

Financial Statements

ISA Capital do Brasil S.A. and Subsidiary

March 31, 2011
with Independent Auditor's Report

ISA Capital do Brasil S.A. and Subsidiary

Financial statements

March 31, 2011

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ISA Capital do Brasil S.A e Controlada

Management Report – Quarterly March 2011

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

INDEPENDENT AUDITOR'S REPORT ON INTERIM FINANCIAL STATEMENTS

The Management and Shareholders
ISA Capital do Brasil S.A.
São Paulo – SP

Introduction

We have reviewed the accompanying individual and consolidated interim financial information of ISA Capital do Brasil S.A. and its subsidiary, referring to the three-month period ended March 31, 2011, comprising the balance sheet and the related statements of income, changes in equity and cash flow statements for the three-month period then ended, and a summary of significant accounting practices and other explanatory information.

Management is responsible for the preparation of the interim financial statements in accordance with CPC 21 – Interim Financial Reporting and IAS 34 – Interim Financial Reporting, issued by the International Accounting Standards Board – IASB, as well as for the fair presentation of such information in conformity with specific rules issued by the Brazilian Securities and Exchange Commission (Comissão de Valores Mobiliários – CVM) applicable to the preparation of Interim Financial Statements. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with Brazilian and International Standards on Review Engagements (NBC TR 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity, and ISRE 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity, respectively). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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Basis for qualified opinion on individual and consolidated financial statements

As a result of the 2010 debt restructuring, indicated in Note 15, ISA Capital do Brasil S.A. recognized the issue of preferred shares redeemable (Note 23) as an equity instrument which, in our opinion, should be recognized as a financial instrument liabilities, in accordance with accounting practices adopted in Brazil, specifically Brazilian Financial Accounting Standards Board (CPC) pronouncement CPC 39, approved by Brazilian Securities and Exchange Commission (CVM) Rule No. 604, of November 19, 2009, and IAS 32. Furthermore, ISA Capital do Brasil recognized remuneration of the referred to instrument as cumulative fixed dividend, as established in its Articles of Incorporation and Shareholders' Agreement, and not as financial expenses bearing interest as we understand it should be. Had the Company recognized the referred to share issue as financial instrument liabilities and the referred to remuneration been recognized as financial expense, not as dividend, equity as of March 31, 2011 would decrease by R\$ 1,200,000, from R\$ 2,089,465 to R\$ 889,465, and liabilities would increase by the same amount, from R\$ 412,294 to R\$ 1,612,294, and net income for the three-month period ended March 31, 2011 would decrease by R\$ 35,347, net of tax effects, from R\$ 103,214 to R\$ 67,867. However, the recording method adopted by the Company did not change its financial position as of March 31, 2011.

Opinion on individual financial statements

In our opinion, except for the effects of the matter described in the Basis for qualified opinion on individual and consolidated financial statements paragraph, we are not aware of any fact that causes us to believe that the interim financial statements do not present fairly, in all material respects, the company's financial position as of March 31, 2011, its financial performance and its cash flows for the three-month period then ended, in accordance with accounting practices adopted in Brazil.

Emphasis of a matter

As mentioned in Note 34, Law No. 4819/58 granted the employees under São Paulo State control the advantages already granted to other public employees, particularly retirement pay supplement and pension plans, and established that expenses arising therefrom are full responsibility of São Paulo Government. Payment management involves Fundação CESP, who prepares payrolls, and State Government, who remits the amount to subsidiary CTEEP (who remits it to Fundação CESP for payment to final beneficiary). This has been the procedure since CESP spin-off, which created CTEEP and, through December 2003, was fully met by all parties. Beginning 2004, São Paulo State government required the right to process payrolls and pay employees directly. Nevertheless, in January 2006, based on a report issued by São Paulo State General Attorney's Office, São Paulo State Finance Authorities started disallowing part of benefits paid to retired employees and, since then, it has been generating accounts receivable from Government, given that subsidiary CTEEP pays the disallowed portions as benefit

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contribution, as required by a decision awarded by the 49th Labor Court. Widely and strongly supported by its legal advisors' opinion, and also considering the fact that São Paulo State Finance Authorities are not challenging its full responsibility for providing funds to pay those benefits related to application of Law No. 4819/58, issued thereby, the Company's management understands that no liabilities or provision for losses are to be recorded in the financial statements of subsidiary CTEEP and, as a result, in the financial statements of the Company itself in relation to said accounts.

Other matters

Interim statements of value added

We have also reviewed the individual statements of value added (SVA) for the three-month period ended March 31, 2011, whose presentation is required by Brazilian Corporation Law for publicly-held companies, and not for privately-held companies, and as supplementary information under IFRS, which require no SVA presentation. These statements were submitted to the same procedures described above and, in our opinion, we are not aware of any fact that causes us to believe that they are not presented fairly, in all material respects, in relation to the interim financial statements.

São Paulo, May 27, 2011.

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

Luiz Carlos Passetti
Accountant CRC-1SP144343/O-3

ISA Capital do Brasil S.A. and Subsidiary

Balance sheets

March 31, 2011

(In thousands of reais, unless otherwise indicated)

	Note	Subsidiary		Consolidated	
		03.31.2011	12.31.2010	03.31.2011	12.31.2010
Assets					
Current assets					
Cash and cash equivalents	5	211,745	257,261	374,743	312,243
Trade accounts receivable	6	-	-	1,377,001	1,424,390
Inventories		-	-	44,247	44,791
Interest on equity capital and dividends receivable - subsidiary	23	92,881	65,844	-	-
Receivables from state finance department	7	-	-	23,840	22,938
Taxes recoverable	8	52,028	36,806	62,544	48,036
Pledges and restricted deposits		(0)	2,320	(0)	2,320
Prepaid expenses		-	-	13,953	2,611
Other		52	59	39,336	35,814
		356,706	362,290	1,935,664	1,893,144
Noncurrent assets					
Long-term receivables					
Trade accounts receivable	6	-	-	4,507,526	4,225,309
Receivables from state finance department	7	-	-	705,847	681,129
Tax benefit – merged goodwill	9	-	-	140,703	147,911
Deferred income and social contributions taxes	28	-	-	29,476	28,050
Taxes recoverable	8	42,400	-	42,400	-
Pledges and restricted deposits	11	-	-	43,842	42,248
Loans receivable	10	39,106	39,663	39,106	39,663
Inventories		-	-	168,401	184,264
Other		-	-	8,453	6,624
		81,506	39,663	5,685,754	5,355,198
Investment	12	2,084,361	2,113,593	-	-
Property & equipment	13	-	-	9,277	9,231
Intangible assets	14	34	37	282,448	297,066
		2,084,395	2,113,630	291,725	306,297
		2,165,901	2,153,293	5,977,479	5,661,495
Total assets		2,522,606	2,515,583	7,913,143	7,554,639

	Note	Subsidiary		Consolidated	
		03.31.2011	12.31.2010	03.31.2011	12.31.2010
Liabilities and equity					
Current liabilities					
Loans and financing	15	756	1,934	543,231	334,347
Debentures	16	-	-	16,803	2,154
Suppliers		122	147	78,908	94,064
Taxes and social charges payable	17	6,591	2,533	93,356	91,277
Taxes in installments – Law No. 11941		-	-	10,517	10,353
Salaries payable		-	9	-	10
Regulatory charges payable	19	-	-	50,903	49,559
Interest on equity capital and dividends payable	23	-	-	183,476	127,978
Provisions	20	10	11	15,695	22,674
Payables – Law No. 4819/58 – State finance department		8,423	8,423	8,423	8,423
Payables – Law No. 4819/58 - OPA		4,946	4,946	4,946	4,946
Payables – Fundação CESP	21	-	-	6,181	6,503
Other		-	-	12,857	13,873
		20,847	18,005	1,025,295	766,161
Noncurrent liabilities					
Loans and financing	15	51,550	52,737	681,946	592,769
Debentures	16	-	-	556,555	553,639
Taxes in installments – Law No. 11941	18	-	-	147,262	144,964
Deferred PIS and COFINS		-	-	139,517	117,632
Deferred taxes	28	-	-	14,035	9,352
Regulatory charges payable	19	-	-	2,174	2,174
Provisions		-	-	160,017	161,688
Payables – Law No. 4819/58 – State finance department		221,515	215,498	221,515	215,498
Payables – Law No. 4819/58 - OPA		139,229	135,456	139,229	135,456
Special obligations – reversion and amortization		-	-	24,053	24,053
		412,294	403,691	2,086,303	1,957,225
Equity	23				
Capital		840,378	840,378	840,378	840,378
Capital reserves		1,199,400	1,199,400	1,199,400	1,199,400
Legal reserves		5,881	5,881	5,881	5,881
Income reserve		-	48,230	-	48,230
Accumulated profit		43,807	-	43,807	-
Non-controlling interest				2,712,080	2,737,364
Equity		2,089,465	2,093,888	4,801,545	4,831,253
Total liabilities and equity		2,522,606	2,515,583	7,913,143	7,554,639

See accompanying notes.

ISA Capital do Brasil S.A. and Subsidiary

Income statements

Three-month periods ended March 30, 2011 and 2010

(In thousands of reais, unless otherwise indicated)

	Note	Parent Company		Consolidated	
		03.31.2011	12.31.2010	03.31.2011	12.31.2010
Net operating income	24	-	-	607,039	447,402
Cost of operating services	25	-	-	(255,737)	(144,744)
Gross profit		-	-	351,302	302,658
Operating (expenses) income					
General and administrative		(524)	(15,341)	(34,592)	(44,125)
Management fees		(276)	(346)	(1,862)	(2,808)
Financial expenses	26	(17,296)	(389,356)	(103,144)	(464,396)
Financial income	26	35,286	90,879	18,169	81,949
Other net expenses		(13,992)	(13,992)	(20,344)	(20,476)
Equity pickup		77,643	77,651	-	-
Operating income		80,840	(250,505)	209,529	(147,198)
Income/(loss) before taxation		80,840	(250,505)	209,529	(147,198)
Income and social contributions taxes					
Current	28	(4,144)	-	(67,737)	(52,639)
Deferred	28	51,221	-	48,634	16,765
Income before reversal of interest on equity capital		127,917	(250,505)	190,426	(183,072)
Reversal of interest on equity capital		(24,703)	(23,221)	40,990	38,699
Non-controlling interest		-	-	(128,201)	(129,353)
Net income for the period		103,214	(273,726)	103,214	(273,726)

See accompanying notes.

ISA Capital do Brasil S.A. and Subsidiary

Cash flows statements

Three-month periods ended March 30, 2011 and 2010

(In thousands of reais, unless otherwise indicated)

	Subsidiary		Consolidated	
	03.31.2011	12.31.2010	03.31.2011	12.31.2010
Cash flows from operating activities				
Net income (loss) for the period	103,214	(273,726)	103,214	(273,726)
Adjustments to reconcile net income to cash generated by (used in) operating activities				
Non-controlling interest	-	-	128,201	129,353
Depreciation and amortization	3	12,755	1,516	14,213
Deferred income and social contributions taxes	-	-	18,342	(10,657)
Provision for contingencies	-	-	(1,669)	(1,834)
Residual value of permanent assets written off	-	-	4	40
Equity pick-up	(77,643)	(77,651)	-	-
Loss on change of interest - Subsidiary	-	-	-	160
Amortization of goodwill	13,992	13,992	21,200	21,200
Capital loss/gains	-	-	38,736	-
Interest, monetary and exchange variation on assets and liabilities	9,341	299,655	9,341	329,715
	48,907	(24,975)	318,885	208,464
(Increase) decrease in assets				
Clients	-	-	(191,864)	(15,198)
Inventories	-	-	16,383	(11,217)
Receivables	-	-	(25,620)	(16,548)
Taxes recoverable	(56,661)	(152)	(55,728)	68,345
Pledges and restricted deposits	2,325	40,175	731	44,727
Prepaid expenses	-	-	(11,341)	(8,862)
Other	7	12	22,088	(6,462)
Increase (decrease) in liabilities				
Suppliers	(42)	1,157	(15,889)	(85)
Taxes and social charges payable	4,144	(5,358)	2,115	(6,556)
Taxes in installments – Law No. 11941	-	-	-	-
Regulatory charges payable	(86)	-	1,085	2,012
Provisions	8	-	(6,984)	(15,421)
Payables	-	-	(322)	(661)
Other	-	-	(27,228)	(2,853)
Net cash generated by (used in) operating activities	(1,398)	10,859	26,311	239,685

ISA Capital do Brasil S.A. and Subsidiary

Cash flows statements--Continued

Three-month periods ended March 30, 2011 and 2010

(In thousands of reais, unless otherwise indicated)

	Subsidiary		Consolidated	
	03.31.2011	12.31.2010	03.31.2011	12.31.2010
Cash flows from investing activities				
Property & equipment	-	-	(917)	(855)
Intangible assets	-	-	-	-
Investment			(15,282)	
Interest on equity capital and dividends received	65,845	60,377	-	-
Net cash generated by (used in) investing activities	65,845	60,377	(16,199)	(855)
Cash flows from financing activities				
New loans	-	-	312,871	723,342
Loan payment (including interest)	(2,326)	(1,252,863)	(57,029)	(1,500,869)
Cash balance on subsidiary acquisition			2,173	
Dividends paid	(107,637)	-	(205,629)	(100,139)
Capital payment	-	600	-	600
Establishment of capital reserve	-	1,199,400	-	1,199,400
Net cash used in financing activities	(109,963)	(52,863)	52,387	322,334
Net increase (decrease) in cash and cash equivalents	(45,516)	18,373	62,500	561,164
Cash and cash equivalents at the end of the period	211,745	48,377	374,743	634,402
Cash and cash equivalents at the beginning of the period	257,261	30,004	312,244	73,238
Changes in cash and cash equivalents	(45,516)	18,373	62,500	561,164

See accompanying notes.

ISA Capital do Brasil S.A. and Subsidiary

Statements of changes in equity

Three-month period ended March 30, 2011 and year ended December 31, 2010

(In thousands of reais, unless otherwise indicated)

	<u>Capital</u>	<u>Capital reserve</u>	<u>Legal reserve</u>	<u>Retained profit reserve</u>	<u>Profit/ Accumulated losses</u>	<u>Total</u>
Balances at December 31, 2009	839,778	-	5,881	152,764	-	998,423
IFRS adjustment on January 1, 2009						
Capital payment in cash, contribution from shareholder HSBC on March 9, 2010	420	-	-	-	-	420
Capital reserve establishment in cash, contribution from shareholder HSBC on March 3, 2010		839,580	-	-	-	839,580
Capital payment in cash, contribution from shareholder HSBC on March 19, 2010	180	-	-	-	-	180
Capital reserve establishment in cash, contribution from shareholder HSBC on March 19, 2010	-	359,820	-	-	-	359,820
Loss for the year					(104,534)	(104,534)
Transfer to retained profit reserve				(104,534)	104,534	-
Balances at December 31, 2010	840,378	1,199,400	5,881	48,230	-	2,093,889
Profit for the year	-	-	-	-	103,214	103,214
Dividends paid on January 3, 2011	-	-	-	(48,230)	(59,407)	(107,637)
Balances at March 31, 2011	840,378	1,199,400	5,881	-	43,807	2,089,466

See accompanying notes.

ISA Capital do Brasil S.A. and Subsidiary

Statements of value added

Three-month periods ended March 30, 2011 and 2010

(In thousands of reais, unless otherwise indicated)

Description	Parent Company		Consolidated	
	In	In	In	In
	thousands of reais	thousands of reais	thousands of reais	thousands of reais
	03.31.2011	03.31.2010	03.31.2011	03.31.2010
1 - Revenues	-	-	692,403	508,664
1.1) Sales of goods, products and services	-	-	691,502	507,778
1.2) Other (non-operating) revenues	-	-	901	886
1.3) Revenues from construction of own assets	-	-	-	-
1.4) Allowance for loan losses – Reversion/Establishment	-	-	-	-
2 – Inputs acquired from third parties (including taxes - ICMS and IPI)	133	2,299	241,890	130,777
2.1) Cost of products, goods and services sold	-	-	33,597	4,590
2.2) Materials, energy, third-party services and others	133	2,299	208,293	126,187
2.3) Impairment of assets / asset recovery	-	-	-	-
2.4) Other	-	-	-	-
3 - Gross value added (1-2)	(133)	(2,299)	450,513	377,887
4 – Depreciation, amortization and depletion	13,995	26,747	15,508	28,205
5 – Net value added generated by the entity (3-4)	(14,128)	(29,045)	435,005	349,683
6 – Value added received in transfer	88,225	305,102	(110,033)	112,388
6.1) Equity pick-up	77,643	77,651	-	-
6.2) Financial income	10,582	227,450	18,168	241,741
6.3) Other, non-controlling interest	-	-	(128,201)	(129,353)
7 - Total value added to be distributed (5+6)	74,097	276,057	324,972	462,071
8 - Value added distribution	74,097	276,057	324,972	462,071
8.1) Personnel	479	458	37,730	37,884
8.1.1) Direct compensation (including management fees)	375	359	27,461	28,132
8.1.2) Benefits	104	98	8,074	7,561
8.1.3) FGTS	1	1	2,195	2,191
8.1.4) Actuarial adjustment / Other	-	-	-	-
8.2) Taxes, charges and contributions	(44,491)	4,846	121,465	114,623
8.2.1) Federal	(44,491)	4,843	117,129	110,996
8.2.2) State	-	3	260	172
8.2.3) Local	-	-	4,076	3,455
8.3) Debt remuneration	14,895	544,479	62,563	583,290
8.3.1) Interest	14,838	544,428	59,657	580,643
8.3.2) Rent	56	51	2,906	2,647
8.3.3) Other	-	-	-	-
8.4) Equity remuneration	103,214	(273,726)	103,214	(273,726)
8.4.1) Interest on equity capital	-	-	-	-
8.4.2) Dividends	-	-	-	0
8.4.4) Loss for the period / retained profit	103,214	(273,726)	103,214	(273,726)

See accompanying notes.

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Notes to interim consolidated financial statements

March 31, 2011

(In thousand of reais, unless otherwise indicated)

1. Operations

1.1 Corporate purpose

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

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

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

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

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

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

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Notes to interim consolidated financial statements--Continued

March 31, 2011

(In thousands of reais, unless otherwise indicated)

1. Operations--Continued

1.1 Corporate purpose--Continued

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

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

- (i) In Special Shareholders' Meeting held on March 9, 2010, under Board of Directors' Proposal terms dated March 8, 2010, Company's capital increase by R\$ 840,000 was approved, R\$ 420 of which was allocated to capital and R\$ 839,580 allocated to capital reserve, by creating and issuing 415,691,162 redeemable preferred shares distributed into 13 classes, entitled to fixed cumulative dividends, which were subscribed and paid-in on the same date. Accordingly, Company's capital increased from R\$ 839,778 to R\$ 840,198, comprising 1,256,316,162 shares. In the same meeting, mandatory dividend reduction was approved, which decreased from 25% to 1%, and amendment of the Company's Articles of Incorporation; and
- (ii) In Board of Directors' meeting held on March 19, 2010, a new capital increase was approved within authorized capital limit, with issue of 178,153,342 redeemable preferred shares, into 13 classes, entitled to cumulative fixed dividends, amounting to R\$ 360,000 which was fully subscribed and paid in on the same date, R\$ 180 of which were allocated to Company's capital and R\$ 359,820 to capital reserve.

Isa Capital do Brasil S.A e Controlada

Notes to interim consolidated financial statements--Continued

March 31, 2011

(In thousands of reais, unless otherwise indicated)

1. Operations--Continued

1.1 Corporate purpose--Continued

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

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

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

1.2 Concessions

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

Concessionaire	Agreement	Interest (%)	Term (years)	Maturity (dd/mm/yy)	Periodic Tariff Review		Flexibility on annual revenue allowed	Adjustment index	Annual Revenue Allowed (RAP)	
					Term	Next			R\$ thousand	Monthly base
CTEEP	059 (*)	37.6041	20	07.07.15	4 years	2013	No	IGPM	1,746,374	6/Oct
CTEEP	143/2001	37.6041	30	20.12.31	n/a	n/a	Yes	IGPM	14,384	6/Oct
IEMG	004/2007	37.6041	30	23.04.37	5 years	2012	Yes	IPCA	12,873	6/Oct
Pinheiros	012/2008	37.6041	30	15.10.38	5 years	2014	No	IPCA	6,756	6/Oct
Pinheiros	015/2008	37.6041	30	15.10.38	5 years	2014	No	IPCA	11,383	6/Oct
Pinheiros	018/2008	37.6041	30	15.10.38	5 years	2014	No	IPCA	2,903	6/Oct
Serra do Japi	026/2009	37.6041	30	18.11.39	5 years	2015	No	IPCA	21,804	5/Sep
IENNE	001/2008	9.4010	30	16.03.38	5 years	2013	No	IPCA	33,327	6/Oct
IESul	013/2008	18.8021	30	15.10.38	5 years	2014	No	IPCA	4,068	6/Oct
IESul	016/2008	18.8021	30	15.10.38	5 years	2014	No	IPCA	7,323	6/Oct
IEMadeira	013/2009	19.1781	30	25.02.39	5 years	2014	No	IPCA	176,249	5/Sep
IEMadeira	015/2009	19.1781	30	25.02.39	5 years	2014	No	IPCA	151,788	5/Sep

(*) CTEEP concession agreement No. 059 is divided into: Existing service (SE- Serviço Existente) referring to facilities that became operable until December 31, 1999; and new investments (NI - Novos Investimentos) referring to facilities operating as from January 1, 2000. Information regarding periodic tariff review refers solely to concession agreement No. 059 NI.

Isa Capital do Brasil S.A e Controlada

Notes to interim consolidated financial statements--Continued

March 31, 2011

(In thousands of reais, unless otherwise indicated)

1. Operations--Continued

1.2 Concessions--Continued

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

All concession agreements above provides for the right of indemnification upon their expiration.

Auction

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

Batch C - Porto Velho – Jauru Transmission Line

Batch C refers to the third 230 kV transmission line circuit between Jauru (Mato Grosso) and Porto Velho (Rondônia), totaling 987 km. Linha Verde Transmissora de Energia S.A. was incorporated on July 2, 2009 to develop this venture.

On May 19, 2010, Linha Verde filed a request with ANEEL for early approval to transfer shares held by CTEEP to Abengoa Concessões Brasil Holding S.A. On March 15, 2011, ANEEL, through Authorization Decision No. 2814, approved the request for transfer of shares held by CTEEP to Abengoa Concessões Brasil Holding S.A.

Isa Capital do Brasil S.A e Controlada

Notes to interim consolidated financial statements--Continued

March 31, 2011

(In thousands of reais, unless otherwise indicated)

1. Operations--Continued

1.2 Concessions--Continued

Batch D - Porto Velho – Rio Branco Transmission Line

This batch refers to the second 230 kV transmission line circuit between Porto Velho (Rondônia), Abunã and Rio Branco (Acre), totaling 487 km. Rio Branco Transmissora de Energia S.A. was incorporated on July 2, 2009 to develop this venture.

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

Batch E – Jauru – Cuiabá Transmission Line and Jauru substation

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

1.3 Corporate restructuring

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

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

Capital subscription of the Company in ISA Participações, with the conveyance of shares held in the capital of CTEEP.

Isa Capital do Brasil S.A e Controlada

Notes to interim consolidated financial statements--Continued

March 31, 2011

(In thousands of reais, unless otherwise indicated)

1. Operations--Continued

1.3 Corporate restructuring--Continued

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

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

2. Presentation of interim financial statements

2.1 Basis for preparation and presentation

Interim financial statements were approved by an Executive Board meeting held on May 20, 2011.

The individual interim financial statements identified as "Parent Company" were prepared and are presented in accordance with accounting practices adopted in Brazil, which comprise provisions contained in Brazilian Corporation Law, pronouncements, interpretations and guidance issued by Brazilian Financial Accounting Standards Board ("CPC") and approved by Brazilian Securities and Exchange Commission ("CVM"). In compliance with current Brazilian legislation, these individual interim financial statements present an assessment of investments in subsidiaries and in joint ventures under the equity method. Therefore, these individual interim financial statements are not deemed to be in conformity with International Financial Reporting Standards (IFRS), requiring evaluation of these investments by its fair value or its cost value.

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

Isa Capital do Brasil S.A e Controlada

Notes to interim consolidated financial statements--Continued

March 31, 2011

(In thousands of reais, unless otherwise indicated)

2. Presentation of interim financial statements--Continued

2.1 Basis for preparation and presentation--Continued

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

2.2 Functional and reporting currency

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

2.3 Significant accounting judgment, estimates and assumptions

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

These judgments, estimates and assumptions are reviewed at least on an annual basis and any adjustments are recognized for the period for which those estimates are reviewed. Critical judgments, estimates and assumptions are related to the following aspects: recording concession agreements, time of recognition of financial assets, determining construction, operating and maintenance revenues, defining the effective interest rate of financial assets, reviewing credit and other risks in determining required provisions, including the provision for tax, civil and labor contingencies.

Recording of concession agreements

When recording concession agreements, CTEEP performed analyses involving management's judgment, substantially related to: concession agreement interpretation relevance, determining and classifying expenses with construction, expansion and reinforcement as financial assets. The accounting treatment for each CTEEP concession agreement, as well as its characteristics, is described in Notes 1.2.

Isa Capital do Brasil S.A e Controlada

Notes to interim consolidated financial statements--Continued

March 31, 2011

(In thousands of reais, unless otherwise indicated)

2. Presentation of interim financial statements--Continued

2.3 Significant accounting judgment, estimates and assumptions--Continued

Time of financial asset recognition

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

Determining the effective interest rate of the financial asset

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

Determination of construction revenues

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

Isa Capital do Brasil S.A e Controlada

Notes to interim consolidated financial statements--Continued

March 31, 2011

(In thousands of reais, unless otherwise indicated)

2. Presentation of interim financial statements--Continued

2.3 Significant accounting judgment, estimates and assumptions--Continued

Asset value subject to indemnification

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

Determining maintenance and operating revenues

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

2.4 Consolidation procedures

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

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

Isa Capital do Brasil S.A e Controlada

Notes to interim consolidated financial statements--Continued

March 31, 2011

(In thousands of reais, unless otherwise indicated)

2. Presentation of interim financial statements--Continued

2.4 Consolidation procedures--Continued

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

At March 31, 2011, interest held in subsidiaries was as follows:

	Financial statements reporting date	Interest %	
		03.31.2011	12.31.2010
Direct			
CTEEP	03.31.2011	37.6041	37.6041
Indirect			
Interligação Elétrica Pinheiros S.A. (Pinheiros)	03.31.2011	37.6041	37.6041
Interligação Elétrica Serra do Japi S.A. (Serra do Japi)	03.31.2011	37.6041	37.6041
Interligação Elétrica de Minas Gerais S.A. (IEMG)	03.31.2011	37.6041	22.5625
Interligação Elétrica Norte e Nordeste S.A. (IENNE)	03.31.2011	9.4010	9.4010
Interligação Elétrica do Sul S.A. (IESUL)	03.31.2011	18.8021	18.8021
Interligação Elétrica do Madeira S.A. (IEMADEIRA)	03.31.2011	19.1781	19.1781

Linha Verde Transmissora de Energia S.A. and Rio Branco Transmissora de Energia S.A. are not included in the consolidation, for CTEEP has not yet paid up its interest in capital of these companies, as mentioned in Note 1.2, and is currently arranging transfer to Abengoa and Eletronorte, respectively .

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

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

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

Isa Capital do Brasil S.A e Controlada

Notes to interim consolidated financial statements--Continued

March 31, 2011

(In thousands of reais, unless otherwise indicated)

3. Significant accounting practices

3.1 Determination of P&L

Revenues and expenses are recorded on the accrual basis.

3.2 Revenue recognition

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

a) Construction revenue

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

b) Financial Income

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

c) Maintenance and operating revenue

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

Isa Capital do Brasil S.A e Controlada

Notes to interim consolidated financial statements--Continued

March 31, 2011

(In thousands of reais, unless otherwise indicated)

3. Significant accounting practices--Continued

3.3 Current and deferred income and social contribution taxes - Consolidated

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

Parent company decided to adopt the Annual Taxable Profit regime.

Current and deferred income and social contribution taxes are calculated based on the rate of 15%, plus 10% surtax on taxable profit exceeding R\$ 240 for income tax, and 9% on taxable profit for social contribution tax, considering income and social contribution tax loss offsetting, limited to 30% of taxable profit.

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

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

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

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

Isa Capital do Brasil S.A e Controlada

Notes to interim consolidated financial statements--Continued

March 31, 2011

(In thousands of reais, unless otherwise indicated)

3. Significant accounting practices--Continued

3.4 Financial instruments

a) Financial assets

(i) Classification and measurement

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

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

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

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

Isa Capital do Brasil S.A e Controlada

Notes to interim consolidated financial statements--Continued

March 31, 2011

(In thousands of reais, unless otherwise indicated)

3. Significant accounting practices--Continued

3.4 Financial instruments--Continued

a) Financial instruments--Continued

(i) *Classification and measurement--Continued*

- Financial assets at fair value through P&L

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

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

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

Isa Capital do Brasil S.A e Controlada

Notes to interim consolidated financial statements--Continued

March 31, 2011

(In thousands of reais, unless otherwise indicated)

3. Significant accounting practices--Continued

3.4 Financial instruments--Continued

a) Financial instruments--Continued

(i) *Classification and measurement--Continued*

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

At March 31, 2011, financial assets classified under this category are related to cash and cash equivalents.

- Financial assets held to maturity

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

At March 31, 2011, CTEEP had no financial assets classified as held to maturity.

- Financial assets available for sale

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

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

At March 31, 2011, CTEEP had no financial asset classified as available for sale.

Isa Capital do Brasil S.A e Controlada

Notes to interim consolidated financial statements--Continued

March 31, 2011

(In thousands of reais, unless otherwise indicated)

3. Significant accounting practices--Continued

3.4 Financial instruments--Continued

a) Financial instruments--Continued

(i) *Classification and measurement*--Continued

- Lending and receivables

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

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

At March 31, 2011, the Company's financial assets classified under this category corresponded to trade accounts receivable and receivables from the State Finance Department.

(ii) *Impairment of financial assets*

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

Isa Capital do Brasil S.A e Controlada

Notes to interim consolidated financial statements--Continued

March 31, 2011

(In thousands of reais, unless otherwise indicated)

3. Significant accounting practices--Continued

3.4 Financial instruments--Continued

a) Financial instruments--Continued

(ii) Impairment of financial assets--Continued

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

(iii) Financial assets write-off

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

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

b) Financial liabilities

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

Isa Capital do Brasil S.A e Controlada

Notes to interim consolidated financial statements--Continued

March 31, 2011

(In thousands of reais, unless otherwise indicated)

3. Significant accounting practices--Continued

3.4 Financial instruments--Continued

c) Derivative instruments and hedging activities

During the three-month period, the Company did not enter into any agreements which may be considered as derivative financial instruments.

3.5 Cash and cash equivalents

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

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

3.6 Trade accounts receivable

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

Assets subject to indemnification, recorded when construction is completed, refer to the estimated portion of unamortized investments made to the end of the concession period and to which CTEEP will be entitled to receive cash or other financial assets, while the concession contract remains effective. As set forth in the contracts, if the concession ceases to exist, service-related assets will be reversed by operation of law to the grantor, by identifying, assessing and determining the indemnification payable to the concessionaire, considering the amounts and dates of its addition to the electrical system. Through its subsidiary CTEEP, management considers that the indemnification to which it is entitled corresponds to the New Replacement Value adjusted by accumulated depreciation of each item. Considering the uncertainties existing in today's energy market, the subsidiary CTEEP estimated the indemnification value of its assets based on their corresponding book values, which is the minimum amount management understands as guaranteed by current regulation.

Isa Capital do Brasil S.A e Controlada

Notes to interim consolidated financial statements--Continued

March 31, 2011

(In thousands of reais, unless otherwise indicated)

3. Significant accounting practices--Continued

3.6 Accounts receivable--Continued

Considering that management monitors industry regulation on an ongoing basis, should there be changes thereto that might change estimates on assets indemnification, the accounting effects thereof will be addressed on a prospective basis in the interim financial statements. However, management reiterates its commitment to continue defending the Company's shareholders' interests in realizing these assets, so as to leverage return on capital invested in concession, within legal limits.

Based on recovery tests conducted by the CTEEP, no allowance for loan losses of clients were set up.

3.7 Inventories

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

3.8 Investments

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

(i) Goodwill

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

Isa Capital do Brasil S.A e Controlada

Notes to interim consolidated financial statements--Continued

March 31, 2011

(In thousands of reais, unless otherwise indicated)

3. Significant accounting practices--Continued

3.9 Property, plant and equipment - Consolidated

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

Other expenses are only capitalized when economic benefits of its property, plant and equipment items increase. Any other expenses are recognized in P&L as expenses, when incurred.

3.10 Intangible assets - Consolidated

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

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

3.11 Lease agreements

a) CTEEP as the leaseholder

Operating lease

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

Finance lease

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

Isa Capital do Brasil S.A e Controlada

Notes to interim consolidated financial statements--Continued

March 31, 2011

(In thousands of reais, unless otherwise indicated)

3. Significant accounting practices--Continued

3.11 Lease agreements--Continued

a) CTEEP as leaseholder--Continued

Finance lease--Continued

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

b) CTEEP as the leaseholder

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

3.12 Other current and noncurrent assets

These are stated at their net realizable value.

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

3.13 Other current and noncurrent assets

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

3.14 Provisions

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

Isa Capital do Brasil S.A e Controlada

Notes to interim consolidated financial statements--Continued

March 31, 2011

(In thousands of reais, unless otherwise indicated)

3. Significant accounting practices--Continued

3.14 Provisions--Continued

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

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

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

They are restated through the balance sheet dates at an amount estimated considering the likelihood of an unfavorable outcome, based on the opinion of the Company's and its subsidiary's legal advisors. Rationale and type of provision for tax, civil and labor claims are detailed in Note 20(b).

3.15 Pension plans and other employee benefits

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

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

Isa Capital do Brasil S.A e Controlada

Notes to interim consolidated financial statements--Continued

March 31, 2011

(In thousands of reais, unless otherwise indicated)

3. Significant accounting practices--Continued

3.15 Pension plans and other employee benefits--Continued

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

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

3.16 Dividends and interest on equity capital

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

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

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

Dividends exceeding minimum mandatory dividend recorded by management after the reporting period to which the interim financial statements refer, but before the date such interim financial statements are authorized to be issued, are recorded under "Additional Proposed Dividends", under equity, according Note 23(b).

Isa Capital do Brasil S.A e Controlada

Notes to interim consolidated financial statements--Continued

March 31, 2011

(In thousands of reais, unless otherwise indicated)

3. Significant accounting practices--Continued

3.16 Dividends and interest on equity capital--Continued

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

3.17 Business segment

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

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

3.18 Statements of value added (“SVA”)

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

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

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(In thousands of reais, unless otherwise indicated)

4. Liabilities assumed upon acquisition of subsidiary CTEEP

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

At March 31, 2011, the amount to supplement purchase price is composed of two different transactions, as follows:

- a) The amount of R\$ 229,938 (R\$ 223,921 at December 31, 2010), computed upon acquisition of the first equity interest through privatization auction, held on June 28, 2006, recorded as "Payables – Law No. 4819/58 – State Finance Department", and R\$ 8,423 (R\$ 8,423 at December 31, 2010) under current liabilities and R\$ 221,515 (R\$ 215,498 December 31, 2010) under noncurrent liabilities, was then matched against R\$ 188,895 recorded as "Investments – goodwill upon acquisition of interest in subsidiary" (Note 12), the difference of which amounts to R\$ 41,043 and is recognized as monetary restatement of the liability, in accordance with Brazil's Extended Consumer Price Index (IPCA) as from December 31, 2005
- b) R\$ 144,175 (R\$ 140,402 at December 31, 2010), computed upon acquisition of the third equity interest through tender offer auction (OPA), held on January 9, 2007, recorded as "Payables – Law No. 4819/59 - OPA", of which R\$ 4,946 (R\$ 4,946 at December 31, 2010) under current liabilities and R\$ 139,229 (R\$ 135,456 at December 31, 2012) under noncurrent liabilities, was then matched against R\$ 120,306 as "Investments – goodwill upon acquisition of interest in subsidiary" (Note 12), the difference of which amounts to R\$ 23,869 and is recognized as monetary restatement of the liability, in accordance with Brazil's Extended Consumer Price Index (IPCA) as from December 31, 2005.

5. Cash and cash equivalents

	Parent Company		Consolidated	
	03.31.2011	12.31.2010	03.31.2011	12.31.2010
Cash and Banks	128	70	1,678	697
Short-term investments	211,617	257,191	373,066	311,546
	<u>211,745</u>	<u>257,261</u>	<u>374,743</u>	<u>312,243</u>

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Notes to interim consolidated financial statements--Continued

March 31, 2011

(In thousands of reais, unless otherwise indicated)

5. Cash and cash equivalents--Continued

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

Company exposure to interest rate risks and a sensitivity analysis of such assets are described in Note 30(c).

6. Trade accounts receivable - consolidated

Breakdown of trade accounts receivable is as follows:

	Consolidated	
	03.31.2011	12.31.2010
Accounts receivable from construction services (a)	5,621,003	5,405,440
Accounts receivable from O&M services (b)	210,905	175,912
Acknowledgment of debt and payment agreement (c)	52,619	68,347
	<u>5,884,527</u>	<u>5,649,699</u>
Current	<u>1,377,001</u>	<u>1,424,390</u>
Noncurrent	<u>4,507,526</u>	<u>4,225,309</u>

- (a) It refers to the amount receivable for construction, expansion and reinforcement services of electric energy transmission facilities, and includes the estimated investments made and not amortized until the end of the concession and for which the Company will be entitled to receive cash or other financial assets, when concession agreement is no longer effective. They bear interest at the effective interest rate calculated for each concession agreement.
- (b) It refers to the portion of monthly sales reported by ONS allocated to compensation of operating and maintenance services, receivable within no longer than 60 days, on average.
- (c) On January 13, 2009, CTEEP signed an "acknowledgment of debt and payment agreement" with dealers with overdue accounts receivable. This agreement provides for balance receipt in 36 installments. By March 2011, all installments had been received as provided for the agreement.

These financial assets are classified as lending and receivables.

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Notes to interim consolidated financial statements--Continued

March 31, 2011

(In thousands of reais, unless otherwise indicated)

6. Trade accounts receivable – consolidated--Continued

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

Trade accounts receivable are distributed as follows, by maturity date:

	Consolidated	
	03.31.2011	12.31.2010
Falling due	5,866,276	5,633,208
Overdue		
up to 30 days	1,445	1,498
from 31 to 60 days	218	846
over 60 days	16,588	14,147
	18,251	16,491
	5,884,527	5,649,699

7. Receivables from State Finance Department - consolidated

	03.31.2011			12.31.2010
	Current	Noncurrent	Total	Total
Acknowledgment and consolidated obligation agreement (a)	19,738	6,579	26,317	30,069
Disposal of properties (b)	4,102	1,368	5,470	6,250
Payroll processing – Law No. 4819/58 (c)	-	560,521	560,521	533,866
Labor claims – Law No. 4819/58 (d)	-	137,379	137,379	133,882
Family allowance – Law No. 4819/58 (e)	-	2,218	2,218	2,218
Allowance for loan losses	-	(2,218)	(2,218)	(2,218)
	23,840	705,847	729,687	704,067

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

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Notes to interim consolidated financial statements--Continued

March 31, 2011

(In thousands of reais, unless otherwise indicated)

7. Receivables from State Finance Department – consolidated-- Continued

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

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

(c) R\$ 560,521 refers to the remaining payroll processing balance related to the supplementary pension plan regulated by State Law No. 4819/58, of which R\$ 1,426 through individual injunctions for the period between January and August 2005 and R\$ 559,095 from September 2005 to March 2011 in virtue of judicial decision from 49th Labor Court in São Paulo, whose payments are made by Fundação CESP, through partial funds received from the State Government and partial funds transferred by CTEEP (Note 34 (c)). Such balance is not monetarily restated and no yields are recorded until they are approved by the State Government to be effectively paid to CTEEP.

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

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

Considering the expected loss, management set up an allowance for loan losses under noncurrent assets, amounting to R\$ 2,218.

8. Taxes recoverable

	Parent Company		Consolidated	
	03.31.2011	12.31.2010	03.31.2011	12.31.2010
COFINS	-	-	972	3,273
PIS	-	-	3,109	803
Income tax	52,028	36,806	94,124	42,425
Social contribution tax	-	-	807	776
Other	-	-	339	759
	<u>52,028</u>	<u>36,806</u>	<u>99,350</u>	<u>48,036</u>

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Notes to interim consolidated financial statements--Continued

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(In thousands of reais, unless otherwise indicated)

8. Taxes recoverable--Continued

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

9. Tax benefit – parent company’s merged goodwill – parent company and consolidated

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

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

Amortization of goodwill, net of reversal of the provision and of the corresponding tax credit, is neutral with respect to P&L for the year and, accordingly, to the mandatory minimum dividend calculation basis.

Goodwill totaled R\$ 689,435 at December 31, 2007 and is currently amortized over the remaining concession period, in monthly installments according to the projected annual future profitability and as permitted by ANEEL Resolution No. 1164 of December 18, 2007, as follows:

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

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Notes to interim consolidated financial statements--Continued

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(In thousands of reais, unless otherwise indicated)

9. Tax benefit – parent company’s merged goodwill – parent company and consolidated--Continued

To better present the Company's financial position in the interim financial statements, the net amount of R\$ 140,703, which essentially represents the tax credit merged by CTEEP, was classified in the consolidated balance sheet under non-current assets as tax benefit – merged goodwill, based on expected realization.

Changes for the three-month period ended March 31, 2011 are as follows:

	<u>Goodwill</u>	<u>Provision</u>	<u>Net</u>
Balances at 12.31.2010	435,034	(287,123)	147,911
Realization for the period	(21,200)	13,992	(7,208)
Balances at 03.31.2011	<u>413,834</u>	<u>(273,131)</u>	<u>140,703</u>

10. Loans receivable

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

Balance breakdown is as follows:

	<u>03.31.2011</u>	<u>12.31.2010</u>
Principal	51,146	51,146
Interests	348	8
Exchange variation	(12,389)	(11,491)
Total	<u>39,106</u>	<u>39,663</u>

Isa Capital do Brasil S.A e Controlada

Notes to interim consolidated financial statements--Continued

March 31, 2011

(In thousands of reais, unless otherwise indicated)

11. Pledges and restricted deposits – parent company and consolidated

Parent company

In January 2007 the Company raised the amount of US\$ 554 million from issue of bonds with JP Morgan and ABN AMRO Bank as agents, divided into two tranches: the first, in the amount of US\$ 200 million, maturing 2012, and call option in 2010 and 2011 and the second, of US\$ 354 million, maturing 2017 (Note 15 (a)).

As established in a contract, the Company made two deposits in Bank of New York worth US\$ 7,875 thousand and US\$ 15,576 thousand, as a guarantee for interest payable semiannually, in connection with the two aforesaid capital raises, respectively. Given that in March 2010 the Company repurchased 91.06% of bonds maturing 2017 and 100% of bonds maturing 2012, the amount to be kept in this account for semiannual interest payment of bonds remaining in the market is in the region of US\$1.4 million. The balance recorded at December 31, 2010 under current assets, amounting to R\$ 2,320, was used to pay interests in January, 2011.

Within the term set forth by agreement, the account balance was recomposed through a deposit made on April 25, 2011 in the amount of R\$ 2,193.

Consolidated

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

	<u>03.31.2011</u>	<u>12.31.2010</u>
Judicial deposits		
Labor (Note 20 (b) (i))	29,508	27,914
Tax – COFINS (b)	5,668	5,668
Social security – INSS (Note 20 (b) (iii))	2,745	2,745
Notices – ANEEL (a)	5,723	5,723
Other	198	198
	<u>43,842</u>	<u>42,248</u>

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Notes to interim consolidated financial statements--Continued

March 31, 2011

(In thousands of reais, unless otherwise indicated)

11. Pledges and restricted deposits – parent company and consolidated--Continued

Consolidated--Continued

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

- (i) Deposit made on January 17, 2000, amounting to R\$ 3,040, in an annulment action filed by CTEEP against ANEEL, related to notice of violation 001/1999-SFE which had fined the Company under alleged violations for obstructing the inspection related to disturbances from interrupted electric power transmission and distribution over a large part of the Southeast, South and Middle West regions; non-compliance with the "inspection report" requirements; and non-compliance with the legal duty of rendering proper service.
- (ii) Deposit made on August 29, 2008, amounting to R\$ 2,139, aimed to annul violation notice No. 062/2007 for not meeting the date established for installation of the 3rd 345/88kV transformers bank of SE Baixada Santista, authorized by ANEEL Rule No. 197 of May 4, 2004.
- (iii) Deposit made on September 17, 2008, amounting to R\$ 544, in order to annul violation notice No. 001/2008 for not meeting the date established for 345kV Guarulhos – Anhanguera Transmission Line starting up its activities, as authorized by ANEEL Authorizing Rule No. 064/2005 of January 31, 2005.

(b) Judicial deposits – COFINS – check original

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

12. Investments

a) Information on subsidiary CTEEP

	<u>03.31.2011</u>	<u>12.31.2010</u>
Number of shares (quantity)		
Common - ON	63,860,513	63,860,513
Preferred - PN	87,968,467	87,968,467
Total	151,828,980	151,828,980
Equity		
Capital	1,119,911	1,119,911
Capital reserve	2,054,369	2,054,369
Special goodwill reserve	176,743	176,743
Income reserves	1,013,542	1,014,124
Proposed additional dividend distribution	16,714	198,021
Advances for future capital increase	666	666
Total	4,381,945	4,563,835
Net income for the period	141,365	812,171

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Notes to interim consolidated financial statements--Continued

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(In thousands of reais, unless otherwise indicated)

12. Investments--Continued

b) Investment information

	<u>03.31.2011</u>	<u>12.31.2010</u>
Shares held - ON	57,093,869	57,093,869
Percentage of interest	37,6041	37,6041
Investment	<u>1,634,487</u>	<u>1,649,726</u>
Goodwill		
Unamortized goodwill (Note 14)	273,130	287,122
Goodwill – special reserve	<u>176,744</u>	<u>176,744</u>
Total goodwill (a)	<u>449,874</u>	<u>463,867</u>
Total investment	<u><u>2,084,361</u></u>	<u><u>2,113,593</u></u>

c) Changes in investment

Balance at December 31, 2010	<u><u>2,113,593</u></u>
Equity pick-up	77,643
Dividends stated for the year	(68,179)
Interest on equity capital stated for the year	(24,703)
Amortization of goodwill	(13,992)
Balance at March 31, 2011	<u><u>2,084,361</u></u>

13. Property, plant and equipment - Consolidated

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

	<u>03.31.2011</u>		<u>12.31.2010</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net</u>	<u>Net</u>
In operation				
Leasehold improvements	3,149	(2,520)	629	818
Other	1,264	(543)	722	1,038
Machinery and equipment	9,251	(3,876)	5,375	4,698
Furniture and fixtures	2,604	(914)	1,690	1,734
Vehicles	1,466	(605)	861	943
	<u>17,734</u>	<u>(8,458)</u>	<u>9,277</u>	<u>9,231</u>

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Notes to interim consolidated financial statements--Continued

March 31, 2011

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14. Intangible assets - Consolidated

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

	<u>03.31.2011</u>	<u>12.31.2010</u>
Goodwill (note 13)	273,130	287,122
Implementation of the integrated system and others	9,318	9,944
	<u>282,448</u>	<u>297,066</u>

15. Loans and financing

Breakdown of loan and financing balance is as follows:

	Charges	Maturity (dd/mm/yy)	Consolidated	
			<u>03.31.2011</u>	<u>12.31.2010</u>
Foreign currency				
Bonds (a)			52,306	54,671
Local currency				
BNDES (b) (i)	2.3% p.a. above TJLP	15.06.2015	397,878	421,146
BNDES (b) (ii)	1.8% p.a. above TJLP	15.06.2015	151,709	160,605
BNDES (c)	2.4% p.a. above TJLP	15.04.2023	61,469	37,630
BNDES (d)	2.8% p.a. above TJLP	15.04.2011	192,784	185,134
BNDES (e)	2.4% p.a. above TJLP	15.05.2025	9,616	-
BNDES (f)	2.6% p.a. above TJLP	15.05.2026	91,764	-
Promissory Notes (g)				
4 th issue	CDI + 0.4% p.a.	12.01.2012	204,438	
Banco Bradesco (h)	CDI + 2.0% p.a.		3,688	1,396
Citibank (i)	CDI + 1.5% p.a.	11.03.2011	-	8,297
Banco do Nordeste (j)	10% p.a.	19.05.2030	56,059	56,094
Other			1,587	
Eletróbrás		15.11.2021	429	441
Finance lease agreements			1,451	1,702
			<u>1,225,178</u>	<u>927,116</u>
Current			<u>543,231</u>	<u>334,347</u>
Noncurrent			<u>681,946</u>	<u>592,769</u>

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Notes to interim consolidated financial statements--Continued

March 31, 2011

(In thousands of reais, unless otherwise indicated)

15. Loans and financing--Continued

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

This issue, represented by JP Morgan S.A. and ABN Amro Real S.A., was divided into two tranches: one amounting to US\$ 200 million, maturing 2012, a five-year period, at the interest rate of 7.875% p.a., with call options in 2010 and 2011; the other tranche amounts to US\$ 354 million maturing 2017, a ten-year period, at the interest rate of 8.8% p.a.

At the time, the Company's management entered into specific swap agreement to hedge against currency risks related to the abovementioned bond issue. Such swap transaction was initially segregated into two parts, one to cover bonds principal amounting to US\$ 554.0 million, and another to cover semiannual interest maturing July 2007 and January 2008:

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

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

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Notes to interim consolidated financial statements--Continued

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15. Loans and financing--Continued

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

- JP Morgan S.A.: on February 12, 2008, a 50% hedge of both tranches was taken out. The first tranche, amounting to US\$ 100 million and maturing in 2012, was contracted at the exchange rate of R\$ 1.7573, bearing IGP-M plus 4.8709% per annum. The second tranche, amounting to US\$ 177 million and maturing in 2017, was also taken out at the foreign exchange rate of R\$ 1.7573, bearing IGP-M plus 2.7003% p.a. The Recouping partial payment clause was maintained under the same conditions of the previous contract. Because of the Company's wish to exclude the Recouping clause from the contract, on July 28, 2008 the Company made a partial payment of R\$ 62 million. As a result of such payment, a new contract was signed on the same date, under new conditions. The hedge that until then was 50% of the two tranches changed to 50% of the first tranche only, corresponding to US\$ 100 million and maturing in 2012. This new contract was established at the exchange rate of R\$ 1.5745, bearing IGP-M plus 5.052% p.a. The recouping partial payment clause was excluded.
- Deutsche Bank S.A.: on July 28, 2008, the other part of the hedge, related to 50% of the second tranche amounting to US\$ 177 million, maturing in 2017, was taken out by the Company with Deutsche Bank, at the exchange rate of R\$ 1.5745, bearing General Market Price Index (IGP-M) plus 3.99% p.a. This contract does not include the Recouping partial payment clause.

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

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

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Notes to interim consolidated financial statements--Continued

March 31, 2011

(In thousands of reais, unless otherwise indicated)

15. Loans and financing--Continued

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

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

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

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

• US\$ 354.0 million bonds maturing in 2017

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

Total amount disbursed by the Company in repurchasing 91.06% of these bonds in March 2010 totaled US\$ 371.8 million, which is equivalent to R\$ 665.0 million, broken down as follows: (i) Principal of US\$ 322.3 million, equivalent to R\$ 577.4 million; (ii) Consent Fee of US\$ 37.7 million, equivalent to R\$ 66.6 million; (iii) Pro-rata interest of US\$ 3.2 million equivalent to R\$ 5.7 million; and (iv) Taxes levied on transfers of US\$ 8.6 million, equivalent to R\$ 15.3 million.

Isa Capital do Brasil S.A e Controlada

Notes to interim consolidated financial statements--Continued

March 31, 2011

(In thousands of reais, unless otherwise indicated)

15. Loans and financing--Continued

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

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

- US\$ 354.0 million bonds maturing in 2017

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

- US\$ 200.0 million bonds maturing in 2012

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

- Swap contracts

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

Accordingly, considering that of total US\$ 554.0 million bonds issued by the Company on January 29, 2007 only US\$ 31.6 million bonds maturing in 2017 remain in the market, and considering the existence of a loan agreement receivable from Parent Company amounting to US\$ 23.8 million (Note 10), Company's management understands that currency exposure is fairly low, and therefore took out no derivative financial instrument (swap) for that purpose.

Isa Capital do Brasil S.A e Controlada

Notes to interim consolidated financial statements--Continued

March 31, 2011

(In thousands of reais, unless otherwise indicated)

15. Loans and financing--Continued

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

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

• Swap contracts--Continued

	<u>03.31.2011</u>	<u>12.31.2010</u>
Current liabilities		
Bond issue - interest	756	1,934
Total	<u>756</u>	<u>1,934</u>
Noncurrent liabilities		
Bond issue - interest	51,550	52,737
Total	<u>51,550</u>	<u>52,737</u>
	<u>52,306</u>	<u>54,671</u>

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

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

Isa Capital do Brasil S.A e Controlada

Notes to interim consolidated financial statements--Continued

March 31, 2011

(In thousands of reais, unless otherwise indicated)

15. Loans and financing--Continued

- (a) Bonds amounting to US\$ 554 million issued on January 29, 2007--Continued
 - (a.ii) *Restructuring of foreign-currency-denominated debt (bonds)--Continued*
 - (b) On January 14, 2009 subsidiary IEMG entered into a R\$ 70.6 million loan agreement with BNDES, drawn down on March 27, 2009. This amount is aimed to finance approximately 50% of the Transmission Line (LT) between Neves 1 and Mesquita substations. Repayment will take place in 168 monthly installments as from May 15, 2009. As guarantee, the Company has given bank sureties contracted effective up to March 18, 2010 from HSBC. On February 18, 2010, an amendment to the bank sureties was signed, extending the effectiveness to March 15, 2011. HSBC dismissed bank sureties, since a Debt Coverage Index (ICD) of 1.3% was provided by IEMG, meeting the conditions of the financing agreement.
 - (c) On August 11, 2010, subsidiary IEMadeira entered into loan agreement with BNDES, for R\$ 292.6 and R\$ 108.7 million. On August 30, 2010, R\$ 163.0 million was drawn down, and the remaining amount will be released within the following quarters. The amount is intended to finance the construction of the Transmission Lines and Substations provided for in the concession agreements. Repayment will take place in a lump sum including charges. As guarantee, the Company has given bank sureties taken out from Banco Bradesco, Banco Espírito Santo - BES and Santander effective up to June 15, 2011.
 - (d) On December 21, 2010, subsidiary IESUL entered into a R\$ 18.1 million financing agreement with BNDES. Such amount was released on February 24, 2011. The amount is intended to finance the construction of the Transmission Lines and Substations provided for in the concession agreements. Repayment will take place in 168 monthly installments as from June 15, 2011. As guarantee, the Company has given bank sureties contracted effective up to December 21, 2012 from Banco do Brasil.
 - (e) On December 30, 2010, subsidiary Pinheiros entered into a R\$ 119.9 million financing agreement with BNDES. On January 28, 2011, R\$ 91.3 million were drawn down and the remaining amount will be released in the next quarter. The amount is intended to finance the construction of the Transmission Lines and Substations provided for in the concession agreements. Repayment will take place in 168 monthly installments as from September 15, 2011. As guarantee, the Company has given bank sureties contracted effective up to April 18, 2012 from Banco Bradesco.

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Notes to interim consolidated financial statements--Continued

March 31, 2011

(In thousands of reais, unless otherwise indicated)

15. Loans and financing--Continued

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

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

- (f) 4th issue – issued on January 17, 2011, amounting to R\$ 200.0 million, its maturity on January 12, 2012. Nominal charges correspond to CDI plus 0.4% p.a. Issue cost of these promissory notes totaled R\$ 132 thousand and, pursuant to CPC 08, promissory notes issue cost were recorded net of fund raising value and allocated to P&L for the transaction period.
- (g) IENNE maintains a credit limit of R\$ 20.0 million with Banco Bradesco. Nominal charges correspond to 100.0% of CDI.
- (h) On August 4, 2010, subsidiary IESUL entered into a bank credit note with banco Citibank S.A. with a R\$ 17.0 million limit, which was settled on March 3, 2011. Said transaction had charges thereon paid on a monthly basis. As guarantee a promissory note was provided.
- (i) On May 19, 2010, subsidiary IENNE entered into a R\$ 220.0 million financing agreement with Banco do Nordeste do Brasil S.A., drawn down on July 20 and 30, September 3 and October 11, 2010. The amount is intended to finance approximately 40% of the Transmission Line in between substations Colinas do Tocantins and São João do Piauí. Repayment will take place in 216 monthly installments as from June 2012 and, until the beginning thereof, charges will be paid on a quarterly basis. As guarantee, the Company has given bank sureties contracted effective up to July 15, 2011 from Banco Bradesco.

Maturities of noncurrent portions are set out as follows:

	Parent company		Consolidated	
	03.31.2011	12.31.2010	03.31.2011	12.31.2010
2012	51,550	52,737	158,392	185,186
2013	-	-	145,470	132,963
2014	-	-	145,755	133,201
2015	-	-	81,737	69,183
2016	-	-	17,716	5,161
After 2016	-	-	132,876	67,075
	<u>51,550</u>	<u>52,737</u>	<u>681,946</u>	<u>592,769</u>

Isa Capital do Brasil S.A e Controlada

Notes to interim consolidated financial statements--Continued

March 31, 2011

(In thousands of reais, unless otherwise indicated)

16. Debentures - Consolidated

	<u>Maturity</u>	<u>Number of debentures</u>	<u>Charges</u>	<u>03.31.2011</u>	<u>12.31.2010</u>
1 st series	12.15.2014	49,100	CDI + 1.3% p.a.	505,217	490,405
2 nd series	12.15.2017	5,760	IPCA + 8.1% p.a.	68,141	65,388
				573,358	555,793
Current				16,803	2,154
Noncurrent				556,555	553,639

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

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

Maturities of noncurrent portions are set out as follows:

	<u>03.31.2011</u>	<u>12.31.2010</u>
2012	169,574	168,092
2013	163,204	163,206
2014	177,276	176,878
2015	15,500	15,153
2016	15,500	15,155
After 2016	15,501	15,155
	556,555	553,639

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Notes to interim consolidated financial statements--Continued

March 31, 2011

(In thousands of reais, unless otherwise indicated)

17. Taxes and social charges payable

	Parent company		Consolidated	
	03.31.2011	12.31.2010	03.31.2011	03.31.2010
Income tax	3,180	304	49,602	46,256
Social contribution tax	1,099	-	17,969	16,633
COFINS	1,877	1,801	9,205	9,011
PIS	408	391	1,998	1,955
Scholarship program (i)	-	-	1,390	1,542
INSS	21	20	5,583	6,226
ISS	-	-	2,424	3,936
Other	7	17	5,186	5,718
	<u>6,591</u>	<u>2,533</u>	<u>93,356</u>	<u>91,277</u>

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

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

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

Changes for the three-month period ended March 31, 2011 are as follows:

	03.31.2011
Initial balance	155,317
Fine and interest on debt	-
Reduced fine and interest (Law benefits)	-
Monetary restatement on debt	2,462
Payments made (*)	-
	<u>157,779</u>
Current	<u>10,517</u>
Noncurrent	<u>147,262</u>

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

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Notes to interim consolidated financial statements--Continued
March 31, 2011

(In thousands of reais, unless otherwise indicated)

19. Regulatory charges payable

	Consolidated	
	03.31.2011	12.31.2010
Research and development (R&D)	41,808	39,114
Energy development account - CDE	1,927	2,179
Fuel consumption bill (CCC)	3,201	3,620
Global reversion reserve (RGR)	4,912	5,629
Alternative energy source program (PROINFA)	1,142	1,143
Inspection fee (ANEEL)	87	48
	<u>53,077</u>	<u>51,733</u>
Current	<u>50,903</u>	<u>49,559</u>
Noncurrent	<u>2,174</u>	<u>2,174</u>

20. Provisions

	Parent company		Consolidated	
	03.31.2011	12.31.2010	03.31.2011	12.31.2010
Vacation pay and social charges	10	11	14,559	16,807
Profit sharing (PLR)	-	-	1,109	5,786
Voluntary termination program (PDV) (a)	-	-	31	87
Sundry indemnification	-	-	-	-
Contingencies (b)	-	-	160,013	161,682
	<u>10</u>	<u>11</u>	<u>175,712</u>	<u>184,362</u>
Current	<u>10</u>	<u>11</u>	<u>15,695</u>	<u>22,674</u>
Noncurrent	<u>-</u>	<u>-</u>	<u>160,017</u>	<u>161,688</u>

(a) Voluntary termination program (PDV)

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

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

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Notes to interim consolidated financial statements--Continued

March 31, 2011

(In thousands of reais, unless otherwise indicated)

20. Provisions--Continued

(b) Provision for contingencies - Consolidated

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

	Consolidated	
	03.31.2011	12.31.2010
Labor (i)	143,166	145,993
Civil	4,381	3,844
Tax – IPTU (ii)	7,948	7,527
Social security – INSS (iii)	3,817	3,635
ANEEL (iv)	701	683
	<u>160,013</u>	<u>161,682</u>

CTEEP is party to tax, labor and civil lawsuits, whose favorable outcomes are rated as probable by management, based on an assessment of its legal advisors, in the estimated amount of R\$ 122,079 (R\$ 101,252 at December 31, 2010), consisting mainly of labor claims, for which no provisions have been set up.

(i) *Labor*

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

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

CTEEP recognizes a provision to cover debts with several City Governments in the State of São Paulo, related to proceedings for rectification of areas amounting to R\$ 7,948.

(iii) *Social security – INSS*

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

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Notes to interim consolidated financial statements--Continued

March 31, 2011

(In thousands of reais, unless otherwise indicated)

20. Provisions--Continued

(b) Provision for contingencies – Consolidated--Continued

(iv) *ANEEL*

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

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

21. Payables – Fundação CESP

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

a) Plan “A” - supplementary pension plan

Regulated by State Law No. 4819/58, applied to employees hired up to May 13, 1974, it establishes supplementary pension plan benefits, additional leave entitlements and family allowance. Funds required to cover liabilities assumed in this plan are full responsibility of the applicable São Paulo State authorities, and therefore, with no risk and additional cost to CTEEP (Note 34).

b) Plan “B” and “B1” - supplementary pension plans

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

Isa Capital do Brasil S.A e Controlada

Notes to interim consolidated financial statements--Continued

March 31, 2011

(In thousands of reais, unless otherwise indicated)

21. Payables – Fundação CESP--Continued

b) Plan “B” and “B1” - supplementary pension plans--Continued

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

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

c) Plan PSAP - Transmissão Paulista

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

22. Special obligations – Reversion/Amortization

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

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March 31, 2011

(In thousands of reais, unless otherwise indicated)

23. Equity

a) Capital

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

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

- (i) In the Special Shareholders' Meeting held on March 9, 2010, under the terms of Board of Directors' proposal dated March 8, 2010, Company's capital increase of R\$ 840,000 was approved, of which R\$ 420 was allocated to capital and R\$ 839,580 allocated to capital reserve, through creation and issue of 415,691,162 redeemable preferred shares distributed into 13 classes, entitled to fixed cumulative dividends, which were subscribed and paid-in on the same date. Therefore, Company's capital increased from R\$ 839,778 to R\$840,198, comprising 1,256,316,162 shares. In the same meeting, mandatory dividend reduction was approved, which decreased from 25% to 1%, and amendment of the Company's Articles of Incorporation; and
- (ii) In Board of Directors' meeting held on March 19, 2010, a new capital increase was approved within authorized capital limit, with issue of 178,153,342 redeemable preferred shares, into 13 classes, entitled to cumulative fixed dividends, amounting to R\$ 360,000 which was fully subscribed and paid in on the same date, R\$ 180 of which were allocated to Company's capital and R\$ 359,820 to capital reserve. Therefore, Company's capital increased from R\$ 840,198 to 840,378, comprising 1,434,469,504 shares.

Later, on May 14, 2010, HSBC Finance (Brazil) S.A. Multiple Bank, then holder of 593,844,504 preferred shares issued by the Company, sold 50% thereof to Banco Votorantim S.A.

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Notes to interim consolidated financial statements--Continued

March 31, 2011

(In thousands of reais, unless otherwise indicated)

23. Equity--Continued

a) Capital--Continued

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

<u>Shareholder</u>	<u>Number of common shares</u>	<u>Number of preferred shares</u>	<u>Total</u>
Interconexión Eléctrica S.A ESP	840,624,995	0	840,624,995
Luis Fernando Alarcón Mantilla	1	0	1
Fernando Augusto Rojas Pinto	1	0	1
Guido Alberto Nule Amin	1	0	1
Ana Mercedes Villegas Mejía	1	0	1
Alfonso Camilo Barco Muñoz	1	0	1
HSBC	0	296,922,252	296,922,252
Votorantim	0	296,922,252	296,922,252
Total	840,625,000	593,844,504	1,434,469,504

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

b) Dividends

The Board of Directors, in a meeting held on March 17, 2011, resolved to pay, on March 18, 2011, cumulative fixed dividends referring to accumulated profit as of January 2011, amounting to R\$ 107,637, corresponding to R\$ 0.181254 per share.

c) Capital reserves

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

Isa Capital do Brasil S.A e Controlada

Notes to interim consolidated financial statements--Continued

March 31, 2011

(In thousands of reais, unless otherwise indicated)

23. Equity--Continued

d) Income reserves

	<u>03.31.2011</u>	<u>12.31.2010</u>
Legal reserve (i)	5,881	5,881
Reserve for retained profit (ii)	-	48,230
	<u>5,881</u>	<u>54,111</u>

(i) *Legal reserve*

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

(ii) *Reserve for retained profit*

The portion of net income for the year remaining after cumulative dividends are paid to redeemable preferred shares shall be allocated to retained profit reserve account, under the Company's articles of incorporation. In case of any floating redeemable preferred shares, this account shall be used solely and exclusively to pay cumulative dividends payable to such redeemable preferred shares and, as the case may be, also to redeem redeemable preferred shares.

Total balance at December 31, 2010, amounting to R\$ 48,230, was used to pay cumulative dividends to redeemable preferred shares on March 18, 2011.

e) Earnings per share

	<u>03.31.2011</u>
Basic and diluted earnings per share	
Net income for the three-month period	103,214
Weighted average number of shares	
Common	840,625,000
Preferred	<u>593,844,504</u>
Total	<u>1,434,469,504</u>
Total basic and diluted earnings per share	0.071953

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March 31, 2011

(In thousands of reais, unless otherwise indicated)

24. Net operating revenue - Consolidated

24.1 Breakdown of net operating revenue - Consolidated

	Consolidated	
	03.31.2011	03.31.2010
Gross revenue		
Construction (a)	206,417	94,369
Operating and maintenance (a)	148,692	79,235
Financial (b)	332,190	329,723
Rent	3,300	3,177
Services	903	1,274
Total gross revenue	691,502	507,778
Taxes on gross revenue		
COFINS	(35,682)	(22,475)
PIS	(7,743)	(4,877)
ISS	(45)	(64)
	(43,470)	(27,416)
Regulatory charges		
Fuel consumption bill (CCC)	(12,650)	(6,124)
Energy Development Account - CDE	(7,616)	(7,238)
Global reversion reserve (RGR)	(12,869)	(11,210)
Research and development (R&D)	(4,480)	(3,474)
Alternative energy source program (PROINFA)	(3,378)	(4,914)
	(40,993)	(32,960)
	607,039	447,402

(a) Construction, operating and maintenance services

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

(b) Financial Income

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

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Notes to interim consolidated financial statements--Continued

March 31, 2011

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24. Net operating revenue – Consolidated--Continued

24.2 Annual Revenue Allowed (RAP) of Miguel Reale substation

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

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

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

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

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

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

24.3 Periodic review of Annual Revenue Allowed (RAP)

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

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24. Net operating revenue – Consolidated--Continued

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

The review comprises revenue repositioning by determining:

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

First periodic tariff review cycle

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

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

Second periodic tariff review cycle

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

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Notes to interim consolidated financial statements--Continued

March 31, 2011

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24. Net operating revenue – Consolidated--Continued

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

Second periodic tariff review cycle

As set forth by article 6 of Regulatory Resolution No. 386/09, the tariff review results will be effective from July 1, 2009 onwards. Taking into consideration this retroactive review and the capital cost reduction from 9.18% to 7.24% in this second cycle, the financial statements recognize a reduction in revenues by R\$ 82,086, matched against current liabilities adjustment portion, as follows:

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

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

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

24.4 Variable Deduction (PV) and Additional to RAP

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

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24. Net operating revenue – Consolidated--Continued

24.5 Annual revenue adjustment

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

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

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

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

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Notes to interim consolidated financial statements--Continued

March 31, 2011

(In thousands of reais, unless otherwise indicated)

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

	Parent company			Consolidated			
	03.31.2011		03.31.2010	03.31.2011			03.31.2010
	Expenses	Total	Total	Costs	Expenses	Total	Total
Personnel	(572)	(572)	(544)	(38,800)	(10,348)	(49,148)	(45,246)
Services	(147)	(147)	(2,296)	(63,242)	(11,599)	(74,841)	(53,087)
Depreciation	(3)	(3)	(3)	(146,621)	(1,516)	(148,137)	(1,461)
Materials	-	-	-	(1,855)	(253)	(2,108)	(56,976)
Leases and rental	(56)	(56)	(51)	-	(1,051)	(1,051)	(2,647)
Amortization of bonus	-	-	(12,752)	-	-	-	(12,752)
Contingencies	-	-	-	-	(5,582)	(5,582)	(9,627)
Other	(22)	(22)	(41)	(5,219)	(6,105)	(11,324)	(9,914)
	(800)	(800)	(15,687)	(255,737)	(36,454)	(292,191)	(191,710)

26. Financial income

	Parent company		Consolidated	
	03.31.2011	03.31.2010	03.31.2011	03.31.2010
Income				
Short-term investment income	7,677	1,092	13,473	10,102
Adjustment to market value – debt (SWAP)	-	61,252	-	61,252
Interest receivable	340	372	1,786	2,899
Interest on equity capital	24,703	23,221	-	-
Interest Selic income tax (IR) recoverable	962	616	962	616
Monetary variation	1,604	-	1,843	2,651
Financial income – REDI project	-	4,326	-	4,326
Other	-	-	105	103
	35,286	90,879	18,168	81,949
Expenses				
Interest on equity capital	-	-	(40,990)	(38,699)
Interest payable	(1,152)	(14,819)	(21,456)	(32,853)
Charges on promissory notes	-	-	(4,583)	(5,941)
Charges on debentures	-	-	(16,228)	(11,730)
Withholding income tax (IRRF) on remittance of interest	(165)	(2,466)	(165)	(2,466)
PIS on interest on equity capital	(408)	(383)	(408)	(383)
COFINS on interest on equity capital	(1,877)	(1,765)	(1,877)	(1,765)
Adjustment to market value – debt (SWAP)	-	(61,252)	-	(61,252)
Monetary variation	(11,095)	(4,755)	(11,095)	(4,755)
Hedge operations	-	(23,764)	-	(23,764)
Financial expenses – REDI project	-	(280,046)	-	(280,046)
Other	(2,599)	(106)	(6,342)	(742)
	(17,296)	(389,356)	(103,144)	(464,396)
	17,989	(298,477)	(84,976)	(382,447)

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Notes to interim consolidated financial statements--Continued

March 31, 2011

(In thousands of reais, unless otherwise indicated)

27. Other operating revenues (expenses) - Consolidated

Other operating expenses refer mainly to amortization of goodwill from parent company (Note 9), amounting to R\$ 20,344.

28. Income and social contributions taxes

The Company records monthly provisions for income and social contribution taxes on net profit based on annual taxable income assessment with monthly estimates. Up to 2010, ISA Capital recorded income and social contribution taxes loss.

After debt restructuring implemented in 2010, the Company may calculate taxes under the taxable income regime as from 2011. Due to this transition, the Company recognized the amount of R\$ 53,000 in January 2011, referring to tax credit to be set off within the next 5 years.

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

	Consolidated	
	03.31.2011	03.31.2010
Income before income and social contributions taxes	209,528	(147,198)
Rates	34%	34%
Expected income and social contributions tax expenses	(71,240)	50,047
Income and social contributions taxes on:		
Tax loss of parent company		(111,562)
Permanent differences	52,137	25,641
Effective income and social contributions tax expenses	(19,103)	(35,874)
Income and social contributions taxes		
Current	(67,737)	(52,639)
Deferred	(2,587)	16,765
Deferred (tax credit)	51,221	-
	(19,103)	(35,874)

The rate used in the abovementioned 2011 and 2010 reconciliations is 34% (25% income tax and 9% social contribution), payable by legal entities in Brazil on taxable profit.

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28. Income and social contributions taxes--Continued

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

Assets / (Liabilities)	Consolidated	
	03.31.2011	12.31.2010
Provision for contingencies	54,405	55,307
Concession agreement	(74,246)	(56,307)
Other	35,282	19,698
Net	15,441	18,698
Assets	29,476	28,050
Liabilities	14,035	9,352

29. Related-party transactions

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

Related party	Type of operation	03.31.2011			03.31.2010		
		Assets	Liabilities	Income/ (expenses)	Assets	Liabilities	Income/ (expenses)
Parent company							
Management key personnel	Short-term benefits	-	-	(366)	-	-	(346)
CTEEP	Sublease	-	22	(22)	-	17	(53)
CTEEP	Provision of Services	-	-	(56)	-	7	(20)
ISA	Loans	39,106	-	(552)	42,760	-	(1,311)
Consolidated							
Management key personnel	Short-term benefits	-	-	(1,681)	-	-	(2,486)
ISA	Loans	39,106	-	(552)	42,760	-	(1,311)

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

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

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Notes to interim consolidated financial statements--Continued

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29. Related-party transactions--Continued

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

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

30. Financial instruments

Parent company

Derivative financial instruments (Swap) used by the Company solely and exclusively to hedge against currency risk of foreign currency debt in connection with the issue of bonds were settled in March 2010 for R\$ 182,390, given the aforementioned debt restructure, as mentioned in Note 15 (a.ii).

a) *Identification and measurement of financial instruments*

	Parent company		Consolidated	
	03.31.2011	12.31.2010	03.31.2011	12.31.2010
Financial assets				
Fair value through P&L				
Cash and cash equivalents	211,745	257,261	374,743	312,243
Lending and receivables				
Current	-	-	1,377,001	1,424,390
Noncurrent	39,106	39,663	4,546,632	4,264,972
Receivables from State Finance Department				
Current	-	-	23,840	22,938
Noncurrent	-	-	705,847	681,129
Receivables from subsidiaries	92,881	65,845	-	-
Held to maturity				
Pledges and restricted deposits				
Current	-	2,320	-	2,320
Noncurrent	-	-	43,842	42,248
Financial liabilities				
Amortized cost				
Loans and financing				
Current	756	1,934	543,231	334,347
Noncurrent	51,550	52,737	681,946	592,769
Debentures				
Current	-	-	16,803	2,154
Noncurrent	-	-	556,555	553,639
Suppliers	122	148	94,064	71,043
Interest on equity capital and dividends payable	-	-	183,476	127,978

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Notes to interim consolidated financial statements--Continued

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30. Financial instruments--Continued

Parent company--Continued

a) *Identification and measurement of financial instruments*

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

During the three-month period, the Company did not enter into any agreements which may be considered as derivative financial instruments.

b) *Financing*

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

Debt-to-equity ratio

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

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>03.31.2011</u>	<u>12.31.2010</u>	<u>03.31.2011</u>	<u>12.31.2010</u>
Loans and financing				
Current	756	1,934	543,231	334,347
Noncurrent	51,550	52,737	681,946	592,769
Debentures				
Current	-	-	16,803	2,154
Noncurrent	-	-	556,555	553,639
Payables – Law No. 4819/58 - State Finance Department				
Current	8,423	8,423	8,423	8,423
Noncurrent	221,515	215,498	221,515	215,498
Payables – Law No. 4819/58 - OPA				
Current	4,946	4,946	4,946	4,946
Noncurrent	139,229	135,456	139,229	135,456
Total debt (i)	426,419	418,994	2,172,648	1,847,232
Cash and cash equivalents	211,745	257,261	374,743	312,244
Net debt	214,674	161,733	1,797,905	1,534,988
Equity (ii)	2,089,465	2,093,889	2,089,465	2,093,889
Net debt-to-equity ratio	10.3%	7.7%	86.0%	73.3%

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Notes to interim consolidated financial statements--Continued

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30. Financial instruments--Continued

Parent company--Continued

c) *Risk management*

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

- (i) Credit risk – The Company has agreements with the National Electric System Operator (ONS), concessionaires and other agents for regulating the provision of services related to the base network for 216 users, with a bank guarantee clause. Likewise, the Company has agreements regulating the provision of services in other transmission facilities – DIT with 30 concessionaires and other agents, also with a bank guarantee clause.
- (ii) Price risk - Pursuant to the concession agreement, the Company'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 22 (a)).
- (iii) Interest rate risk – Financing agreements are restated based on TJLP, IPCA and CDI variation (Notes 13 and 14).
- (iv) Currency risk – The Company has no financing, accounts receivable and assets in foreign currencies. Its exposure to foreign exchange fluctuation effects is immaterial, and corresponds to eventual import of equipment.
- (v) Fund-raising risk – The Company and its subsidiaries may face difficulties in the future regarding fund raising with costs and terms adjusted to its cash generating profile and/or its debt repayment obligations.
- (vi) Insurance risk – The Company takes out insurance against operating and civil liability risks for its substations. However, given the difficulty in finding insurance companies willing to provide insurance coverage against any losses for transmission line damages, if any, arising from fire, lightning, explosions, short circuits and energy interruptions, such risks are not insured. Thus, any damages to transmission lines may result in significant additional costs and investments.

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Notes to interim consolidated financial statements--Continued

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(In thousands of reais, unless otherwise indicated)

30. Financial instruments--Continued

Parent company--Continued

c) *Risk management--Continued*

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

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

31. Commitments assumed – Operating lease agreements - Consolidated

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

	<u>03.31.2011</u>	<u>12.31.2010</u>
Up to one year	2,794	3,133
From one to five years	2,939	3,411
	<u>5,733</u>	<u>6,544</u>

Lease agreements involving the CTEEP as the leaseholder refer to sublease agreements with its parent company and subsidiaries, and are disclosed in Note 29 – related-party transactions.

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Notes to interim consolidated financial statements--Continued

March 31, 2011

(In thousands of reais, unless otherwise indicated)

32. Insurance - Consolidated

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

Type	Period (dd/mm/yy)	Insured amount – R\$ thousand	Premium – R\$ thousand
Assets (a)	01/09/10 to 01/09/11	2,211,112	2,754
Civil liability (b)	01/09/10 to 01/09/11	20,000	249
National transport (c)	30/09/10 to 30/09/11	115,362	12
Collective personal accidents (d)	01/05/10 to 01/05/11	38,562	2
Vehicles (e)	02/03/11 to 02/03/12	Market value	35
			<u>3,052</u>

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

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

(c) National transport - Coverage of damage caused to the Company's assets and equipment, transported within Brazil.

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

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

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

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33. Collection lawsuit by Eletrobras against Eletropaulo and EPTE

In 1989, Centrais Elétricas Brasileiras S.A. ELETROBRAS 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 ELETROBRAS. In 1999 a judgment was issued on the aforementioned lawsuit, ordering Eletropaulo to pay the balance determined by ELETROBRAS.

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

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

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

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Notes to interim consolidated financial statements--Continued

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

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

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

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

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

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

a) Material fact notices

(i) *July 19, 2005*

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

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

a) Material facts notices--Continued

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

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

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

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

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

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Notes to interim consolidated financial statements--Continued

March 31, 2011

(In thousands of reais, unless otherwise indicated)

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

a) Material facts notices--Continued

(ii) *January 27, 2006*

“CTEEP - Companhia de Transmissão de Energia Elétrica Paulista, in accordance with CVM Ruling No. 358/02, announces a change in procedure by the State Finance Department, due to a recent understanding of the State Attorney General regarding the transfer of funds to CTEEP for compliance with the decision of the 49th Labor Court of São Paulo, which authorized Fundação CESP to resume processing of pension plan benefit payments established by State Law No. 4819/58 using funds received from the State of São Paulo and transferred by CTEEP. This matter has been previously addressed in Note 22 of the quarterly information of CTEEP as of September 30, 2005.

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

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

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Notes to interim consolidated financial statements--Continued

March 31, 2011

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

a) Material facts notices--Continued

(iii) *February 24, 2006*

“CTEEP - Companhia de Transmissão de Energia Elétrica Paulista, in accordance with CVM Ruling no. 358/2002, announces, in furtherance of the information included in the Material Fact Notice of January 27, 2006, that the State Finance Department transferred to CTEEP in February 2006 the amount of R\$ 12,802 to comply with the decision of the 49th Labor Court of São Paulo, which ruled that Fundação CESP must process the pension plan benefit payments established by State Law No. 4819/58 using the funds received from the State of São Paulo and transferred by CTEEP. In February, CTEEP's total expenditure to comply with said court decision was R\$ 19,652. CTEEP continues its efforts to change the decision of the 49th Labor Court so as to transfer responsibility for the pension plan benefit payments established by State Law No. 4819/58 back to the State Finance Department, and to adopt other actions to protect the Company's interests”.

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

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

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

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Notes to interim consolidated financial statements--Continued

March 31, 2011

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

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

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

c) Current situation

As a result of the aforementioned facts and by force of said decision of the 49th Labor Court of São Paulo, as well as the decision of the STJ, CTEEP passed on R\$ 1,659,579 to Fundação CESP, from September 2005 to March 2011, for payment of benefits under State Law No. 4819/58, having received R\$ 1,100,484 from the State Finance Department for that purpose. The difference between the amount passed on to Fundação CESP and the amount reimbursed by the State Finance Department, of R\$ 559,095 (Note 6 (c)), was originally claimed by the Company at the administrative level, and, in December 2010, a collection lawsuit was filed.

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

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Notes to interim consolidated financial statements--Continued

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

c) Current situation--Continued

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

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

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

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

According to the Material Fact Notices mentioned above, CTEEP continues its efforts to make the decision awarded by the 49th Labor Court of São Paulo null and void so as to transfer the responsibility for the pension plan benefit payment established by State Law No. 4819/58 back to the State Finance Department. CTEEP also confirms its legal advisors' understanding that the expenses arising from State Law No. 4819/58 and respective regulation are the full responsibility of the State Finance Department and is analyzing additional actions to protect the Company's interests. The Company records these disallowances as "Receivables from São Paulo State Finance Department" (Note 7).

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Notes to interim consolidated financial statements--Continued

March 31, 2011

(In thousands of reais, unless otherwise indicated)

35. Subsequent events - Consolidated

a) Parent company's dividend distribution

On April 4, 2011, the Company paid fixed cumulative dividends to preferred shareholders. Based on the calculation criterion set forth in article 6 of the Company's articles of incorporation, each preferred share was entitled to R\$0.005952228, totaling R\$ 35,347 paid to total redeemable preferred shares.

b) Loan

On April 19, 2011, CTEEP executed addendum No. 2 to the loan agreement entered into with Banco Nacional de Desenvolvimento Econômico e Social (BNDES), under which it disbursed R\$ 74.4 million at TJLP plus 1.8% p.a. on April 28, 2011.

On April 26, 2011, CTEEP raised funds abroad directly through Itaú BBA Nassau, under a Loan Agreement entered into under the terms of Law No. 4131, dated September 3, 1962. The amount in foreign currency corresponds to USD 63.7 million (equivalent to R\$ 100 million), for which CTEEP made a swap transaction on the same date, in order to conduct a exposure swap from dollar (principal plus interests) into reais and interest rate in R\$ (CDI) at 103.5% of CDI.

c) Capital increase

CTEEP's Board of Directors, in a meeting held on April 25, 2011, approved a capital increase amounting up to R\$ 76,673, upon private issuance of common and preferred shares. From the total amount, R\$ 28,832 shall be subscribed by ISA Capital upon capitalization of a portion of the capital reserve (special reserve for merged goodwill) which corresponds to tax benefit obtained by CTEEP in 2010.

d) Confirmation of dividend payment

CTEEP's General Ordinary Meeting held on April 29, 2011 confirmed payment of dividends and interest on equity capital as approved by the Board of Directors. In addition, such meeting approved payment of dividend on the remaining balance of 2010 net profit, amounting to R\$ 16,714, which is equivalent to R\$ 0.110087 per share, over 2011.