Company took on a number of commitments and obligations with the loaning banks and the Note purchasers, which restrict the availability and likelihood of pledging Company assets in other transactions. In general, among the obligations entered into by the Company, the latter has agreed to: (i) not enter into new debt; (ii) not create or allow the creation of any sort of lien on its assets; (iii) not dispose of its assets in any direct or indirect manner; (iv) not create or acquire new subsidiaries; (v) not invest in its activities, further to those investments covered by Notice SF/001/2006, in the acquisition proposal for the CTEEP controlling shares, and in the CTEEP share purchase and sale agreement; (vi) not merge into another company; (vii) not sell its assets, in whole or in part; (viii) not enter into business or activities that are not expressly permitted; (ix) not propose or pay out dividends, or pay out any funds in certain situations; and (x) not acquire shares or securities which would entitle to subscribe shares issued by itself or by its subsidiaries, in certain circumstances.

In addition to the above-mentioned obligations, the loan agreements and documentation in connection with the Note issue also contain a number of clauses in connection with CTEEP, providing that if for any reason CTEEP ceases to comply with any conditions specified in the mentioned documentation, the Company's creditors may declare the Company to be in default and demand acceleration of the Company's indebtedness. Among the obligations entered into by the Company in connection with CTEEP, there are limits and restrictions on: (i) indebtedness; (ii) creating encumbrances and selling assets; (iii) transactions with related parties; (iv) sale and lease back transactions; (v) payments and transactions involving subsidiaries; and (vi) corporate restructuring.

## **5. COMPANY AND ISA GROUP COMMITMENTS WITH THE BRAZILIAN ELECTRICITY SECTOR AND ELECTRICITY TRANSMISSION SERVICES**

During the acquisition procedures for CTEEP's control, the Company took on a number of commitments and obligations under Notice SF/001/2006, the CTEEP share purchase and sale agreement dated July 26, 2006, and applicable legislation.

All the obligations provided for in Notice SF/001/2006 have already been fully complied with, among which we mention: (i) submission of the acquisition of CTEEP's equity control to Conselho Administrativo de Defesa Econômica – CADE, done on July 19, 2006 and approved with no reservations; (ii) the acquisition of the remainder of CTEEP shares offered to the Company's employees, which took place on September 12, 2006; (iii) the OPA offering, concluded on January 9, 2007; (iv) other measures in order to formalize taking over CTEEP's equity control by the Company, such as undersigning the purchase and sale agreement in connection with the CTEEP shares on July 26, 2006, changing CTEEP's by-laws on August 14, 2006, and finally entering into the amendments to the electricity transmission service concession agreements, concluded on January 29, 2007.

The CTEEP share purchase and sale agreement entered into on July 26, 2006 also created a number of obligations for the Company and its Parent, which will be complied with during CTEEP's management, with regard to compliance with previous agreements, corporate governance rules, preservation of CTEEP employee rights, and continuity in the quality electricity transmission of services, among others.

The Company's management believes that it is strictly complying with all the obligations taken on in the course of the CTEEP control acquisition procedures, directly or jointly with CTEEP's management, as the case may be.

## **6. INDEPENDENT AUDITORS**

In accordance with the provisions of CVM Instruction no. 381/2003, the Company informs that Deloitte Touche Thomatsu Auditores Independentes, retained in September 2006 to provide auditing services to its financial statements, has since that time provided services related solely to external auditing.

Management.

*(Convenience Translation into English from the  
Original Previously Issued in Portuguese)*

# ***ISA Capital do Brasil S.A.***

*Financial Statements  
for the Period from April 28  
to December 31, 2006 and  
Independent Auditors' Report*

Deloitte Touche Tohmatsu Auditores Independentes

(Convenience Translation into English from the Original Previously Issued in Portuguese)

## INDEPENDENT AUDITORS' REPORT

To the Shareholders and Management of  
ISA Capital do Brasil S.A.  
São Paulo - SP

1. We have audited the accompanying individual (Company) and consolidated balance sheets of ISA Capital do Brasil S.A. and subsidiary as of December 31, 2006, and the related statements of operations, changes in shareholders' equity (Company), and changes in financial position for the period from April 28 (Company's inception date) to December 31, 2006, all expressed in Brazilian reais and prepared under the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements.
2. Our audit was conducted in accordance with auditing standards in Brazil and comprised: (a) planning of the work, taking into consideration the significance of the balances, volume of transactions, and the accounting and internal control systems of the Company and its subsidiary, (b) checking, on a test basis, the evidence and records that support the amounts and accounting information disclosed, and (c) evaluating the significant accounting practices and estimates adopted by management, as well as the presentation of the financial statements taken as a whole.
3. In our opinion, the financial statements referred to in paragraph 1 present fairly, in all material respects, the individual and consolidated financial positions of ISA Capital do Brasil S.A. and subsidiary as of December 31, 2006, and the results of their operations, the changes in shareholders' equity (Company), and the changes in their financial positions for the period from April 28 (Company's inception date) to December 31, 2006 in conformity with Brazilian accounting practices.
4. As described in note 33, in accordance with a decision rendered by the 49<sup>th</sup> Labor Court of São Paulo, in September 2005, Fundação CESP started to process pension plan benefit payments ruled by State Law No. 4,819/58, using funds passed through by the subsidiary CTEEP - Companhia de Transmissão de Energia Elétrica Paulista ("CTEEP"), in the manner adopted until December 2003. In January 2006, the São Paulo State Attorney General expressed the opinion that the State government's responsibility is restricted to the State constitutional limits determined for payment of pension plan benefits. Since then, the State government has disallowed part of the funds passed through to the subsidiary CTEEP. The management of the Company and its subsidiary, supported by their legal counsel, understands that the payment of benefits related to this pension plan is entirely the State

government's responsibility; consequently, no obligation related to this plan is recorded in the subsidiary's financial statements. In addition, as mentioned in note 3.2., the Company recorded, on the acquisition date of the subsidiary CTEEP, payables to the State Finance Department, in the amount of R\$186,018 thousand, related to its interest in the contingency estimated value, referred to as share purchase adjustment portion. The same value is reflected in the consolidated financial statements.

5. As described in note 24, ANEEL (National Electric Power Agency) granted provisional authorization for adjustments of the Allowed Annual Revenue (RAP) of the subsidiary CTEEP based on variations of the IGP-M (General Market Price Index) for the tariff cycles from July 2005 to June 2006, and from July 2006 to June 2007. The periodic review process remains in progress and is scheduled to be concluded in July 2007. Accordingly, any impacts should be applied retroactively to July 1, 2005.
6. As mentioned in paragraph 1, the Company was established on April 28, 2006 and, accordingly, there is no data regarding periods prior to the period disclosed in these financial statements.
7. The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

São Paulo, February 7, 2007

DELOITTE TOUCHE TOHMATSU  
Auditores Independentes

Iara Pasian  
Engagement Partner

(Convenience Translation into English from the Original Previously Issued in Portuguese)

ISA CAPITAL DO BRASIL S.A.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD FROM APRIL 28 TO DECEMBER 31, 2006

(Amounts in thousands of Brazilian reais - R\$, unless otherwise stated)

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1. OPERATIONS

ISA Capital do Brasil S.A. (the “Company”) is engaged in holding equity interests in other companies or projects, as a partner or shareholder, partner in joint ventures, member of a consortium or 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 São Paulo State Government, until then the majority shareholder of CTEEP - Companhia de Transmissão de Energia Elétrica Paulista (“CTEEP”), sold 31,341,890,064 common shares owned by it, corresponding to 50.12% of the 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 with head office in Colombia, controlled by that country’s federal government, which has 59% equity interest in that company’s total capital. In addition to 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 shareholder. Said transaction was approved by ANEEL (National Electric Power Agency) on July 25, 2006, pursuant to Authorization Resolution No. 642, published in the Official Gazette on July 26, 2006.

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

## 2. PRESENTATION OF FINANCIAL STATEMENTS

The financial statements have been prepared and are presented in conformity with Brazilian accounting practices and standards established by the Brazilian Securities Commission (CVM). These financial statements reflect the changes introduced by the following accounting standards: (a) Accounting Standards and Procedures 27 (NPC 27), “Presentation and Disclosures”, and (b) Accounting Standards and Procedures 22 (NPC 22), “Provisions, Liabilities, Contingent Liabilities and Contingent Assets”, both issued by the Brazilian Institute of Independent Auditors (IBRACON) on October 3, 2005, and approved by CVM Resolutions No. 488 and 489, respectively, on the same date. The main changes resulting from applying these resolutions are as follows:

- Presentation of the group “Noncurrent” in assets and liabilities.
- Reclassification of escrow deposits, previously classified in assets, to liabilities as a reduction of the account “Reserve for contingencies”, when applicable.

### 2.1. Specific Accounting Practices

#### a) Financial Charges and Monetary/Exchange Variations

In accordance with the provisions set forth in Accounting Instruction No. 6.3.10, item 4, of the accounting manual for electric power utilities, interest and other financial charges, as well as monetary and exchange variations, related to financing from third parties by subsidiary, used in property, plant and equipment in progress, are stated as cost of these assets.

#### b) ANEEL (National Electric Power Agency) Standards

The subsidiary CTEEP adopted the procedures set forth in SFF/ANEEL Circulars No. 2,396, of December 28, 2006, and No. 059, of January 11, 2007, and maintains the procedures of SFF/ANEEL Circular Letters No. 190, of February 1, 2005, No. 302, of February 25, 2005, and No. 2,218, of December 23, 2005 (note 10).

### 2.2. General Accounting Practices

#### a) Temporary cash investments

Stated at cost plus income earned through the balance sheet date (note 4).

#### b) Consumers

Include amounts billed for use of the basic network and other transmission systems by electric power concessionaires and companies related to these systems.

c) Allowance for doubtful accounts

Recorded for amounts whose collection is considered unlikely as of the balance sheet date.

d) Inventories

Inventories are stated at average acquisition cost, not in excess of replacement value. Materials used in property, plant and equipment are recorded in property, plant and equipment in progress.

e) Investments

Investments in subsidiary are accounted for under the equity method, based on the subsidiary's financial statements as of the same date as the parent company's financial statements. The goodwill upon the acquisition of the subsidiary is amortized over the contractual concession period.

f) Property, plant and equipment

Property, plant and equipment items are stated at acquisition and/or construction cost, monetarily adjusted through December 31, 1995, plus Supplementary Monetary Adjustment established by Law No. 8,200, of June 28, 1991, interest on capital through December 31, 1998, financial charges, monetary and exchange variations of loans and financing related to property, plant and equipment in progress, less accumulated depreciation and amortization.

Depreciation is calculated under the straight-line method based on annual rates ranging from 2% to 8.3% for assets related to the transmission system, 10% for furniture and fixtures, and 20% for vehicles, pursuant to ANEEL Resolution No. 002, of December 24, 1997, updated by ANEEL Resolution No. 44, of March 17, 1999. Effective 2007 depreciation will be calculated in conformity with ANEEL Regulatory Resolution No. 240, of December 5, 2006.

g) Assets and liabilities subject to monetary and exchange variations

Assets and liabilities subject to indexation are monetarily adjusted based on indices established by law or contract through the balance sheet date. Foreign currency-denominated assets and liabilities are monetarily adjusted at exchange rates prevailing at the balance sheet date and the effects arising from foreign currency and Brazilian currency variations are recorded in the statement of operations.

h) Deferred income

Represented by the negative goodwill on the acquisition of 49% of the common shares of EPTE - Empresa Paulista de Transmissão de Energia Elétrica S.A. by CESP - Companhia Energética de São Paulo ("CESP"), CTEEP's predecessor company. These shares were owned by the São Paulo State Finance Department and Companhia Paulista de Administração de Ativos - CPA, and were acquired on March 26, 1999 by CESP. Upon the partial spin-off of CESP, the shares and negative goodwill were transferred to CTEEP. EPTE was merged into CTEEP on November 10, 2001.

This negative goodwill is amortized monthly over EPTE's concession period, which expires in December 2012.

i) Reserve for contingencies

Calculated based on the risk of loss on ongoing lawsuits, as per reports of the Company's and CTEEP's attorneys.

j) Income and social contribution taxes

Calculated pursuant to applicable legislation, based on net income adjusted by addition of nondeductible expenses, deduction of nontaxable income and addition and/or deduction of temporary differences.

k) Postretirement benefits

CTEEP sponsors pension and health care plans for its employees, which are managed by Fundação CESP. Actuarial liabilities were calculated under the projected unit credit method, in accordance with CVM Resolution No. 371/00.

l) Use of estimates

The preparation of financial statements in conformity with Brazilian accounting practices requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The main estimates for the financial statements refer to the allowance for doubtful accounts, reserve for contingencies and the Voluntary Termination Program.

m) Interest on capital - subsidiary

Stated as allocation of income directly to the subsidiary's shareholders' equity. For tax purposes, interest on capital is recorded as financial expenses, reducing the income and social contribution tax basis.

n) Consolidated financial statements

The consolidated financial statements include the accounts of the Company and its subsidiary CTEEP, in which the Company holds a 21% interest.

The consolidated financial statements have been prepared in accordance with Brazilian accounting practices and standards established by CVM, which comprise:

- Elimination of intercompany balances and transactions.
- Elimination of the Company's investment against the subsidiary's shareholders' equity.

- Minority shareholders' interest in net equity and net income of the subsidiary is recorded in a separate caption in the balance sheet and statement of operations, respectively.
- The unamortized goodwill on the acquisition of the subsidiary is recorded as deferred charges in the consolidated balance sheet.

### 3. COMMITMENTS

By reason of the acquisition of CTEEP, the Company assumed the following main commitments:

#### 3.1. Request for Registration of Public Offering of Shares Due to Sale of Control

On August 24, 2006, the Company filed with the CVM a Request for Registration of Public Offering of Shares Due to Sale of Control to the minority shareholders of CTEEP's common shares. As provided for in the CTEEP privatization notice, the offering of shares will be of 80% of the price paid in an auction to the São Paulo State Government, plus the adjustments set forth by a specific agreement (note 3.2.).

#### 3.2. Share Purchase Adjustment Portion

Under 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. 4,819/58, currently challenged in courts, as described in note 33. The purchase price supplement is R\$186,018 as of December 31, 2006 and is accrued in the accompanying financial statements, under "Accounts payable - São Paulo State Finance Department", in noncurrent liabilities, with a corresponding entry to "Investments - goodwill on acquisition of subsidiary" (note 12).

### 4. TEMPORARY CASH INVESTMENTS

	<u>12/31/2006</u>	
	<u>Company</u>	<u>Consolidated</u>
Temporary cash investments:		
CDB (bank certificates of deposit) - floating - CDI (interbank deposit rate)	-	445,622
FIF Estatais (investment fund)	-	34,099
CDB floating CDI - restricted (a)	-	22,623
FIF Estatais (investment fund) - restricted (a)	-	902
Resale commitments (b)	<u>5,659</u>	<u>5,659</u>
Total	<u>5,659</u>	<u>508,905</u>

(a) CDB floating CDI - restricted

Refer to proceeds from the sale of fixed assets linked to the Company's assets. Pursuant to ANEEL Resolution No. 20, of February 3, 1999, all proceeds from the sale of such assets must be deposited in a restricted bank account opened for this purpose, recorded in a supplementary record, until definitive investment in the concession.

(b) Resale commitments

This balance is represented by investments in "DI" (Interbank Deposit) Funds and resale commitments backed by debentures with immediate liquidity.

5. ACCOUNTS RECEIVABLE - SÃO PAULO STATE FINANCE DEPARTMENT

	<u>12/31/2006</u>		
	<u>Consolidated</u>		
	<u>Current</u>	<u>Long term</u>	<u>Total</u>
Agreement for Acknowledgment and Consolidation of Debts	11,620	53,260	64,880
Pension benefit payments - Law No. 4,819/58	-	92,916	92,916
Sale of real property	2,416	11,070	13,486
Labor claims - Law No. 4,819/58	-	50,080	50,080
Family allowance - Law No. 4,819/58	-	2,218	2,218
Total	<u>14,036</u>	<u>209,544</u>	<u>223,580</u>

5.1. Agreement for Acknowledgment and Consolidation of Debts

On May 2, 2002, the Agreement for Acknowledgement and Consolidation of Debts was entered into with the State Finance Department, in which the State acknowledges a debt to CTEEP corresponding to the disbursements originally made by CESP, from 1990 to 1999, for payment of pension benefits under State Law No. 4,819/58. The acknowledged debt has been adjusted up to January 2002 according to the UFESP (State government index for inflation adjustments) variation and, starting in February 2002, according to the monthly variation of the IGP-M (general market price index), plus 6% per year. The reimbursement will be made in 120 monthly installments, beginning on August 1, 2002, and ending on July 1, 2012.

5.2. Pension benefit payments - Law No. 4,819/58

The amount of R\$92,916 refers to the remaining balance of pension benefit payments under State Law No. 4,819/58, of which R\$1,426 is supported by individual injunctions and relates to the period from January to August 2005, and R\$91,490 is supported by a decision of the 49<sup>th</sup> Labor Court of São Paulo and relates to the period from September 2005 to December 2006, which are paid by Fundação CESP using funds received from the State government and transferred to CTEEP (note 33.3.). This balance is not monetarily adjusted and is not subject to any kind of interest until it is approved by government for payment to CTEEP.

5.3. Sale of real property

On July 31, 2002, a Private Transaction Agreement, including a promise to sell a real property, acknowledgment of liabilities and payment commitment, was signed with the State Finance Department, in which the State acknowledges its debt to CTEEP in the amount of R\$12,243, which corresponds to the market value of the total area of the property occupied by the State and partially used for the construction of prisons units.

Therefore, the State agreed to reimburse the aforementioned amount to CTEEP in 120 monthly installments from August 1, 2002 to July 1, 2012, adjusted according to the monthly variation of the IGP-M, plus interest of 6% per year.

5.4. Labor claims - Law No. 4,819/58

Refer to certain labor lawsuits settled by CTEEP, related to retired employees under State Law No. 4,819/58, which are the responsibility of the State government. This balance is not monetarily adjusted and is not subject to any kind of interest until it is approved by government for payment to CTEEP.

5.5. Family allowance - Law No. 4,819/58

CESP made advances for monthly family allowance payments established by State Law No. 4,819/58, 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 noncurrent assets in the amount of R\$2,218.

## 6. RECOVERABLE TAXES

	<u>12/31/2006</u>	
	<u>Company</u>	<u>Consolidated</u>
Income tax:		
Overpaid	-	26,290
Withheld at source	777	1,180
Legal entity - third parties	<u>-</u>	<u>54</u>
Subtotal	<u>777</u>	<u>27,524</u>
Social contribution tax:		
Overpaid	-	8,272
Withheld at source	<u>-</u>	<u>324</u>
Subtotal	<u>-</u>	<u>8,596</u>
COFINS:		
Credits - Regulatory Instruction (IN) No. 658/06 (a)	-	21,655
Withheld at source	<u>-</u>	<u>502</u>
Subtotal	<u>-</u>	<u>22,157</u>
PIS:		
Credits - Regulatory Instruction (IN) No. 658/06 (a)	-	29,618
Withheld at source	<u>-</u>	<u>109</u>
Subtotal	<u>-</u>	<u>29,727</u>
Other	<u>-</u>	<u>869</u>
Total	<u>777</u>	<u>88,873</u>

(a) See note 10.1.

## 7. SALE OF ASSETS AND RIGHTS

## Technical Equipment Maintenance Center (CETEMEQ)

On April 13, 1998, a Private Agreement for Assignment and Transfer of Rights and Obligations was executed by and between EPTE - Empresa Paulista de Transmissão de Energia Elétrica S.A. ("EPTE"), 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, for the market price of 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 1<sup>st</sup> and 36<sup>th</sup> 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, taxes on the gain resulting from the sale, allowance for doubtful accounts and tax credits were recorded.

Due to uncertainties as to the outcome of this issue, CTEEP maintains a provision for the total balance receivable.

## 8. DEFERRED INCOME AND SOCIAL CONTRIBUTION TAXES

### 8.1. Assets

In current assets of the subsidiary CTEEP, the balance of R\$126,099 in 2006, of which R\$92,720 in income tax and R\$33,379 in social contribution tax, refers to the tax impacts on the provision for the Voluntary Termination Program.

Included in noncurrent assets are tax credits available for offset against future taxable income, calculated on temporarily nondeductible provisions controlled in part “B” of the Taxable Income Computation Book (LALUR), and arising from the following provisions:

	<u>12/31/2006</u>		
	<u>Consolidated</u>		
	<u>Income tax</u>	<u>Social contribution tax</u>	<u>Total</u>
Reserve for labor contingencies	34,660	12,478	47,138
Reserve for civil contingencies	256	92	348
Reserve for tax contingencies	31,552	11,359	42,911
Reserve for social security contingencies	1,706	614	2,320
Allowance for doubtful accounts	17,198	297	17,495
Voluntary Termination Program	<u>6,443</u>	<u>2,319</u>	<u>8,762</u>
Total	<u>91,815</u>	<u>27,159</u>	<u>118,974</u>

### 8.2. Liabilities

The balance of R\$16,374 in noncurrent liabilities refers to income tax on gains from sale of CETEMEQ (note 7). This balance will be settled upon the receipt of the respective accounts receivable.

## 9. ESCROW DEPOSITS

The balance of R\$3,541 in current assets refers to a development fund designed to provide scholarships and training to CTEEP’s employees eligible under a specific policy.

In noncurrent assets, due to the uncertainties concerning the final outcome of the lawsuits for which escrow deposits were made, CTEEP’s practice is to maintain the escrow deposits at their nominal amounts, without any kind of monetary adjustment. The balance in noncurrent assets is composed of the following:

12/31/2006  
Consolidated

COFINS (a)	11,132
Social security lawsuits - INSS (b)	6,825
Assessments - ANEEL (c)	6,317
Labor lawsuits that are the responsibility of the State government (d)	6,768
CPMF (tax on banking transactions)	<u>144</u>
Total	<u>31,186</u>

(a) See note 21.

(b) See note 20.3.

(c) Refer to two deposits for the purpose of annulling infraction notices issued by ANEEL due to disturbances in the transmission system in February 1999 and January 2002. The first deposit, made on January 17, 2000, in the amount of R\$3,040, was required in the annulment action filed by the subsidiary CTEEP against ANEEL, arising from infraction notice 001/1999-SFE, which imposed a fine on CTEEP under the allegation of violation practices for hindering the inspection work to check disturbances caused by interruption in the transmission and distribution of electric power in most of the Southeast, South and Central West regions, for not meeting the requirements of the “inspection report” and not complying with the legal obligation to provide adequate service. The second deposit, made on June 17, 2003, in the amount of R\$3,277, resulting from infraction notice 005/2002-SFE, issued on May 7, 2002, relates to the punitive administrative proceeding filed by ANEEL because of the disconnection of the 440 kV transmission line between CTEEP’s substations in the Ilha Solteira and Araraquara Hydroelectric Power Plants. The subsidiary CTEEP’s attorneys understand that it is not possible to determine whether the subsidiary will be successful in both cases.

(d) Refer to escrow deposits made by the subsidiary CTEEP for ongoing labor lawsuits, filed by retired employees, which are the responsibility of São Paulo State (State Law No. 4,819/58).

#### 10. PREPAID EXPENSES - REGULATORY ASSETS - COFINS AND PIS (TAXES ON REVENUE) AND OTHER

According to the transmission concession agreement signed between the subsidiary CTEEP and ANEEL, any change in taxes or legal charges will result in the review of the Allowed Annual Revenue (RAP).

In view of the effects of Laws No. 10,637, of December 30, 2002, No. 10,833, of December 29, 2003, and No. 10,865, of April 30, 2004, CTEEP’s costs were impacted by the increase in the rates of COFINS beginning February 2004 and PIS beginning December 2002.

Regulatory assets arising from the increase in COFINS and PIS rates, as established by SFF/ANEEL Circulars No. 190, of February 1, 2005, and No. 302, of February 25, 2005, were recorded in noncurrent assets as “Prepaid expenses” with a corresponding entry to “Deductions from operating revenue”.

For the tariff cycle begun on July 1, 2006, ANEEL issued Ratifying Resolution No. 355/06, offering as grounds Technical Note 224, of June 19, 2006, which established a new understanding of the levy of the PIS and COFINS rates associated with the provision of daily transmission service. In this technical note, ANEEL presented an exhaustive study of the matter in question, characterizing nonchange in the price previously established in the Transmission Concession agreements signed prior to October 31, 2003.

Likewise, the SRF (Federal Revenue Service) published, on July 4, 2006, SRF Regulatory Instruction No. 658, offering an interpretation identical to that presented by ANEEL as regards the concept of pre-determined price and resulting qualification of the agreements in the cumulative and noncumulative PIS and COFINS regimes, as applicable.

Due to these positions, CTEEP recalculated the impact of the increase in these taxes’ rates on revenue, reversing R\$88,696 of the regulatory asset balance, of which R\$17,143 for PIS, and R\$71,553 for COFINS.

The balances of these assets are as follows:

	<u>Company and consolidated</u>		
	<u>COFINS</u>	<u>PIS</u>	<u>Total</u>
<u>Subsidiary</u>			
PIS and COFINS			
Recognition:			
December 2002 to December 2004	-	18,191	18,191
February to December 2004	44,411	-	44,411
January to December 2005	60,744	13,053	73,797
January to September 2006	<u>31,474</u>	<u>6,842</u>	<u>38,316</u>
Subtotal	<u>136,629</u>	<u>38,086</u>	<u>174,715</u>
Realization:			
July to December 2005	(26,541)	(8,818)	(35,359)
January to September 2006	<u>(31,952)</u>	<u>(10,617)</u>	<u>(42,569)</u>
Subtotal	<u>(58,493)</u>	<u>(19,435)</u>	<u>(77,928)</u>
Technical Note No. 224/2006 - SFF/ANEEL-			
Reversal	<u>(71,553)</u>	<u>(17,143)</u>	<u>(88,696)</u>
Total subsidiary	<u>6,583</u>	<u>1,508</u>	<u>8,091</u>
<u>Company</u>			
Prepaid expenses related to launch of bonds			<u>3,011</u>
Total consolidated			<u>11,102</u>

### 10.1. Recognition of Tax Credits

CTEEP considered Ratifying Resolution No. 355/06, which established the new RAP, reflecting ANEEL's new understanding of the levy of PIS and COFINS, in effect beginning July 1, 2006, as well as SRF (Federal Revenue Service) Regulatory Instruction No. 658, in effect beginning July 4, 2006, establishing that revenue arising from agreements signed prior to October 31, 2003 must be taxed based on the cumulative regime at the total PIS and COFINS rate of 3.65%, retroactive to February 2004, when Law No. 10,833, of December 29, 2003, went into effect, instead of the noncumulative regime at the rate of 9.25%, applied by CTEEP until May 2006.

Due to this new understanding, in September 2006 CTEEP identified the overpaid amounts, in the period from February 2004 to May 2006, resulting in the updated amount for September 2006 of R\$176,544, recognizing tax credits of R\$31,478 for PIS and R\$145,066 for COFINS, which have been utilized in deduction from the next payments, beginning October 2006, including income and social contribution taxes (note 6.(a)). These credits were recorded against "Deductions from operating revenue", in the original amount of R\$142,688, and "Financial income" in the amount of R\$33,856, corresponding to the update based on the SELIC (Central Bank overnight rate).

### 11. LOAN - INTERCONEXIÓN ELÉCTRICA S.A. E.S.P. (COMPANY'S PARENT COMPANY)

The balances of this asset are as follows:

	<u>Company and consolidated Noncurrent</u>
Foreign currency loan: (a)	
Principal	51,146
Interest	24
Exchange variation	<u>(262)</u>
Subtotal	<u>50,908</u>
Accounts receivable - income tax: (b)	
Principal	4,402
Exchange variation	<u>(44)</u>
Subtotal	<u>4,358</u>
Total	<u>55,266</u>

(a) This loan refers to the full transfer of the loan from ABN Amro Bank, denominated in U.S. dollars, in the original amount of US\$23,800 thousand, maturing in a lump sum on July 19, 2007, subject to interest calculated based on LIBOR, plus 3.00% per year. The Company maintained the same assumptions for this transaction.

(b) This amount corresponds to the amount to be reimbursed by Interconexión Eléctrica S.A. E.S.P., referring to the income tax on interest remittance by the Company on December 28, 2006 in the gross amount.

## 12. INVESTMENT IN SUBSIDIARY

	<u>12/31/2006</u> <u>Company</u>
Investee's shareholders' equity as of December 31, 2006	3,745,505
Ownership interest percentage	<u>21.0014%</u>
Investment	<u>786,608</u>
Goodwill on acquisition of shares on July 26, 2006	380,311
Goodwill on acquisition of shares on September 12, 2006	173
Goodwill arising from debt to the State Finance Department (*)	186,018
Accumulated amortization of goodwill	<u>(26,190)</u>
Goodwill	<u>540,312</u>
Total investment as of December 31, 2006	<u><u>1,326,920</u></u>
Change in investments and goodwill in subsidiary:	
<u>Investment</u>	
Acquisition cost	833,224
Equity in subsidiary	(16,020)
Proposed dividends - current assets	<u>(30,596)</u>
Balance as of December 31, 2006	<u><u>786,608</u></u>
<u>Goodwill</u>	
Goodwill on acquisition of subsidiary	566,502
Amortization of goodwill	<u>(26,190)</u>
Goodwill balance as of December 31, 2006	<u><u>540,312</u></u>

(\*) See note 3.2.

On June 28, 2006, Interconexión Eléctrica S.A. E.S.P. (company with head office in Colombia) presented the winning bid in the auction in which the shares of CTEEP were sold, conducted according to Notice SF/001/2006 on the São Paulo Stock Exchange, to sell 31,341,890,064 common shares issued by CTEEP, directly or indirectly held by the State of São Paulo, representing 50.12% of the total common shares issued by CTEEP, and offered R\$1,193,813 for all common shares auctioned. The agreement for the purchase of CTEEP's shares was signed by the Company, which is controlled by 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 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 of São Paulo as an additional price for the shares acquired in the auction, registering the acquisition of said shares and the transfer of ownership control from 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 of São Paulo, for the total price of R\$229, and started to hold 31,351,911,751 common shares issued by CTEEP, representing 50.1% of its voting capital.

The percentage of shares held by the Company in CTEEP's voting capital is subject to changes over the next months since, due to the sale of ownership control, the Company must conduct a public offering for acquisition of shares from the holders of common shares issued by CTEEP, as required by Notice SF/001/2006, Law No. 6,404/76, as amended, and CVM regulation (note 3).

### 13. PROPERTY, PLANT AND EQUIPMENT

<u>Subsidiary</u>	<u>12/31/2006</u>		
	<u>Adjusted cost</u>	<u>Consolidated Accumulated depreciation</u>	<u>Net book value</u>
In service:			
Land (a)	44,680	-	44,680
Buildings, construction and improvements	581,837	(352,654)	229,183
Machinery and equipment	5,014,143	(2,308,047)	2,706,096
Vehicles	27,710	(25,199)	2,511
Furniture and fixtures	23,042	(13,010)	10,032
Subtotal	<u>5,691,412</u>	<u>(2,698,910)</u>	<u>2,992,502</u>
In progress	<u>845,847</u>	<u>-</u>	<u>845,847</u>
Special liabilities- (b)			
Donations received	<u>(16,284)</u>	<u>-</u>	<u>(16,284)</u>
Total related to concession	6,520,975	(2,698,910)	3,822,065
Intangible - land	-	-	57,505
Total - subsidiary	6,520,975	(2,698,910)	3,879,570
Total - Company	<u>13</u>	<u>(1)</u>	<u>12</u>
Consolidated	<u>6,520,988</u>	<u>(2,698,911)</u>	<u>3,879,582</u>

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. 20/99 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 an IPTU (municipal real estate tax) tax collection proceeding (note 20.2.).

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

#### 14. TAXES PAYABLE

	12/31/2006	
	<u>Company</u>	<u>Consolidated</u>
COFINS (tax on revenue)	-	4,579
Income tax - regulatory asset (a)	-	2,023
PIS (tax on revenue)	-	993
Social contribution tax - regulatory asset (a)	-	728
ANEEL inspection fee	-	553
Other	<u>786</u>	<u>2,184</u>
Total	<u>786</u>	<u>11,060</u>

- (a) Refer to income and social contribution taxes levied on regulatory asset (note 10). On February 11, 2005, the Company consulted with the Federal Revenue Service about the application of clause XI, article 10, of Law No. 10,833/03, and paragraph 3, article 2, of Federal Revenue Service Instruction No.468/04, and is awaiting a reply to its consultation.

#### 15. LOANS AND FINANCING

	12/31/2006		
	<u>Company</u>	<u>Consolidated</u>	
	<u>Current</u>	<u>Current</u>	<u>Noncurrent</u>
Foreign currency-			
ABN Amro Bank (a)	<u>748,648</u>	<u>748,648</u>	-
Local currency:			
ABN Amro Bank (b)	43,624	43,624	-
Eletrobrás (c)	<u>-</u>	<u>56</u>	<u>586</u>
Total	<u>792,272</u>	<u>792,328</u>	<u>586</u>

- (a) Loan from ABN Amro Bank, denominated in U.S. dollars, in the original amount of US\$326 million, maturing in a lump sum on July 19, 2007, subject to interest calculated based on LIBOR, plus 3.00% per year.
- (b) Bank credit notes - secured account with ABN Amro Bank, whose funding limit is R\$53,900, maturing in a lump sum on July 19, 2007 and with interest calculated based on 100% of the CDI, plus 1.75% per year.
- (c) Refers to two agreements originally signed with Eletropaulo - Eletricidade de São Paulo S.A., that due to a 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 year.

16. PAYROLL AND RELATED CHARGES

	<u>12/31/2006</u> <u>Consolidated</u>
INSS (social security contribution)	4,322
Withholding income tax	1,946
FGTS (severance pay fund)	2,801
Scholarship program (*)	3,532
Other taxes payable	<u>41</u>
Total	<u>12,642</u>

(\*) 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.

17. VOLUNTARY TERMINATION PROGRAM

The subsidiary CTEEP, which had 2,736 employees as of October 31, 2006, approved the Voluntary Termination Program, with an adherence period from November 21 to 30, obtaining 1,534 adhesions.

Due to this fact, there were 323 employee terminations through December 31, 2006, for a total cost of R\$78,979 (amounts paid). In addition, a provision was recognized in the amount of R\$396,651 (amounts payable as of December 31, 2006) for the possible remaining terminations, which continue in 2007. The program's expenses include financial incentives, FGTS (severance pay fund) fine, prior notice, healthcare, among others.

18. ACCRUED LIABILITIES

	<u>12/31/2006</u> <u>Consolidated</u>
Vacation and vacation bonus	22,200
Payroll charges on 13 <sup>th</sup> salary, vacation and vacation bonus	9,020
Employee profit sharing (*)	<u>17,155</u>
Total	<u>48,375</u>

(\*) Employee profit sharing was recorded according to the terms of Decree No. 41,497/96, observing the provisions of the 2006/2007 Collective Bargaining.

## 19. ACCOUNTS PAYABLE - FUNDAÇÃO CESP

The amounts classified in current and noncurrent liabilities refer to two debt acknowledgement agreements for Financing of Actuarial Deficit with Fundação CESP, totaling R\$232,181, related to BSPS (Settled Proportional Pension Plans), with monthly payments and final maturities scheduled for September and November 2017, adjusted based on the greater of actuarial cost variation (General Price Index - Internal Availability [IGP-DI] plus interest of 6% per year) or the TR (a managed prime rate) plus interest of 8% per year.

As defined in the respective agreements, at the end of the fiscal year, balances are adjusted for determining contributions for the subsequent year, according to actuarial deficits or surpluses, calculated in accordance with Fundação CESP's actuarial methodology.

As of December 31, 2006, as required by CVM Resolution No. 371/00, the calculation of liabilities with the private pension entity did not result in any need to recognize additional liabilities (note 28).

## 20. RESERVE FOR CONTINGENCIES

<u>Type</u>	<u>12/31/2006</u>		
	<u>Reserve</u>	<u>Escrow deposits</u>	<u>Net liabilities</u>
Labor	138,639	7,621	131,018
Civil	1,023	-	1,023
Tax - IPTU (municipal real estate tax)	126,209	-	126,209
Social security - INSS	<u>6,825</u>	<u>-</u>	<u>6,825</u>
Total	<u>272,696</u>	<u>7,621</u>	<u>265,075</u>

The various types of contingencies were evaluated and classified based on the likelihood that the Company and CTEEP may incur a loss, as follows:

<u>Type</u>	<u>Likelihood of loss</u>			
	<u>12/31/2006</u>			
	<u>Consolidated</u>			
	<u>Probable</u>	<u>Possible</u>	<u>Remote</u>	<u>Total</u>
Labor	138,639	15,172	216,516	370,327
Civil	1,023	1,467	32,178	34,668
Tax - IPTU (municipal real estate tax)	126,209	-	-	126,209
Social security - INSS	<u>6,825</u>	<u>-</u>	<u>-</u>	<u>6,825</u>
Total	<u>272,696</u>	<u>16,639</u>	<u>248,694</u>	<u>538,029</u>

The likelihood of loss for each contingency, resulting in an unfavorable outcome for CTEEP, is classified as follows:

- Probable - the future event or events is/are likely to occur, from 61% to 100%.
- Possible - the chance of the future event or events occurring is more than remote, but less than probable, from 41% to 60%.
- Remote - the chance of the future event or events occurring is slight, up to 40%.

Reserves have been recognized for contingencies classified as probable loss.

On a periodic basis, lawsuits are reassessed and reserves are supplemented if necessary.

#### 20.1. Labor

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

#### 20.2. Tax - IPTU (municipal real estate tax)

Reserve recorded to cover amounts due to the municipalities of São Paulo and São José dos Campos.

#### 20.3. 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 recognize a reserve and make an escrow deposit amounting to R\$6,825, which was recorded in noncurrent assets, under "Escrow deposits" (note 9.(b)).

### 21. ACCRUED TAXES

CTEEP is challenging in court the constitutionality of the changes introduced by Law No. 9,718, of November 27, 1999, which increased the COFINS rate from 2% to 3% and increased its tax basis by including financial income and nonoperating income.

Accordingly, CTEEP recognized the provisions in the amount of R\$38,524, of which R\$27,392 corresponds to the rate increase, with an escrow deposit, with a total net liability of R\$11,132. This net liability refers to the increase in the tax basis, in which CTEEP understands there will be a favorable outcome, and also has an escrow deposit in the same amount recorded in noncurrent assets, under the caption "Escrow deposits" (note 9).

In February 2004, with Law No. 10,833, of December 29, 2003, going into effect, addressing the noncumulative levy of COFINS, CTEEP began making the payments as set forth in the new Law. The provision for taxes and escrow deposits are not monetarily adjusted.

## 22. SPECIAL LIABILITIES - REVERSAL/AMORTIZATION

Refer to funds derived from the reversal and amortization reserve and a portion of the monthly quotas of the Global Reserve for Reversion (RGR), related to investments in electricity service expansion and repayment of loans obtained for the same purpose, until December 31, 1971. The Concession Authority has not defined how these liabilities will be settled.

## 23. SHAREHOLDERS' EQUITY

The Company was established on April 28, 2006, as a limited liability company, according to its articles of organization filed with the Division of Corporations of the State of São Paulo. On July 19, 2006, the Company was transformed into a corporation. Subscribed capital is R\$506,201, fully paid up as of December 31, 2006.

As of December 31, 2006, capital is represented by 506,201,000 common shares, without par value, as follows:

<u>Shareholder</u>	<u>Number of shares</u>
Interconexión Eléctrica S.A. E.S.P.	506,200,997
Javier Genaro Gutierrez Pemberthy	1
Fernando Augusto Rojas Pinto	1
Guido Alberto Nule Amin	1
Total	<u>506,201,000</u>

Shareholders 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.

## 24. PERIODIC REVIEW OF ALLOWED ANNUAL REVENUE (RAP)

Pursuant to CTEEP's Concession Agreement No. 59 signed on June 20, 2001 with the Federal Government through ANEEL, every four years, after the date of signing of this agreement, ANEEL must perform a review of the RAP of electricity transmission relating to installations of authorized projects that started commercial operations after December 31, 1999, for purposes of efficiency and reasonableness of tariff, according to specific regulation to be issued by ANEEL.

Under Ratifying Resolutions No. 149/05 and No. 355/06, ANEEL authorized, on a provisional basis, an increase in the RAP based on the variation of the IGP-M for the tariff cycles from July 2005 to June 2006 and from July 2006 to June 2007, until the periodic review in progress is finished. The effects of such review, scheduled to be concluded in July 2007, must be applied retroactively to July 1, 2005.

#### 24.1. Public Hearing for Periodic Tariff Revision of Electricity Transmission Concessionaires

Pursuant to Public Hearing Notice No. 007, of April 18, 2006, ANEEL held an in-person Public Hearing, on July 12, 2006, relating to the criteria and procedures to be used in the Period Tariff Revision process of the electric power transmission concessionaires. The period for receiving contributions started on April 24 and ended on July 7, 2006. CTEEP is included and takes part in this process with 11 other concessionaires.

Technical Note No. 068/2006 and respective appendixes, which are an integral part of said Public Hearing, present the criteria and procedures to be used in the periodic tariff revision of the remunerations for electricity transmission facilities. The methodologies and data used are as follows:

- Capital Structure.
- Cost of Capital.
- Remuneration Basis.
- Operating Costs.
- Authorized Revenues.
- Other Revenues.
- Review of Auctions.

After the general procedures are established, the processes of each transmission concessionaire will be presented in public hearings. The periodic tariff revision of the transmission concessionaires will be completed in July 2007 of the following year with the disclosure of the indices for adjustment of the RAP retroactive to July 1, 2005.

## 25. ELECTRICITY NETWORK USAGE CHARGES

Revenue from electricity network usage charges in the year ended December 31, 2006 amounted to R\$712,470, including R\$90,436, relating to new projects that began commercial operations after December 31, 1999. This revenue is composed of the following:

	Six-month period ended <u>12/31/2006</u> <u>Consolidated</u>
Basic network:	
Existing assets	520,159
New investments	74,858
Surplus	<u>12,755</u>
Subtotal	<u>607,772</u>
Other transmission facilities:	
Existing assets	34,203
New investments	<u>15,578</u>
Subtotal	<u>49,781</u>
Charges:	
Fuel Consumption Account (CCC)	35,394
Energy Development Account (CDE)	21,666
Alternative Source Incentive Program (PROINFA)	<u>4,043</u>
Subtotal	<u>61,103</u>
Adjustment	<u>(6,186)</u>
Total	<u>712,470</u>

## 25.1. 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 of 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 No. OF/F/1,372/2006, CTEEP filed an Administrative Appeal with ANEEL, requesting a review of the SFF's position.

## 26. FINANCIAL INCOME (EXPENSES)

	12/31/2006	
	<u>Company</u>	<u>Consolidated</u>
Income:		
Income from temporary cash investments	265	34,678
Interest on accounts receivable - State Finance Department	-	2,323
Interest on loans	24	24
Update of PIS/COFINS tax credits	-	36,126
Other	<u>-</u>	<u>9,981</u>
Subtotal	<u>289</u>	<u>83,132</u>
Expenses:		
Debt charges	(29,625)	(33,496)
CPMF (tax on banking transactions)	(393)	(3,328)
RGR (global reserve for reversion)	-	(372)
Other	<u>(2,149)</u>	<u>(2,719)</u>
Subtotal	<u>(32,167)</u>	<u>(39,915)</u>
Monetary variations:		
Assets	28,518	30,443
Liabilities	<u>(8,692)</u>	<u>(9,856)</u>
Subtotal	<u>19,826</u>	<u>20,587</u>
Total - net	<u>(12,052)</u>	<u>63,804</u>

## 27. INCOME AND SOCIAL CONTRIBUTION TAXES

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

## 27.1. Reconciliation of income and social contribution taxes

Tax expenses are determined based on prevailing rates, totaling 34% (25% for income tax and 9% for social contribution tax).

## a) Subsidiary - statement of operations - current expenses

	Subsidiary - 6 months		
	Income tax	Social contribution tax	Total
Income before taxes	(108,847)	(108,847)	-
Reserve for labor contingencies	4,341	4,341	-
Reserve for tax contingencies - IPTU	2,529	2,529	-
Reserve for Voluntary Termination Program	396,651	396,651	-
Reserve for Employee Profit Sharing	17,155	17,155	-
Negative goodwill on acquisition of investments	8,492	8,492	-
Reversal of provisions	(12,163)	(12,163)	-
Regulatory asset - adjustment	85,562	85,562	-
Tax incentive - Rouanet Law	425	478	-
Other	1,690	(1,010)	-
Income - tax basis	<u>395,835</u>	<u>393,188</u>	-
Rate of 25%	(98,947)	-	-
Rate of 9%	-	(35,387)	-
Tax incentives	<u>726</u>	<u>-</u>	<u>-</u>
Provision for income and social contribution taxes	<u>(98,221)</u>	<u>(35,387)</u>	<u>(133,608)</u>

## b) Subsidiary - statement of operations - deferred expenses

	Subsidiary - 6 months		
	Income tax	Social contribution tax	Total
Deferred income and social contribution taxes:			
Reserve for labor contingencies	1,085	391	-
Reserve for tax contingencies - IPTU	632	228	-
Provision for regulatory asset	21,391	7,700	-
Provision for Voluntary Termination Program	99,163	35,699	-
Other provisions	(402)	-	-
Deferred income and social contribution taxes	<u>121,869</u>	<u>44,018</u>	<u>165,887</u>
Income and social contribution tax expenses	<u>23,648</u>	<u>8,631</u>	<u>32,279</u>

c) Company

As of December 31, 2006, the Company's balance of unrecorded tax credits is R\$7,161, which may only be offset against future taxable income generation at the rate of 30% per year. This balance was calculated as follows:

Net loss	(63,273)
Additions (deductions):	
Amortization of goodwill	26,190
Equity in subsidiary	<u>16,020</u>
Balance of tax loss carryforwards - tax basis	<u>(21,063)</u>
Rate	<u>34%</u>
Total tax credit	<u>(7,161)</u>

## 28. PENSION PLANS

Fundação CESP maintains pension plans for the Company's employees.

### 28.1. Plan "A" - Retirement Benefits

State Law No. 4,819/58, applicable to employees hired through May 13, 1974, establishes retirement, leave allowance and family allowance benefits. The funds necessary to cover the expenses of this plan are the responsibility of the proper agencies of the State of São Paulo Government, therefore without additional risk for the Company (note 33).

### 28.2. Plans "B" and "B1" - Retirement Benefits

Plans "B" and "B1", regulated by Law No. 6,435/77 and managed by Fundação CESP, are sponsored by the Company and provide pension benefits, whose reserves are established under the financial capitalization method.

Plan "B" refers to the BSPS (Settled Proportional Pension Plans), calculated as of December 31, 1997 (CTEEP) and March 31, 1998 (EPTE), in accordance with prevailing regulation, and its financial and economic balance is adjusted to that of those dates. The Company is fully responsible for the annual actuarial technical result of this plan (deficit or surplus).

On January 1, 1998 (CTEEP) and April 1, 1998 (EPTE), the Company implemented Plan "B1", which defines equal contributions and responsibilities between the Company and participants, for purposes of maintaining the plan's actuarial economic and financial balance. This plan provides pension benefits to its employees, former employees and respective beneficiaries, for the purpose of supplementing benefits granted by the government social security plan. The plan is a mixed model, made up of 70% defined benefit and 30% defined contribution. On the retirement date, the defined contribution plan becomes a defined benefit.

### 28.3. PSAP Plan - Transmissão Paulista

On January 1, 2004, the plans sponsored by the Company, as well as those of the former EPTE, were financially merged, and the individual characteristics of the respective plans were maintained, thus establishing the PSAP Plan - Transmissão Paulista.

### 28.4. Statement - CVM Resolution No. 371/00 - Subsidiary

The main economic and financial information regarding the PSAP plan (CTEEP/EPTE), in accordance with CVM Resolution No. 371/00, and based on the actuarial reports, is as follows:

#### a) Reconciliation of Assets and Liabilities

	<u>12/31/2006</u>
Fair value of assets	1,501,836
Total actuarial liabilities	(1,428,775)
Gains to be recognized in future years	<u>(240,489)</u>
Net liabilities	<u>(167,428)</u>

Therefore, based on the valuation prepared by independent actuaries for calculating actuarial obligations, there are no additional liabilities to be recognized as of the Company's balance sheet date, except commitments already recognized in the form of acknowledgement of debt, which amount to R\$232,181 (note 19), and which, therefore, exceed net liabilities determined by actuarial valuations, as shown above.

#### b) Changes in the Plan's Assets

	<u>12/31/2006</u>
Fair value of asset at beginning of year	1,309,879
Employer's contributions	19,579
Employee's contributions	4,192
Return on investments	202,239
Benefits paid	(34,349)
Transfer from defined contribution to defined benefit	<u>296</u>
Fair value of asset at end of year	<u>1,501,836</u>

c) Changes in Actuarial Liabilities	<u>12/31/2006</u>
Present value of net actuarial obligation at beginning of year	1,344,498
Current service cost	9,281
Cost of interest	137,677
Actuarial gain/loss	(24,871)
Net settlements	(3,757)
Benefits paid	(34,349)
Transfer from defined contribution to defined benefit	<u>296</u>
Present value of net actuarial obligation at end of year	<u>1,428,775</u>
d) Plan Participants	<u>12/31/2006</u>
Active employees	2,746
Inactive employees:	
Retired	687
Retired due to disability	30
Pensioners	<u>65</u>
	<u>782</u>
	<u>3,528</u>
e) Actuarial Assumptions	<u>12/31/2006</u>
Discount rate for present value of actuarial liability	10.24%
Estimated return on plan assets	11.28%
Salary growth rate	7.12%
Adjustment rate for continued benefits	4.00%
Benefit/salary capacity factor to maintain purchasing power	97.84%
Turnover rate	Null
General mortality table	UP-94
Disability table	Light-Medium
Disability mortality table	IAPB-55
Active employee mortality table	Hamza Method

#### 28.5. Other Benefits

In addition to the plan benefits, the Company offers to its employees other benefits, such as medical, hospital and dental care, which are also managed by Fundação CESP.

#### 29. CONCESSIONS

Through Administrative Rule No. 185, of June 6, 2001, issued by the Ministry of Mines and Energy (MME), the concession held by CTEEP for the electric power transmission service related to the basic network and other transmission facilities was extended for 20 years, beginning July 8, 1995.

Accordingly, on June 20, 2001, the Concession Agreement for the Electric Power Transmission Service No. 59 was entered into by and between CTEEP and the concession authority, through ANEEL.

This Concession Agreement was amended on December 14, 2001, in view of the merger of EPTE into CTEEP. The initially agreed conditions were maintained, except for the Allowed Annual Revenue (RAP), which was reduced by 0.58% in July 2002 and 3.56% in July 2003, equivalent to 50% of the efficiency gains expected from the merger, whose effects were recognized in ANEEL Ratifying Resolutions in those months.

### 30. 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 basic network and other transmission facilities is defined by ANEEL, pursuant to prevailing legislation.

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

#### 30.1. Credit Risk

CTEEP has agreements with the ONS (National Electric System Operator), concessionaires and other agents for regulating the provision of services related to the basic network for 209 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.

#### 30.2. Price Risk

Pursuant to the concession agreement, CTEEP's revenues are annually adjusted by ANEEL based on the variation of the IGP-M (general market price index), and part of the revenues is subject to periodic review every four years (note 24).

#### 30.3. Liquidity Risk

CTEEP centralizes its financial investments in Banco Nossa Caixa S.A. (note 4).

#### 30.4. Exchange Risk

The Company has a foreign currency-denominated loan agreement with ABN Amro Bank, totaling US\$326 million, payable in a lump sum in July 2007 (note 15). The Company did not enter into any financial instrument to hedge transactions in local currency.

### 30.5. Interest Rate Risk

The Company has a foreign currency-denominated loan agreement with ABN Amro Bank, totaling US\$326 million, payable in a lump sum in July 2007. This agreement is monetarily updated at the rate of 3% per year, plus six-month LIBOR (note 15). No financial instrument was entered into to swap variable interest rates on this transaction for fixed interest rate.

The Company also has a bank credit note - secured account with ABN Amro Bank, whose funding limit is R\$53,900, maturing in a lump sum on June 19, 2007 and with interest calculated based on 100% of the CDI, plus 1.75% per year (note 15). No financial instrument was entered into to swap variable interest rates on this transaction for fixed interest rate.

Additionally, the subsidiary CTEEP has debt agreements with Fundação CESP subject to interest based on the higher of the variation of the IGP-DI plus 6% per year, or the TR plus 8% per year (note 19).

The carrying amounts of financial instruments, compared with the amounts that might be obtained in active market trading, or in the absence thereof, with the net present value adjusted at the prevailing market interest rate, approximate their fair values.

## 31. INSURANCE

Specification by type of risk and the effective period of CTEEP's insurance policies is as follows:

Risks	Effective period	Insured amount		Premium	
		US\$ 000	R\$	US\$ 000	R\$
Assets	11/02/06 to 11/02/07	-	2,208,190	-	4,181
Aircraft Civil Liability/Hull	11/02/06 to 11/02/07	34,842	-	53	-
RETA	11/02/06 to 11/02/07	-	198	-	1
General Civil Liability	10/17/06 to 10/17/07	-	10,000	-	241
Domestic Transportation	10/01/06 to 10/01/07	-	347,000	-	56
Group Personal Accident	05/01/06 to 05/01/07	-	119,359	-	10
		<u>34,842</u>	<u>2,684,747</u>	<u>53</u>	<u>4,489</u>

### 31.1. Assets

Coverage for risks of fire and electrical damage to equipment installed in the transmission substations, buildings and respective contents, inventories and facilities.

### 31.2. Aircraft

Mandatory coverage for Air Carrier Liability (RETA), Hull and Civil Liability (LUC) for CTEEP's aircraft.

### 31.3. General Civil Liability

Coverage for repairs due to involuntary damage, bodily injury and/or property damage to third parties, resulting from CTEEP's operations.

### 31.4. Domestic Transportation

Coverage for damages to goods and equipment transported by CTEEP in Brazil.

### 31.5. Group Personal Accident

Coverage for personal accidents to executives, interns and apprentices.

## 32. COLLECTION LAWSUIT 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 that resulted in the establishment of EPTE - Empresa Paulista de Transmissão de Energia Elétrica S.A. and other companies, Eletropaulo is solely liable for obligations of any kind referring to acts until the spin-off date, except for contingent liabilities whose provisions had been allocated to the 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 aforementioned 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 aforementioned escrow deposit. In October 2001, ELETROBRÁS executed the sentence referring to the aforementioned financing agreement,

charging R\$429,000 from Eletropaulo and R\$49,000 from EPTE, understanding that EPTE would pay its part with the adjusted amounts of the aforementioned escrow deposit. CTEEP merged EPTE 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 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 aforementioned collection regarding Eletropaulo. Appeals similar to those of ELETROBRÁS were filed by CTEEP, and the Company's Special Appeal is already registered with the Superior Court of Justice under No. 809,672.

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.

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, the Company has not recognized a reserve for the remaining contingency, currently estimated at R\$856,551, which the Company understands as being the liability of Eletropaulo, from which the debt is being charged by ELETROBRÁS.

### 33. SUPPLEMENTARY PENSION PLAN REGULATED BY LAW No. 4,819/58

#### 33.1. Significant Event

- July 19, 2005

*“In compliance with CVM Instruction No. 358/02, CTEEP - Companhia de Transmissão de Energia Elétrica Paulista clarifies aspects related to the supplementary pension plan regulated by State Law No. 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 responsible 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 49<sup>th</sup> Labor Court of São Paulo was communicated to CTEEP on July 11, 2005 (lawsuit 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 49<sup>th</sup> 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 yet been published, nor has the Company been notified thereof.*

*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.”*

- 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 49<sup>th</sup> 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 interim financial statements 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 49<sup>th</sup> 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 49<sup>th</sup> 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 49<sup>th</sup> 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 regulation are the full responsibility of the State Finance Department, and is analyzing the applicable actions to protect the Company's interests."*

- February 24, 2006

*"CTEEP - Companhia de Transmissão de Energia Elétrica Paulista, in accordance with CVM Instruction No. 358/02, 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\$12,801 to comply with the decision of the 49<sup>th</sup> 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 49<sup>th</sup> 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."*

### 33.2. Decision of the 49<sup>th</sup> Labor Court of São Paulo

On April 27, 2006, the 49<sup>th</sup> 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 49<sup>th</sup> 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 49<sup>th</sup> 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 49<sup>th</sup> 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.

### 33.3. Current Situation

As a result of the aforementioned facts and by force of said decision of the 49<sup>th</sup> 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 from September 2005 to December 2006, the amount of R\$358,639 for payment of benefits under State Law No. 4,819/58, having received from the State Finance Department the amount of R\$267,149 for that purpose. The difference between the amount passed on to Fundação CESP and the amount reimbursed by the State Finance Department, of R\$91,490, is being claimed by the Company at the administrative level (note 5).

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 49<sup>th</sup> 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 49<sup>th</sup> 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. 01/2006, 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 49<sup>th</sup> 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 49<sup>th</sup> 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".

## 34. SUBSEQUENT EVENTS

### 34.1. "Public Company" Registration Grant - January 4, 2007

On January 4, 2007, CVM granted ISA registration as a "Public Company".

### 34.2. Significant Event - Public Offering of Shares - January 9, 2007

*"ISA Capital do Brasil S.A., controlling shareholder of CTEEP - Companhia de Transmissão de Energia Elétrica Paulista, in compliance with the provisions of CVM Instruction No. 358/02, communicates that it has acquired on this date, through an auction for public offering of shares held on BOVESPA, 24,572,559,070 common shares issued by CTEEP, corresponding to 39.28% of the total amount of this type of shares, at the price of R\$30.74 per thousand shares, totaling R\$755,360,465.66, pursuant to the offering notice published on December 4, 2006.*

*Due to this acquisition, ISA Capital do Brasil S.A. has begun holding a total of 55,924,470,821 common shares issued by CTEEP, representing 89.40% of voting capital and 37.46% of total capital of CTEEP."*

### 34.3. Bond Issuance Transaction - February 1, 2007

On February 1, 2007, the Company concluded a transaction in the international capital market, with issuance of bonds in the amount of US\$554 million, with demand for US\$4.6 billion, representing oversubscription of 8.3 times.

The issuance, which had JPMorgan and ABN Amro Bank as agents, was divided into two tranches: the first one, in the amount of US\$200 million, with a five-year term, interest rate of 7.875% per year, with call option in 2010 and 2011; the second one, in the amount of US\$354 million, with a ten-year term and interest rate of 8.800% per year. Of the total bonds issued, 60% were distributed in the United States, 36% in Europe, 2% in Latin America, and 2% in Asia.

Bonds are listed on the Luxembourg Stock Exchange and may be traded on the NASDAQ Stock Exchange Portal Market.

Bonds issued by ISA Capital do Brasil S.A. had international-level credit risk ratings by Standard & Poor's (BB - positive outlook) and Fitch Ratings (BB - stable outlook). These ratings are similar to the Brazilian sovereign rating and reflect the low risk of the electric power transmission business and the outlook for expansion in the sector.

#### 34.4. Amendment to Concession Agreement

Due to the acquisition of the shareholding control of CTEEP by ISA Capital do Brasil S.A., on July 26, 2006, the Second Amendment to CTEEP's Concession Agreement 059/2001-ANEEL was signed on January 29, 2007, to reflect this situation of the new controlling shareholder. In this amendment, the initially agreed-upon conditions were maintained and a clause was added defining that the goodwill paid in the auction, as well as special obligations and the amounts arising from State Law No. 4,819/58 provided for in Sale Notice SF/001/2006, will not be considered by ANEEL for purposes of evaluating the concession's economic and financial balance. Also due to this amendment, ISA Capital do Brasil S.A. and Interconexión Eléctrica S.A. E.S.P. (Colombia) commit to make capital contributions to CTEEP should the Company's net income not be sufficient to cover the aforementioned obligations.

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