

## **ISA CAPITAL DO BRASIL S.A. AND SUBSIDIARY**

### **Report on Review of Quarterly Information**

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

#### **Introduction**

We have reviewed the accompanying individual and consolidated interim financial information contained in the Quarterly Financial Form (ITR) of ISA Capital do Brasil S.A. (“Company”) and its subsidiary as of the quarter ended June 30, 2011, comprising the balance sheet at June 30, 2011 and the related statements of operations for the three- and six-month periods then ended, and changes in equity and cash flows for the six-month period then ended, including the summary of significant accounting practices and other explanatory notes.

Management is responsible for the preparation of the individual interim financial information in accordance with Accounting Pronouncement CPC 21 – Interim Financial Reporting, and of the consolidated interim financial information in accordance with CPC 21 and with IAS 34 – Interim Financial Reporting, issued by the International Accounting Standards Board – IASB, as well as for the fair presentation of this information in conformity with the standards issued by the Brazilian Securities and Exchange Commission (Comissão de Valores Mobiliários) applicable to the preparation of Quarterly Financial Information (ITR). 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 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.

#### **Basis for qualified opinion on the individual and consolidated financial statements**

As a consequence of the debt restructuring carried out in 2010, described in Note 15, ISA Capital do Brasil S.A. recognized issue of redeemable preferred shares, mentioned in Note 23, as an equity instrument which, in our view, should be recognized as financial instrument liability, according to accounting practices adopted in Brazil, specifically CPC 39 approved by CVM Rule 604 of November 19, 2009 and IAS 32. In addition, the Company recognized remuneration of the referred to instrument as fixed cumulative dividend as provided for by its Articles of Incorporation and Shareholders’ Agreement, and not as financial expense with interest in the form we believe it should be. Had the Company recognized the referred to share issue as financial instrument liability and had the referred to remuneration been recognized as financial expense and not as dividend, equity at June 30, 2011 would be reduced by R\$1,199,400 thousand, from R\$2,105,245 thousand to R\$905,845 thousand, individual, and from R\$4,792,487 thousand to R\$3,593,087 thousand, consolidated. In addition, total liabilities would have increased by the same amount, from R\$444,613 thousand to R\$1,715,473 thousand, individual, and from R\$3,529,357 thousand to R\$4,800,217 thousand, consolidated. Net income for the six-month period ended June 30, 2011 would be reduced by R\$71,460 thousand, net of tax effects, from R\$154,342 thousand to R\$82,882 thousand, individual, and from R\$407,505 thousand to R\$336,045 thousand, consolidated.

#### **Conclusion on the interim financial information**

Based on our review, except for the effects of the matter discussed in the paragraph “Basis for qualified opinion on the individual and consolidated financial statements”, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not fairly present, in all material respects, the financial position of the entity, at June 30, 2011, the performance of its operations and its cash flows for the quarter then ended in accordance with accounting practices adopted in Brazil.

## **ISA CAPITAL DO BRASIL S.A. AND SUBSIDIARY**

### **Report on Review of Quarterly Information**

#### **Emphasis of a matter**

As mentioned in Note 34, Law No. 4819/58 granted to employees of companies under São Paulo State Government control those benefits already granted to other public service employees, particularly a supplementation of Retirement Benefits and Granting of Pension, and established that expenses arising therefrom are full responsibility of the State Government. Payment process involves Fundação CESP, who prepares payrolls, and the State Government, who passes on the amount to CTEEP (who passes it on for Fundação CESP to pay the final beneficiary). This has been the procedure since CESP spin-off whereby CTEEP was created and was totally fulfilled by the parties through December 2003. Beginning 2004, São Paulo State government required the right to directly process payroll and pay beneficiaries. However, in January 2006, based on a report issued by São Paulo State Attorney General, the State Finance Department started disallowing part of the benefits paid to retired employees and, henceforth, it has generated accounts receivable from Government, as mentioned in Note 6.c) and 6.d), since the Company has been paying the disallowed portions to meet full benefit payment, as required by decision of the 49th Labor Court. The Company's management, in addition to being fully and strongly supported by the opinion of its legal advisors, and considering that the State Finance Department is not challenging its full responsibility for providing funds for the payment of benefits related to the application of Law No. 4819/58 instituted thereby, understands that no obligation or provision for losses related to such receivables should be recorded in the Company's financial statements.

#### **Other matters**

##### **Interim value added information**

We have also reviewed the interim individual and consolidated statements of value added (SVA) for the six-month period ended June 30, 2011, prepared under the responsibility of management, the presentation of which in the interim financial information is required by rules issued by the Brazilian Securities Commission (CVM) applicable to the preparation of Quarterly Financial Information (ITR), and as supplementary information by IFRS, which do not require SVA presentation. These statements have been subjected to the same review procedures previously described and, based on our review, nothing has come to our attention that causes us to believe that they are not prepared, in all material respects, in relation to the overall accompanying interim individual and consolidated financial information.

São Paulo, November 28, 2011

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

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

Marcos Alexandre S. Pupo  
Accountant CRC-1SP221749/O-0

**ISA CAPITAL DO BRASIL S.A. AND SUBSIDIARY**

**Balance sheets at June 30, 2011 and December 31, 2010**

(In thousands of reais)

**A free translation from Portuguese into English of Quarterly Information in accordance with accounting practices adopted in Brazil and specific standards established by the Brazilian Securities and Exchange Commission (CVM)**

	NOTE	Company		Consolidated	
		06.30.2011	12.31.2010	06.30.2011	12.31.2010
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	5	268,512	257,261	485,710	312,244
Trade accounts receivable	6	-	-	1,326,355	1,424,390
Inventories		-	-	47,663	44,791
Interest on equity capital and dividends receivable	29	90,513	65,844	-	-
Amounts receivable from State Finance Department	7	-	-	24,360	22,938
Taxes recoverable	8	46,894	36,806	58,118	48,036
Deferred income and social contribution taxes	28.b	6,728	-	6,728	-
Pledges and restricted deposits	11	2,174	2,320	2,174	2,320
Prepaid expenses		-	-	8,459	2,611
Other		48	59	56,037	35,814
		<u>414,869</u>	<u>362,290</u>	<u>2,015,604</u>	<u>1,893,144</u>
<b>Noncurrent assets</b>					
Long-term receivables					
Trade accounts receivable	6	-	-	4,804,728	4,225,309
Amounts receivable from State Finance Department	7	-	-	730,583	681,129
Tax benefit – merged goodwill	9	-	-	133,495	147,911
Deferred income and social contribution taxes	28.b	42,400	-	88,402	28,050
Pledges and restricted deposits	11	-	-	45,298	42,248
Loans receivable	10	37,161	39,663	37,161	39,663
Inventories		-	-	178,940	184,264
Other		-	-	8,874	6,624
		<u>79,561</u>	<u>39,663</u>	<u>6,027,481</u>	<u>5,355,198</u>
Investment	12(b)	2,055,400	2,113,593	-	-
Property, plant and equipment	13	30	-	8,975	9,231
Intangible assets	14		37	269,782	297,066
		<u>2,055,430</u>	<u>2,113,630</u>	<u>278,757</u>	<u>306,297</u>
		<u>2,134,991</u>	<u>2,153,293</u>	<u>6,306,238</u>	<u>5,661,495</u>
<b>Total assets</b>		<u><b>2,549,860</b></u>	<u><b>2,515,583</b></u>	<u><b>8,321,842</b></u>	<u><b>7,554,639</b></u>

ISA CAPITAL DO BRASIL S.A. AND SUBSIDIARY

Balance sheets at June 30, 2011 and December 31, 2010

(In thousands of reais)

Liabilities and equity	NOTE	Company		Consolidated	
		06.30.2011	12.31.2010	06.30.2011	12.31.2010
<b>Current liabilities</b>					
Loans and financing	15	1,812	1,934	756,802	334,347
Debentures	16	-	-	1,966	2,154
Suppliers		112	147	97,437	94,064
Taxes, charges and contributions	17	11,552	2,533	88,358	91,277
Taxes in installments - Law No. 11941	18	-	-	11,698	10,353
Salaries payable		-	9	-	10
Regulatory charges	19	-	-	53,244	49,559
Interest on equity capital and dividends payable		-	-	156,180	127,978
Provisions	20	13	11	22,187	22,674
Amounts payable – Law No. 4819/58 – State Finance Department	4	8,423	8,423	8,423	8,423
Amounts payable – Law No. 4819/58 - OPA	4	4,946	4,946	4,946	4,946
Amounts payable – Fundação CESP		-	-	5,818	6,503
Other		-	-	49,714	13,873
		<u>26,858</u>	<u>18,003</u>	<u>1,256,773</u>	<u>766,161</u>
<b>Noncurrent liabilities</b>					
Long-term payables					
Loans and financing	15	49,410	52,737	838,849	592,769
Debentures	16	-	-	551,657	553,639
Taxes in installments - Law No. 11941	18	-	-	144,281	144,964
Deferred Pis and Cofins	-	-	-	164,406	117,632
Deferred income and social contribution taxes	28.8	-	-	19,886	9,352
Regulatory charges	19	-	-	2,174	2,174
Provisions	20	-	-	158,892	161,688
Amounts payable – Law No. 4819/58 – State Finance Department	4	226,188	215,498	226,188	215,498
Amounts payable – Law No. 4819/58 - OPA	4	142,159	135,456	142,159	135,456
Special obligations – reversion/ amortization		-	-	24,053	24,053
Other		-	-	39	-
		<u>417,757</u>	<u>403,691</u>	<u>2,272,584</u>	<u>1,957,225</u>
<b>Equity</b>					
Capital	23. a	840,378	840,378	840,378	840,378
Capital reserve	23. c	1,199,400	1,199,400	1,199,400	1,199,400
Legal reserve	23. d	5,881	5,881	5,881	5,881
Income reserve	23. c	-	48,230	-	48,230
Retained earnings		59,586	-	59,586	-
<b>Noncontrolling shareholders</b>					
		-	-	2,687,240	2,737,364
<b>Equity</b>		<u>2,105,245</u>	<u>2,093,889</u>	<u>4,792,485</u>	<u>4,831,253</u>
<b>Total liabilities and equity</b>		<u><b>2,549,860</b></u>	<u><b>2,515,583</b></u>	<u><b>8,321,842</b></u>	<u><b>7,554,639</b></u>

ISA CAPITAL DO BRASIL S.A. AND SUBSIDIARY

Statements of operations for the three and six-month periods ended June 30, 2011 and 2010

(In thousands of reais)

	Note	Company			
		Three-month period	Six-month period	Three-month period	Six-month period
		<u>06.30.2011</u>	<u>06.30.2011</u>	<u>06.30.2010</u>	<u>06.30.2010</u>
<b>Operating revenues (expenses)</b>					
General and administrative	25	(1,040)	(1,840)	(650)	(16,337)
Financial expenses	26	(13,094)	(30,391)	(9,240)	(354,654)
Financial income	26	10,682	21,265	3,083	26,799
Other expenses, net	27	(13,992)	(27,984)	(17,241)	(31,233)
Equity pickup		75,543	153,186	71,671	149,501
<b>Operating profit (loss)</b>		58,099	114,236	47,623	(225,924)
<b>Income (loss) before taxes</b>		58,099	114,236	47,623	(225,924)
<b>Income and social contribution taxes</b>					
Current	28	(4,879)	(9,023)	-	-
Deferred	28	(2,093)	49,128	-	-
<b>Taxes</b>		(6,972)	40,105	-	-
<b>Net income (loss) for the period</b>		<b>51,127</b>	<b>154,341</b>	<b>47,623</b>	<b>(225,924)</b>

ISA CAPITAL DO BRASIL S.A. AND SUBSIDIARY

Statements of operations for the three and six-month periods ended June 30, 2011 and 2010

(In thousands of reais)

	Note	Consolidated			
		Three-month period	Six-month period	Three-month period	Six-month period
		<u>06.30.2011</u>	<u>06.30.2011</u>	<u>06.30.2010</u>	<u>06.30.2010</u>
<b>Net operating revenue</b>	24.1	690,735	1,297,776	503,082	950,484
Cost of operation services	25	<u>(320,119)</u>	<u>(575,856)</u>	<u>(194,854)</u>	<u>(339,598)</u>
<b>Gross profit</b>		<u>370,616</u>	<u>721,920</u>	<u>308,228</u>	<u>610,886</u>
<b>Operating income (expenses)</b>					
General and administrative	25	(39,868)	(76,321)	(29,100)	(76,067)
Financial expenses	26	(74,847)	(137,000)	(47,637)	(429,392)
Financial income	26	18,686	36,850	15,688	53,695
Other expenses, net	27	(48,193)	(68,537)	(21,812)	(42,286)
<b>Operating profit</b>		226,394	476,912	225,367	116,836
<b>Income before taxes</b>		226,394	476,912	225,367	116,836
<b>Income and social contribution taxes</b>					
Current	28	(59,517)	(127,254)	(65,590)	(118,229)
Deferred	28	<u>9,212</u>	<u>57,846</u>	<u>6,769</u>	<u>23,533</u>
		(50,305)	(69,408)	(58,821)	(94,696)
<b>Net income for the period</b>		176,089	407,504	166,546	22,140
Net income (loss) for the period attributed to noncontrolling shareholders		<u>(124,962)</u>	<u>(253,163)</u>	<u>(118,923)</u>	<u>(248,064)</u>
<b>Net income (loss) for the period attributed to controlling shareholder</b>		<u><u>51,127</u></u>	<u><u>154,341</u></u>	<u><u>47,623</u></u>	<u><u>(225,924)</u></u>

**ISA CAPITAL DO BRASIL S.A AND SUBSIDIARY**

**Cash flow statements for the six-month periods ended June 30, 2011 and 2010**

(In thousands of reais)

	<u>Company</u>		<u>Consolidated</u>	
	<u>06.30.2011</u>	<u>06.30.2010</u>	<u>06.30.2011</u>	<u>06.30.2010</u>
<b>Cash flow from operating activities</b>				
Net income (loss) for the period attributed to controlling shareholders	154,341	(225,924)	154,341	(225,924)
<b>Adjustments to reconcile net income to cash provided by (used in ) operating activities</b>				
Noncontrolling shareholders' interest	-	-	253,163	248,064
Depreciation and amortization	6	6	3,158	2,939
Amortization of bonus – prepaid expenses	-	12,752	-	12,752
Loss on acquisition of subsidiary	-	-	28,490	160
Deferred income and social contribution taxes	(49,128)	-	(57,212)	(23,533)
Deferred PIS and COFINS	-	-	39,316	15,750
Provision for contingencies	-	-	(2,759)	(10,077)
Residual value of permanent assets disposed of	-	-	14	53
Equity pickup	(153,186)	(149,501)	-	-
Goodwill amortization	27,984	27,984	42,400	42,400
Capital gain (loss)	-	3,249	-	3,249
Interest, monetary and exchange variation on assets and liabilities	16,296	305,732	102,921	366,812
Provisions	11	-	(527)	(10,714)
	<b>(3,676)</b>	<b>(25,702)</b>	<b>563,305</b>	<b>421,931</b>
<b>(Increase) decrease in assets</b>				
Trade accounts receivable	-	-	(462,028)	(107,995)
Inventories	-	-	2,428	(34,341)
Amounts receivable	647	731	(50,229)	(41,849)
Recoverable taxes	(8,245)	(3,634)	(8,021)	157,748
Pledges and restricted deposits	132	37,758	(2,918)	38,789
Prepaid expenses	-	-	(5,849)	(3,919)
Other	11	18	35,246	(18,569)
<b>Increase (decrease) in liabilities</b>				
Suppliers	(53)	345	2,671	10,654
Taxes and social charges payable	9,023	(3,149)	(2,965)	(3,971)
Taxes in installments – Law No. 11941	-	-	(3,571)	-
Regulatory charges	(4)	-	3,508	817
Amounts payable	-	-	(685)	(124)
Other	-	-	(20,644)	13,643
<b>Net cash provided by (used in) operating activities</b>	<b>(2,165)</b>	<b>6,367</b>	<b>50,248</b>	<b>432,814</b>

ISA CAPITAL DO BRASIL S.A AND SUBSIDIARY

Cash flow statements for the six-month periods ended June 30, 2011 and 2010

(In thousands of reais)

	<b>Company</b>		<b>Consolidated</b>	
	<b>06.30.2011</b>	<b>06.30.2010</b>	<b>06.30.2011</b>	<b>06.30.2010</b>
<b>Cash flow from investing activities</b>				
Property, plant and equipment	-	(2)	(3,594)	(1,608)
Investments	-	-	(13,109)	-
Interest on equity capital and dividends received	158,727	132,344	-	-
<b>Net cash provided by (used in) investing activities</b>	<b>158,727</b>	<b>132,342</b>	<b>(16,703)</b>	<b>(1,608)</b>
<b>Cash flow from financing activities</b>				
New loans	-	-	705,561	725,852
Loan payments (including interest)	(2,327)	(1,252,863)	(147,569)	(1,784,396)
Dividend and interest on equity capital paid	(142,984)	-	(418,071)	(219,528)
Capital increase	-	600	-	28,630
Capital reserve	-	1,199,400	-	1,199,400
<b>Net cash provided by (used in) financing activities</b>	<b>(145,311)</b>	<b>(52,863)</b>	<b>139,921</b>	<b>(50,042)</b>
<b>Net increase in cash and cash equivalents</b>	<b>11,251</b>	<b>85,846</b>	<b>173,466</b>	<b>381,164</b>
Cash and cash equivalents at the end of the period	268,512	115,850	485,710	454,402
Cash and cash equivalents at the beginning of the period	257,261	30,004	312,244	73,238
<b>Increase in cash and cash equivalents</b>	<b>11,251</b>	<b>85,846</b>	<b>173,466</b>	<b>381,164</b>

**ISA CAPITAL DO BRASIL S.A AND SUBSIDIARY**

**Cash flow statements for the six-month periods ended June 30, 2011 and 2010**

(In thousands of reais)

	Note	Capital	Capital reserve	Legal reserve	Profit retention	Retained earnings / accumulated losses	Total	Noncontrolling shareholders' interest in equity of subsidiaries	Total
<b>Balances at December 31, 2009</b>		<b>839,778</b>	-	<b>5,881</b>	<b>152,764</b>	-		<b>2,785,803</b>	<b>3,784,226</b>
Capital payment in cash, contribution by shareholder HSBC on 03/09/2010		420	-	-	-	-	420	-	420
Setting up of capital reserve in cash, contribution by shareholder HSBC on 03/09/2010		-	839,580	-	-	-	839,580	-	839,580
Capital payment in cash, contribution by shareholder HSBC on 03/19/2010		180	-	-	-	-	180	-	180
Setting up of capital reserve in cash, contribution by shareholder HSBC on 03/19/2010		-	359,820	-	-	-	359,820	-	359,820
Loss for the period		-	-	-	-	(225,924)	(225,924)	-	(225,924)
Comprehensive income		-	-	-	-	(225,924)	(225,924)	-	(225,924)
Balance after absorption of accumulated losses		-	-	-	(152,764)	152,764	-	-	-
Dividend distribution		-	-	-	-	-	-	(269,520)	(269,520)
Interest on equity capital		-	-	-	-	-	-	(78,339)	(78,339)
Net income for the period attributed to noncontrolling shareholders		-	-	-	-	-	-	248,064	248,064
Other (capital increase in subsidiary)		-	-	-	-	-	-	31,425	31,425
<b>Balances at June 30, 2010</b>		<b>840,378</b>	<b>1,199,400</b>	<b>5,881</b>	-	<b>(73,160)</b>	<b>1,972,499</b>	<b>2,717,433</b>	<b>4,689,932</b>
<b>Balances at December 31, 2010</b>		<b>840,378</b>	<b>1,199,400</b>	<b>5,881</b>	<b>48,230</b>	-	<b>2,093,889</b>	<b>2,737,364</b>	<b>4,831,253</b>
Comprehensive income		-	-	-	-	154,341	-	-	154,341
Net income for the period		-	-	-	-	154,341	-	-	154,341
Fixed dividends paid	23 (b)	-	-	-	(48,230)	(94,755)	-	-	(142,985)
Dividend distribution		-	-	-	-	-	-	(223,272)	(223,272)
Interest on equity capital		-	-	-	-	-	-	(80,398)	(80,398)
Net income for the period attributed to noncontrolling shareholders		-	-	-	-	-	-	253,163	253,163
Other		-	-	-	-	-	-	383	383
<b>Balances at June 30, 2011</b>		<b>840,378</b>	<b>1,199,400</b>	<b>5,881</b>	-	<b>59,586</b>	<b>2,105,245</b>	<b>2,687,240</b>	<b>4,792,485</b>

## ISA CAPITAL DO BRASIL S.A. AND SUBSIDIARY

### Notes to Interim Financial Information

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June 30, 2011

(In thousands of reais, except where indicated otherwise)

#### 1. Operations

##### 1.1 Business purpose

The business 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 shareholder, partnership in joint ventures, membership in consortiums, or any type of business cooperation.

At 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 shareholder of CTEEP - Companhia de Transmissão de Energia Elétrica Paulista (“CTEEP”) up to then, sold 31,341,890,064 of its common shares, which account for 50.10% of the common shares issued by CTEEP. The winner of the auction was Interconexión Eléctrica S.A. E.S.P. (“ISA”).

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

On September 12, 2006 the Company purchased other 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.

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 June 30, 2011, 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 the Special Shareholders’ Meeting held on March 9, 2010, under Board of Directors’ Proposal terms dated March 8, 2010, Company’s capital increase by R\$ 840,000 was approved, R\$ 420 of which was allocated to capital and R\$ 839,580 allocated to capital reserve, by creating and issuing 415,691,162 redeemable preferred shares distributed into 13 classes, entitled to fixed cumulative dividends, which were subscribed and paid-in on the same date. Accordingly, Company’s capital increased from R\$ 839,778 to R\$ 840,198, comprising 1,256,316,162 shares. In the same meeting, mandatory dividend reduction was approved, which decreased from 25% to 1%, and amendment of the Company’s Articles of Incorporation; and
- (ii) In the Board of Directors’ meeting held on March 19, 2010, a new capital increase was approved within authorized capital limit, with issue of 178,153,342 redeemable preferred shares, into 13 classes, entitled to cumulative fixed dividends, amounting to R\$ 360,000 which was fully subscribed and paid in on the same date, R\$ 180 of which were allocated to the Company’s capital and R\$ 359,820 to capital reserve.

## ISA CAPITAL DO BRASIL S.A. AND SUBSIDIARY

### Notes to Interim Financial Information

June 30, 2011

(In thousands of reais, except where indicated otherwise)

Accordingly, after both capital increases, as of June 30, 2010, the Company's subscribed and paid-in capital amounted to R\$ 840,378 (R\$ 840,378 as of December 31, 2010 and R\$839,778 at 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, whether directly or indirectly, the following Public Utility Concession Agreements for Electric Power Transmission:

Concessionaire	Agreement	Interest (%)	Term (years)	Maturity	Periodic Tariff Review		RAP in step	Restatement index	Annual Revenue Allowed - RAP	
					Term	Next			R\$ 000	Base month
CTEEP	059 (*)	37.6041	20	07.07.15	4 years	2013	No	IGPM	1,992,484	6/Nov
CTEEP	143/2001	37.6041	30	12.20.31	n/a	n/a	Yes	IGPM	15,793	6/Nov
IEMG	004/2007	37.6041	30	04.23.37	5 years	2012	Yes	IPCA	14,193	6/Nov
Pinheiros	012/2008	37.6041	30	10.15.38	5 years	2014	No	IPCA	7,386	6/Nov
Pinheiros	015/2008	37.6041	30	10.15.38	5 years	2014	No	IPCA	12,491	6/Nov
Pinheiros	018/2008	37.6041	30	10.15.38	5 years	2014	No	IPCA	3,174	6/Nov
Serra do Japi	026/2009	37.6041	30	11.18.39	5 years	2015	No	IPCA	25,200	6/Nov
IENNE	001/2008	9.4010	30	03.16.38	5 years	2013	No	IPCA	36,435	6/Nov
IESul	013/2008	18.8021	30	10.15.38	5 years	2014	No	IPCA	4,447	6/Nov
IESul	016/2008	18.8021	30	10.15.38	5 years	2014	No	IPCA	8,006	6/Nov
IEMadeira	013/2009	19.1781	30	02.25.39	5 years	2014	No	IPCA	176,249	5/Sept
IEMadeira	015/2009	19.1781	30	02.25.39	5 years	2014	No	IPCA	151,788	5/Sept

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

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 shareholder. In this amendment, the conditions initially negotiated were maintained and a clause was added defining that the goodwill paid in the auction, as well as the special obligations and the amounts arising from State Law No. 4819/58 determined in Sale Notice SF/001/2006, will not be considered by ANEEL for evaluation of the financial and economic balance of the concession. Further as a result of this amendment, ISA Capital and Interconexión Eléctrica S.A. E.S.P. (Colombia) agreed to make capital contributions to CTEEP.

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

## ISA CAPITAL DO BRASIL S.A. AND SUBSIDIARY

### Notes to Interim Financial Information

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June 30, 2011

(In thousands of reais, except where indicated otherwise)

#### Participation in auctions

##### (i) Auction 001/2009

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. CTEEP transferred the shares held by it of Linha Verde Transmissora de Energia S.A, Rio Branco Transmissora de Energia S.A. and Transmissora Matogrossense de Energia S.A., companies set up to operate such concessions includes in these batches on April 7, 2011, May 5, 2011 and May 14, 2010, respectively. See further details in the December 31, 2010 financial statements.

##### (ii) Auction 001/2011

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

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

## 2 Presentation of quarterly information

### 2.1 Basis for preparation and presentation

The individual financial information, identified as “Company”, was prepared and is presented in accordance with accounting practices adopted in Brazil, which comprise provisions contained in Brazilian Corporation Law, pronouncements, interpretations and guidance issued Brazilian FASB (“CPC”) and approved by the Brazilian Securities and Exchange Commission (“CVM”). In compliance with current Brazilian legislation, this individual quarterly information presents an assessment of investments in subsidiaries and in joint ventures by the equity pickup method. As such, this individual quarterly information is not considered as in accordance with International Financial Reporting Standards (“IFRS”), under which such investments must be posted at fair value or cost.

The consolidated quarterly information, identified as “Consolidated”, was prepared and is presented in conformity with accounting practices adopted in Brazil, which comprise provisions contained in Brazilian Corporation Law, pronouncements, interpretations and guidance issued by Brazilian FASB (CPC) and approved by CVM, which is in compliance with IFRS issued by the International Accounting Standards Board (IASB).

In accordance with Circular Letter CVM/SNC/SEP No. 03/2011, the Company elected to present the notes to this quarterly information - ITR on a summarized basis to avoid redundancy in relation to information presented in the annual financial statements. In these cases, the complete explanatory note in the annual financial statements was indicated, in order not to impair understanding of the Company’s financial position and performance during the interim period.

The Company represents that the significant accounting judgments, estimates and assumptions, as well as the significant accounting practices, except for derivative financial instruments and hedging activities, are the same as those disclosed in the annual financial statements for year 2010. Accordingly, the relevant information should be read in Notes 2.3 and 3 to those financial statements, except for 3.4 (c), which has changed.

## ISA CAPITAL DO BRASIL S.A. AND SUBSIDIARY

### Notes to Interim Financial Information

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(In thousands of reais, except where indicated otherwise)

The individual and consolidated interim financial statements were prepared based on historic cost, except where indicated otherwise, as described in the following accounting practices. The historic cost is in general based on the fair value of consideration paid in exchange for the assets.

All amounts presented in this accounting information are expressed in thousands of reais, except where indicated otherwise. Due to the effect of rounding, the figures in this document may not exactly match the total amounts presented.

Non-financial data included in this accounting information, such as energy volumes, estimates or forecasts, and insurance were not reviewed by the independent auditors.

#### 2.2 Functional and reporting currencies

Quarterly information of the Company and each subsidiary included in the consolidation is stated in reais, which is the main currency of the economic environment where the companies operate (“functional currency”).

#### 2.3 Significant accounting judgments, estimates and assumptions

The Company represents that information concerning significant accounting judgments, estimates and assumptions described in the annual financial statements for year 2010 remains valid for this Quarterly Information – ITR, and the contents of this information are stated in Note 2.3 to the December 31, 2010 financial statements.

#### 2.4 Consolidation procedures

The consolidated ITR includes quarterly information of ISA 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.

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, ceases to exist.

At June 30, 2011 and December 31, 2010, interest held in subsidiaries and joint ventures was as follows:

		<u>Interest %</u>	
	<u>ITR reporting date</u>	<u>06.30.2011</u>	<u>12.31.2010</u>
<b>Direct</b>			
CTEEP	06.30.2011	37.6041	37.6041
<b>Indirect</b>			
Interligação Elétrica Pinheiros S.A. (Pinheiros)	06.30.2011	37.6041	37.6041
Interligação Elétrica Serra do Japi S.A. (Serra do Japi)	06.30.2011	37.6041	37.6041
Interligação Elétrica de Minas Gerais S.A. (IEMG)	06.30.2011	37.6041	22.5625
<b>Indirect – Joint ventures</b>	06.30.2011		
Interligação Elétrica Norte e Nordeste S.A. (IENNE)	06.30.2011	9.4010	9.4010
Interligação Elétrica do Sul S.A. (IESUL)	06.30.2011	18.8021	18.8021
Interligação Elétrica do Madeira S.A. (IEMADEIRA)	06.30.2011	19.1781	19.1781

Linha Verde Transmissora de Energia S.A and Rio Branco Transmissora de Energia S.A. are not included in consolidation since, as mentioned in Note 1.2, subsidiary CTEEP did not pay up its interest in capital of these companies and is seeing to the transfer of this interest to Abengoa and Eletronorte, respectively.

## ISA CAPITAL DO BRASIL S.A. AND SUBSIDIARY

### Notes to Interim Financial Information

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June 30, 2011

(In thousands of reais, except where indicated otherwise)

The following procedures were adopted in the preparation of the consolidated ITR:

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

Accounting practices were uniformly applied in all consolidated companies and their financial year matches that of the Company.

### 3 Summary of significant accounting practices

The Company represents that information concerning significant accounting practices, except for derivative financial instruments and hedging activities, which did not exist at December 31, 2010, described in the annual financial statements for year 2010 remains valid for this ITR, and the content of such information is in Note 3, except 3.4 (c), which has changed, as presented below:

#### 3.4 Financial instruments

##### (c) Derivative instruments and hedge transactions

In 2011, subsidiary CTEEP started to use derivative financial instruments.

Derivative financial instruments designated as hedges are initially recognized at fair value on the date on which the derivative operation is taken out and are subsequently reassessed also at fair value. Any gains or losses deriving from changes in fair value of derivatives during the year are directly recorded in the income statement.

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

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

At June 30, 2011, subsidiary CTEEP had a derivative instrument classified as fair value hedge relating to interest rate swap, to hedge against exposure to changes in fair value of its loans raised under Law No. 4131 (Notes 15 (d) and 30). This transaction was classified as fair value hedge.

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

### 4 Obligations Assumed upon Acquisition of Subsidiary CTEEP

**ISA CAPITAL DO BRASIL S.A. AND SUBSIDIARY**

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(In thousands of reais, except where indicated otherwise)

Under the share purchase and sale agreement, subject matter of the privatization auction described in Note 1, the Company agreed to supplement payment of purchase price of CTEEP shares, in case CTEEP is released from the burden related to supplemental payments to the private pension plan provided for by Law No. 4819/58, currently being disputed in court.

At June 30, 2011, the amount of purchase price supplementation is composed of the following two different transactions:

a) The amount of R\$ 234,611 (12.31.2010 - R\$ 223,921), determined upon acquisition of the first equity interest through the privatization auction held on June 28, 2006, recorded in “Amounts payable – Law No. 4819/58 – State Finance Department” account, R\$ 8,423 (12.31.2009 – R\$ 8,423) in current liabilities and R\$ 226,188 (12.31.2010 - R\$ 215,498) in noncurrent liabilities, the contra entry, in the amount of R\$ 188,895, was to “Investments – goodwill on acquisition of equity interest in subsidiary”, and the difference of R\$ 45,716 was recognized in the income statement as monetary restatement of the obligation, in accordance with the Consumer Price Index- Amplified - IPC-A as from December 31, 2005. In the six-month period of 2011, the amount of R\$ 10,609 was recognized in the income statement.

b) The amount of R\$ 147,105 (12.31.2010 - R\$ 140,402), determined upon acquisition of the third equity interest through public offer for purchase of shares at auction - OPA, held on January 9, 2007, recorded in “Amounts payable – Law No. 4819/59 - OPA” account, R\$ 4,946 (12.31.2010 – R\$ 4,946) in current liabilities and R\$ 142,159 (12.31.2012 – R\$ 135,456) in noncurrent liabilities, the contra entry, in the amount of R\$ 120,306, was to “Investments – goodwill on acquisition of equity interest in subsidiary” account, and the difference of R\$ 26,799 was recognized in income statement as monetary restatement of the obligation, in accordance with the Consumer Price Index- Amplified - IPC-A as from December 31, 2005. In the six-month period of 2011, the amount of R\$ 6,703 was recognized in the income statement.

**5 Cash and cash equivalents**

	<b>Company</b>		<b>Consolidated</b>	
	<b>06.30.2011</b>	<b>12.31.2010</b>	<b>06.30.2011</b>	<b>12.31.2010</b>
Cash and banks	99	70	662	697
Financial investments	268,413	257,191	485,048	311,547
	<b>268,512</b>	<b>257,261</b>	<b>485,710</b>	<b>312,244</b>

Financial investments are highly liquid and measured at fair value through profit or loss.

Financial investments are broken down as follows:

	<b>% of CDI</b>	<b>Company</b>		<b>Consolidated</b>	
		<b>06.30.2011</b>	<b>12.31.2010</b>	<b>06.30.2011</b>	<b>12.31.2010</b>
CDB	97.5% to 103.0%	-	-	418,753	235,831
CDB	102.0% to 105.0%	268,413	181,476	-	-
Repurchase agreements	101.0% to 102.0%	-	75,715	66,295	75,716
		<b>268,413</b>	<b>257,191</b>	<b>485,048</b>	<b>311,547</b>

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(In thousands of reais, except where indicated otherwise)

Analysis of the Company management as to these assets exposure to interest rate risk, among others, is disclosed in Note 30 (c).

**6 Trade accounts receivable**

Breakdown of trade accounts receivable is as follows:

	<b>Consolidated</b>	
	<b>06.30.2011</b>	<b>12.31.2010</b>
Accounts receivable from construction services (a)	5,858,948	5,405,440
Accounts receivable from O&M services (b)	236,064	175,912
Acknowledgment of debt and payment agreement (c)	36,071	68,347
	<b>6,131,083</b>	<b>5,649,699</b>
Current	<b>1,326,355</b>	<b>1,424,390</b>
Noncurrent	<b>4,804,728</b>	<b>4,225,309</b>

- (a) Refers to the amount receivable for construction, expansion and reinforcement services of electric energy transmission facilities, and includes the estimated investments made and not amortized until the end of the concession and for which the subsidiary CTEEP will be entitled to receive cash or other financial assets, when concession agreement is no longer effective. They bear interest at the effective interest rate calculated for each concession agreement.
- (b) 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, subsidiary CTEEP signed an “acknowledgment of debt and payment agreement” with dealers with overdue accounts receivable. This agreement provides for balance receipt in 36 installments. By June 2011, all installments had been received as provided for therein.

These financial assets are classified as lending and receivables.

Accounts receivable are distributed by maturity as follows:

	<b>Consolidated</b>	
	<b>06.30.2011</b>	<b>12.31.2010</b>
Falling due	6,110,281	5,633,208
Overdue		
up to 30 days	1,498	1,498
31 to 60 days	428	846
Above 61 days	18,876	14,147
	<b>20,802</b>	<b>16,491</b>
	<b>6,131,083</b>	<b>5,649,699</b>

Subsidiary CTEEP has no history of losses on accounts receivable, which are secured by structures of guarantees

**ISA CAPITAL DO BRASIL S.A. AND SUBSIDIARY**

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and/or access to current accounts operated by the National System Operator (ONS) or directly by the Company and, therefore, did not set up any allowance for doubtful accounts.

**7 Amounts receivable – State Finance Department – Consolidated**

			<b>06.30.2011</b>	<b>12.31.2010</b>
	<b>Current</b>	<b>Noncurrent</b>	<b>Total</b>	<b>Total</b>
Obligation acknowledgment and consolidation agreement (a)	20,168	1,681	21,849	30,069
Disposal of real estate (b)	4,192	349	4,541	6,250
Payroll processing – Law No. 4819/58 (c)	-	586,934	586,934	533,866
Labor claims – Law No. 4819/58 (d)	-	141,619	141,619	133,882
Family allowance – Law No. 4819/58 (e)	-	2,218	2,218	2,218
Allowance for doubtful accounts (e)	-	(2,218)	(2,218)	(2,218)
	<b>24,360</b>	<b>730,583</b>	<b>754,943</b>	<b>704,067</b>

- (a) On May 2, 2002, an Obligation Acknowledgment and Consolidation Agreement was executed with the State Finance Department, whereby the State acknowledges that it owes to subsidiary CTEEP amounts corresponding to payments originally made by CESP from 1990 to 1999, for supplementary retirement and pension payroll, arising from benefits under State Law No. 4819/58. The amount then acknowledged was restated through January 2002, according to São Paulo State Fiscal Unit (UFESP), and, as from February 2002, according to monthly IGP-M variation, plus 6% p.a. Repayment will be in made in 120 monthly installments, beginning August 1, 2002 and termination expected for July 1, 2012.
- (b) On July 31, 2002, a Private Transaction Agreement was executed with the State Finance Department, with a real estate sale commitment, obligation recognition and payment commitment, whereby the State acknowledges that it owes to subsidiary CTEEP an amount corresponding to the market value of the total real estate area occupied by the State, partially used for the construction of prisons. The State is therefore committed to reimburse said amount to the Company 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) The amount of R\$ 586,934 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\$ 585,508 from September 2005 to September 2011 in virtue of judicial decision from 49<sup>th</sup> 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 the Company (Note 34 (d)). Such balance is not monetarily restated and no yields are recorded until they are approved by the State Government to be effectively paid to subsidiary CTEEP.
- (d) These refer to certain labor claims settled by the Company, 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 subsidiary 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 subsidiary CTEEP upon CESP partial spin-off. Considering the expected loss, the management set up an allowance for doubtful accounts under non-current assets, amounting to R\$ 2,218.

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

**8 Recoverable taxes - Consolidated**

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(In thousands of reais, except where indicated otherwise)

	<b>Company</b>		<b>Consolidated</b>	
	<b>06.30.2011</b>	<b>12.31.2010</b>	<b>06.30.2011</b>	<b>12.31.2010</b>
COFINS	-	-	963	3,273
PIS	-	-	3,147	803
Income tax	45,795	36,806	51,769	42,425
Social contribution	1,099	-	1,911	776
Other	-	-	328	759
	<b>46,894</b>	<b>36,806</b>	<b>58,118</b>	<b>48,036</b>

**9 Tax benefit – merged goodwill – Consolidated**

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

In order for the amortization of goodwill not to adversely impact the dividend flow to shareholders, the Company set up a provision to maintain the integrity of equity of its acquirer (PMIPL), in accordance with CVM Ruling 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:

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

To better present the financial position of subsidiary CTEEP in the quarterly information, the net amount of R\$ 133,495 (R\$ 147,911 at December 31, 2010), which essentially represents the merged tax credit, was classified in the balance sheet as current and non-current assets as tax benefit – merged goodwill, based on expected realization.

Changes in the six-month period ended June 30, 2011 are as follows:

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	<u>Goodwill</u>	<u>Provision</u>	<u>Net</u>
Balances at 12.31.2010	435,034	(287,123)	147,911
Realization for the period (Note 27)	<u>(42,400)</u>	<u>27,984</u>	<u>(14,416)</u>
<b>Balances at 06.30.2011</b>	<b><u>392,634</u></b>	<b><u>(259,139)</u></b>	<b><u>133,495</u></b>

**10 Loans receivable**

The loan refers to the full onlending by the company to its controlling company ISA of the loan raised in 2006 from ABN AMRO BANK, denominated in US dollars, in the original amount of US\$ 23,800 thousand, of which the maturity in a sole installment occurred on July 19, 2007 and interest calculated based on the LIBOR, plus spread of 3.00% p.a. The Company maintained the same assumptions for updating such this operation, with biannual interest receipt, however principal is to be repaid within 8 years in a sole installment.

Breakdown of the balance is as follows:

	<u>06.30.2011</u>	<u>12.31.2010</u>
Principal	51,146	51,146
Interest	7	8
Exchange variation	<u>(13,992)</u>	<u>(11,491)</u>
<b>Total</b>	<b><u>37,161</u></b>	<b><u>39,663</u></b>

**11 Pledges and restricted deposits**

**Company**

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

Complying with the terms of the contract, the Company maintained two deposits in Bank of New York in the amount of US\$ 7,875 thousand and US\$ 15,576 thousand, as guarantee for interest paid biannually related to the two fund raisings described above, respectively. Alike in March 2010, the Company repurchased 91.06% of the bonds maturing in 2017 and 100% of the bonds maturing in 2012 also the amount to be maintained in this account for payment of biannual interest of the bonds remaining in the market is of approximately US\$1.4 million. The balance of the account recorded in current assets at December 31, 2010 in the amount of R\$ 2,320 was used for interest payment in January 2011.

Within the contractually established term, the balance of the account was recomposed with a deposit made on April 25, 2011 in the amount of R\$ 2,193, which translated at the exchange rate to US dollar of June 30, 2011, totaled R\$ 2,174.

**Consolidated**

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In non-current assets, in view of the uncertainties regarding the outcome of the lawsuits to which the deposits refer, subsidiary CTEEP'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>06.30.2011</u>	<u>12.31.2010</u>
Judicial deposits		
Labor (Note 20 (b) (i))	30,535	27,914
Tax – COFINS (b)	5,668	5,668
Social security – INSS (Note 20 (b) (iii))	2,745	2,745
Notices of violation – ANEEL (a)	6,076	5,723
Other	274	198
	<u>45,298</u>	<u>42,248</u>

- (a) These refer to deposits in connection with lawsuits to annul notices of violation issued by ANEEL:
- (i) Deposit made on January 17, 2000, in the amount of R\$ 3,040, in an annulment action filed by subsidiary CTEEP against ANEEL, related to notice of violation 001/1999-SFE which had fined subsidiary CTEEP under alleged violations for obstructing the inspection related to disturbances from interrupted electric power transmission and distribution over a large part of the Southeast, South and Middle West regions; non-compliance with the “inspection report” requirements; and non-compliance with the legal duty of rendering proper service.
  - (ii) Deposit made on August 29, 2008, amounting to R\$ 2,139, for annulment of notice of violation 062/2007, related to non-compliance with the date set for installation of the 3rd 345/88 kV transformer bank of SE Baixada Santista, authorized by ANEEL Resolution No. 197 of May 4, 2004.
  - (iii) Deposit made on September 17, 2008, amounting to R\$ 544, for annulment of notice of violation No. 001/2008, related to noncompliance with the date set for start-up of the Guarulhos - Anhanguera Transmission Line, in 345 kV, permitted by Authorizing Resolution No. 064/2005 of January 31, 2005.
  - (iv) Deposit made on April 18, 2011, amounting to R\$ 353, for annulment of notice of violation No. 022/10, which imposed a fine on subsidiary CTEEP due to a fact occurred on April 1, 2009, in Substation (SE) 88kV sector, consisting of an automatic shutdown of the transformer bank due to overheating caused by the SE cooling system that would have been the Company’s fault.
- (b) Judicial deposits - COFINS

Subsidiary CTEEP has challenged in court the constitutionality of increased COFINS tax base, amounting to R\$ 11,132, and obtained a favorable outcome. In October 2009, subsidiary CTEEP identified the amount originally deposited, and filed a claim to withdraw the portion related to its restatement.

## 12 Investments

### (a) Information on subsidiary CTEEP

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	<u>06.30.2011</u>	<u>12.31.2010</u>
Number of outstanding shares at balance sheet date		
Common - ON	63,860,513	63,860,513
Preferred – PN	87,968,467	87,968,467
	<u>151,828,980</u>	<u>151,828,980</u>
Equity		
Capital	1,119,911	1,119,911
Capital reserve	2,054,369	2,054,369
Special goodwill reserve	176,744	176,744
Income reserve	1,012,982	1,014,124
Proposed additional dividend distribution	-	198,021
Advance for future capital increase	16,954	666
Unallocated net income for the period	118,830	-
	<u>4,499,790</u>	<u>4,563,835</u>
Total	<u>4,499,790</u>	<u>4,563,835</u>
Net income for the period	<u>118,830</u>	<u>812,171</u>

(b) Investment information

	<u>06.30.2011</u>	<u>12.31.2010</u>
Shares held – ON	57,093,869	57,093,869
Equity of investee	4,499,790	4,563,835
(+)Unallocated net income for the period	-	-
(-) Special goodwill reserve	(176,744)	(176,744)
(-) Advance for future capital increase	(16,288)	-
Equity of investee - equity pickup base	<u>4,306,758</u>	<u>4,387,091</u>
Percentage ownership interest (%)	37.6041	37.6041
<b>Investment (A)</b>	<u><b>1,619,518</b></u>	<u><b>1,649,726</b></u>
Goodwill		
Unamortized goodwill (Note 14)	259,138	287,123
Goodwill – special reserve	176,744	176,744
Total goodwill (a) (B)	<u>435,882</u>	<u>463,867</u>
Total investment (A+B)	<u><b>2,055,400</b></u>	<u><b>2,113,593</b></u>

(a) Total goodwill balance of R\$ 435,882 is classified as intangible asset in the consolidated balance sheet less the amount of special goodwill reserve of CTEEP of R\$ 176,744, as presented in Note 14. Studies carried out proved goodwill realization capacity within the concession agreement term.

(c) Changes in investments

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<b>Balance at December 31, 2010</b>	<u><b>2,113,593</b></u>
Equity pickup	153,186
Dividends declared in the period	(134,828)
Interest of equity capital declared in the period	(48,566)
Goodwill amortization	(27,985)
<b>Balance at June 30, 2011</b>	<u><u><b>2,055,400</b></u></u>

Information on CTEEP investments is detailed in the ITR of the subsidiary and is not repeated in this interim information.

**13 Property, plant and equipment**

These substantially refer to chattel used by the Company not related to the concession agreement.

				<u>Consolidated</u>	
				<u>06.30.2011</u>	<u>12.31.2010</u>
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net</u>	<u>Net</u>	
<b>In operation</b>					
Leasehold improvements	3,148	(2,708)	440	818	
Other	1,264	(474)	790	1,038	
Machinery and equipment	9,460	(4,403)	5,057	4,698	
Furniture and fixtures	2,809	(900)	1,909	1,734	
Vehicles	1,466	(687)	779	943	
	<u><b>18,147</b></u>	<u><b>(9,172)</b></u>	<u><b>8,975</b></u>	<u><b>9,231</b></u>	

**14 Intangible assets – Consolidated**

	<u>06.30.2011</u>	<u>12.31.2010</u>
Goodwill (Note 12 (b))	259,138	287,122
Implementation of integrated system and other (a)	<u>10,644</u>	<u>9,944</u>
	<u><b>269,782</b></u>	<u><b>297,066</b></u>

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

**15 Loans and financing - Consolidated**

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Breakdown of loans and financing balances is as follows:

	Charges	Maturity	Consolidated	
			06.30.2011	12.31.2010
<b>Foreign currency</b>				
Bonds (a)	8.8% p.a.	01.30.2017	51,222	54,671
<b>Local currency</b>				
BNDES (b) (i)	2.3%p.a. above TJLP	06.15.2015	374,596	421,146
BNDES (b) (ii)	1.8% p.a. above TJLP	06.15.2015	224,767	160,605
BNDES (b) (iii)	2.4% p.a. above TJLP	04.15.2023	60,160	37,630
BNDES (b) (iv)	2.8% p.a. above TJLP	04.15.2012	215,791	185,134
BNDES (b) (v)	2.4% p.a. above TJLP	05.15.2025	9,052	-
BNDES (b) (vi)	2.6% p.a. above TJLP	05.15.2026	122,777	-
Promissory Notes				
4 <sup>th</sup> issue (c) (i)	CDI + 0.4% p.a.	01.12.2012	210,397	-
Promissory Notes (c) (ii)	CDI + 0.4% p.a.	09.15.2011	93,079	-
Promissory Notes (c) (iii)	CDI + 0.3% p.a. US\$ variation +	07.27.2011	71,470	-
International CCB (d)	4% p.a.	04.26.2013	101,412	-
Hedge - swap adjustment (d)	103.50% of CDI p.a.	04.26.2013	1,219	-
Banco Bradesco (e)	CDI + 2.0% p.a.		2,702	1,396
Banco do Nordeste (f)	10% p.a.	05.19.2030	55,615	56,094
Citibank (g)	CDI + 1.5% p.a.	03.11.2011	-	8,297
Eletróbrás		11.15.2021	418	441
Finance leases			974	1,702
			<b>1,595,651</b>	<b>927,116</b>
Current			<b>756,802</b>	<b>334,347</b>
Noncurrent			<b>838,849</b>	<b>592,769</b>

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

The issue had as agents JP Morgan S.A. and ABN Amro Real S.A. and was divided into two tranches: one in the amount of US\$ 200 million, with 5-year term maturing in 2012, interest rate of 7.875% p.a., and call option in 2010 and 2011; and the other tranche in the amount of US\$ 354 million, with 10-year term maturing in 2017 and interest rate of 8,8% p.a.

At the time, the Company's management signed specific swap contracts to hedge against exchange rate risks in connection with the issue of the bonds described above. This swap transaction was initially segregated into two

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parts, one to hedge the amount of principal of the bonds of US\$ 554.0 million and another to hedge biannual interest that matured in July 2007 and January 2008:

Hedge of principal - Swap contracts with ABN Amro Real S.A. and JP Morgan S.A. relating to the hedge of the two tranches. The first tranche, in the amount of 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 in the amount of US\$ 354 million, with a ten-year term maturing in 2017, was also contracted at the exchange rate of R\$ 2.1170, bearing General Market Price Index (IGP-M) plus 1.68% p.a.. Both contracts had a Recouping partial payment clause, with maturity on February 12, 2008. Accordingly, on the maturity date, the Company paid to the referred banks the total amount of R\$ 155 million. 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 the hedge of 50% of the two tranches was contracted. The first tranche, in the amount of US\$ 100 million and maturing in 2012, was contracted at the exchange rate of R\$ 1.7573, bearing General Market Price Index (IGP-M) plus 5.0709% p.a. The second tranche, in the amount of US\$ 177 million and maturing in 2017, was also contracted at the exchange rate of R\$ 1.7573, bearing General Market Price Index (IGP-M) plus 3.0203% p.a. The recouping partial payment clause was excluded.
- JP Morgan S.A.: on February 12, 2008, the hedge of 50% of the two tranches was contracted. The first tranche, in the amount of US\$ 100 million and maturing in 2012, was contracted at the exchange rate of R\$ 1.7573, bearing General Market Price Index (IGP-M) plus 4.8709% p.a. The second tranche, in the amount of US\$ 177 million and maturing in 2017, was also contracted at the exchange rate of R\$ 1.7573, bearing General Market Price Index (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 General Market Price Index (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 in the amount of US\$ 177 million, maturing in 2017, was contracted 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 contract 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 provided by technical pronouncement CPC 14, as from July 31, 2008 the Company, recognized its derivative financial instruments (swap) and its above-mentioned foreign-currency-denominated debt contracts (bonds) under the fair value hedge accounting method.

Under this methodology, the impacts of changes in the fair value of derivatives used as hedge are recognized in income, based on the recognition of foreign-currency-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 until February 2010.

#### (a.ii) Restructuring of debt in foreign currency – Bonds

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

- Bonds of US\$ 354.0 million 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 totaled US\$ 371.8 million, which is equivalent to R\$ 665.0 million, broken down as follows: (i) Principal of US\$ 322.3 million, equivalent to R\$ 577.4 million; (ii) Consent Fee of US\$ 37.7 million, equivalent to R\$ 66.6 million; (iii) pro-rata interest of US\$ 3.2 million equivalent to R\$ 5.7 million; and (iv) taxes levied on transfers of US\$ 8.6 million, equivalent to R\$ 15.3 million.

For the US\$ 31.6 million bonds remaining in the market, the same conditions agreed upon issue are kept, but without any type of covenants. The maturity term of the principal amount is still 2017 and interest is still paid on a 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 million, 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 of US\$ 7.9 million, equivalent to R\$ 14.1 million; (iii) Pro-rata interest of US\$ 2.4 million, equivalent to R\$ 4.4 million; and (iv) Taxes on transfers of 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.

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	<u>06.30.2011</u>	<u>12.31.2010</u>
<b>Current liabilities</b>		
Bond issue - interest	1,812	1,934
<b>Total</b>	<u>1,812</u>	<u>1,934</u>
<b>Noncurrent liabilities</b>		
Bond issue - principal	49,410	52,737
	<u>49,410</u>	<u>52,737</u>
<b>Total</b>	<u><u>51,222</u></u>	<u><u>54,671</u></u>

**(b) BNDES**

- (i) On September 17, 2007, subsidiary CTEEP entered into a loan agreement with Brazil's National Bank for Economic and Social Development (BNDES) amounting to R\$ 764.2 million, reduced to R\$ 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, subsidiary CTEEP entered into a R\$ 329.1 million loan agreement with BNDES. The amounts of R\$ 160.0 million, R\$74.4 million and R\$10.5 million were drawn down on January 27, 2010, April 28, 2011 and May 23, 2011, respectively 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.
- (iii) On January 14, 2009 IEMG, a CTEEP subsidiary, 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. The need of bank guarantee was dispensed with by HBSC, since IEMG attained Debt Coverage Ratio - ICD of 1.3% and thus met the condition in the financing agreement.
- (iv) On August 11, 2010, IEMADEIRA, a CTEEP subsidiary, entered into loan agreement with BNDES, for R\$ 292.6 and R\$ 108.7 million. The amounts of R\$ 163.0, R\$ 110.0, R\$ 37.7, R\$ 36.7 and R\$ 40.0 million were drawn down on August 30, October 26, November 24 December 27, 2010 and June 27, 2011, respectively, 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 on January 15, 2012. 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. On April 12, 2011, bank guarantee validity was extended to March 15, 2012.

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- (v) On December 21, 2010, IESUL, a CTEEP subsidiary, entered into a loan agreement with BNDES in the amount of R\$ 18.1 million, drawn down on February 24, 2011. The funds are intended to finance construction of the Transmission Lines and Substations in the concession agreements. Repayment is in 168 monthly installments as from June 15, 2011. Bank guarantee was taken out with Banco do Brasil with validity until December 21, 2012.
- (vi) On December 30, 2010, Pinheiros, a subsidiary of CTEEP, entered into a loan agreement with BNDES in the amount of R\$ 119.9 million. On January 28, 2011, R\$ 91.3 million were drawn down and the remaining amount is scheduled to be drawn down in the next quarter. The funds are destined to finance construction of the transmission lines and substations in the concession agreements. Repayment will be in 168 monthly installments as from September 15, 2011. Bank guarantee was taken out with Banco Bradesco being valid until April 18, 2012.
- (c) Promissory notes of subsidiary CTEEP
  - (i) 4<sup>th</sup> issue – issued on January 17, 2011, in the amount of R\$ 200.0 million and maturing on January 12, 2012. Nominal charges correspond to CDI + 0.4% p.a. The cost of issue of these promissory notes totaled R\$ 132 thousand and, in accordance with CPC 08, they were recorded reducing the amount raised and appropriated to the statement of income over the transaction term. No guarantee was provided for the promissory notes.
  - (ii) On May 18, 2011, IEMadeira, a CTEEP subsidiary issued promissory notes in the amount of R\$ 180.0 million maturing on September 15, 2011. Nominal charges correspond to CDI + 0.4% p.a. The costs of issue of these promissory notes totaled R\$ 132 thousand and, in accordance with CPC 08, were recorded as a deduction from the amount of funding and appropriated to the income statement over the transaction term. No guarantees were provided for the promissory notes.
  - (iii) On April 27, 2011, Serra do Japi, a CTEEP subsidiary issued promissory notes in the amount of R\$ 70.0 million maturing on July 27, 2011. Nominal charges correspond to CDI + 0.3 % p.a. No guarantee was provided for the promissory notes.
- (d) On April 20, 2011, subsidiary CTEEP entered into an international bank credit bill agreement with Banco Itaú BBA Nassau, on the terms of Law No. 4131 of September 3, 1962, in the amount of USD 63,694,267.52 bearing exchange variation + 4% p.a. Taking out of swap instrument with Banco Itaú BBA with notional value of R\$ 100.0 million and restated by 103.50% of CDI. On June 30, 2011, there was negative swap adjustment of R\$ 1.2 million. The operation has final maturity on April 26, 2013. Banco Itaú BBA has a guarantee the credit rights resulting from adventitious swap operation positive balance adjustment.
- (e) Secured account with limit of R\$ 20.0 million of IENNE, a CTEEP subsidiary, with Banco Bradesco. Nominal charges correspond to 100.0% of CDI.
- (f) On May 19, 2010, IENNE entered into a financing agreement with Banco do Nordeste do Brasil S.A., in the amount of R\$ 220.0 million, of which the amount was drawn down on July 20 and 30, September 3 and October 11, 2010. The funds are destined to finance approximately 40% of the transmission line between the substations of Colinas do Tocantins to São João do Piauí. Repayment will be in 216 monthly installments as from June 2012, and until beginning of repayment the charges will be paid quarterly. Bank guarantee was taken out with Banco Bradesco with validity until July 15, 2011.
- (g) On August 4, 2010, IESUL, a CTEEP subsidiary, entered into a bank credit bill agreement with Citibank S.A., with a limited of R\$ 17.0 million, which was settled on March 3, 2011. The charges levied on this operation were paid monthly.

The noncurrent maturity schedule is as follows:

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	06.30.2011	12.31.2010	06.30.2011	12.31.2010
2012	-	-	82,780	132,449
2013	-	-	267,199	132,963
2014	-	-	169,354	133,201
2015	-	-	95,177	69,183
2016	-	-	20,951	5,161
After 2016	49,410	52,737	203,388	119,812
	<b>49,410</b>	<b>52,737</b>	<b>838,849</b>	<b>592,769</b>

16 Debentures – Consolidated

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, the third occurred on June 15, 2011.

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, the first occurred on June 15, 2011.

	Maturity	Number of debentures	Charges	06.30.2011	12.31.2010
1 <sup>st</sup> series	12.15.2014	49,100	CDI + 1.3% p.a.	490,496	490,405
2 <sup>nd</sup> series	12.15.2017	5,760	IPCA + 8.1 p.a.	63,127	65,388
				<b>553,623</b>	<b>555,793</b>
Current				<b>1,966</b>	<b>2,154</b>
Noncurrent				<b>551,657</b>	<b>553,639</b>

Noncurrent maturity schedule is as follows:

	06.30.2011	12.31.2010
2012	163,404	168,092
2013	163,204	163,206
2014	177,594	176,878
2015	15,817	15,153
2016	15,817	15,155
After 2016	15,821	15,155
	<b>551,657</b>	<b>553,639</b>

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**17 Taxes and social charges payable**

	<b>Company</b>		<b>Consolidated</b>	
	<b>06.30.2011</b>	<b>12.31.2010</b>	<b>06.30.2011</b>	<b>12.31.2010</b>
Income tax	6,916	304	46,810	46,256
Social contribution tax	2,392	-	16,917	16,633
COFINS	1,814	1,801	9,369	9,011
PIS	394	391	2,033	1,955
Scholarship program (i)	-	-	1,215	1,542
INSS	21	20	5,798	6,226
ISS	-	-	2,165	3,936
Other	15	17	4,051	5,718
	<b>11,552</b>	<b>2,533</b>	<b>88,358</b>	<b>91,277</b>

(i) Refers to obligations assumed by subsidiary CTEEP 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.

On June 30, 2011, subsidiary CTEEP consolidated the tax debts with Brazilian IRS and opted to pay them in 180 months for calculating the installments to be paid as from June 30, 2011. Out of the total installments above the prepayments made in the period from November 30, 2009 to May 31, 2011 were deducted and that represented 19 installments already paid. After deducting the prepayments, there remained 161 installments to be paid as from June 30, 2011, in the amount of R\$ 975, subject to monetary restatement by reference to accumulated SELIC as from December 2009 until the month of effective payment plus 1% on top of SELIC rate for the month, totaling R\$ 155,979.

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

Changes for the six-month period ended June 30, 2011 are as follows:

Balance at 12.31.2010	155,317
Fine and interest on debt	22,652
Reduced fine and interest (REFIS benefit)	(21,013)
Payments made	(977)
	<b>155,979</b>
Current	<b>11,698</b>
Noncurrent	<b>144,281</b>

**19 Regulatory charges**

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**June 30, 2011**

(In thousands of reais, except where indicated otherwise)

	<b>Consolidated</b>	
	<b>06.30.2011</b>	<b>12.31.2010</b>
Research and development - R&D	44,436	39,114
Energy development account - CDE	2,082	2,179
Fuel consumption bill - CCC	3,458	3,620
Global reversion reserve – RGR	4,301	5,629
Alternative energy source program - PROINFA	1,004	1,143
Inspection fee – ANEEL	137	48
	<b>55,418</b>	<b>51,733</b>
Current	<b>53,244</b>	<b>49,559</b>
Noncurrent	<b>2,174</b>	<b>2,174</b>

**20 Provisions**

	<b>Company</b>		<b>Consolidated</b>	
	<b>06.30.2011</b>	<b>12.31.2010</b>	<b>06.30.2011</b>	<b>12.31.2010</b>
Vacation pay and social charges	13	11	18,185	16,807
Profit sharing – PLR	-	-	3,955	5,786
Voluntary termination program – PDV (a)	-	-	16	87
Sundry indemnification	-	-	-	-
Contingencies (b)	-	-	158,923	161,682
	<b>13</b>	<b>11</b>	<b>181,079</b>	<b>184,362</b>
Current	<b>13</b>	<b>11</b>	<b>22,187</b>	<b>22,674</b>
Noncurrent	-	-	<b>158,892</b>	<b>161,688</b>

**(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.

At June 30, 2011, 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.

**(b) Provision for contingencies**

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

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(In thousands of reais, except where indicated otherwise)

	<b>Consolidated</b>	
	<b>06.30.2011</b>	<b>12.31.2010</b>
Labor (i)	144,164	145,993
Civil	4,464	3,844
Tax – IPTU (ii)	8,220	7,527
Social security – INSS (iii)	1,357	3,635
ANEEL (iv)	718	683
	<b>158,923</b>	<b>161,682</b>

CTEEP is party to tax, labor and civil lawsuits rated by management as involving probable losses, based on an assessment of its legal advisors, in the estimated amount of R\$ 105,530 (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\$ 8,220.

**(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 regarding the meal tickets, morning snack and part of the basket of food staples. 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.

**(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.

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### Notes to Interim Financial Information

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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.

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.

In the three and six-month periods there was no significant change in the number of plan participants and in the assumptions used by CTEEP in relation to those disclosed in the December 31, 2010 financial statements.

## 22 Special obligations – Reversal/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.

## 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 redeemable preferred shares at the price of R\$ 2.020731 each, of which redemption will start on April 12, 2013 and end on April 9, 2016 and which were fully subscribed and paid-in by HSBC Finance (Brazil) S.A. Multiple Bank, as follows:

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- (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 from 25% to 1% and Company's by-laws amendment were approved; and
- (ii) The Company's Board of Directors, in meeting held on March 19, 2010, approved an additional capital increase, within its authorized capital, through issue of 178,153,342 redeemable preferred shares, distributed into 13 classes, entitled to fixed cumulative dividends, amounting to R\$ 360,000, which was subscribed and paid-in on the same date, of which R\$ 180 was allocated to capital and R\$ 359,820 allocated to Company's capital reserve. Therefore, Company's capital increased from R\$ 840,198 to 840,378, comprising 1,434,469,504 shares.

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

Accordingly, at June 30, 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>Shareholders</u>	<u>Number of common shares</u>	<u>Number of preferred shares</u>	<u>Total</u>	<u>%</u>
Interconexión Eléctrica S.A ESP	840,624,995	-	840,624,995	58.60%
Board of Directors members	5	-	5	0.00%
HSBC Finance (Brasil) S.A. Banco Múltiplo	-	296,922,252	296,922,252	20.70%
Banco Votorantim S.A.	-	296,922,252	296,922,252	20.70%
<b>Total</b>	<b><u>840,625,000</u></b>	<b><u>593,844,504</u></b>	<b><u>1,434,469,504</u></b>	<b><u>100%</u></b>

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) Fixed cumulative dividends - Company**

The Board of Directors' meeting of April 4, 2011 approved payment of fixed cumulative dividends referring to cumulative profit through to March 2011, in the amount of R\$ 35,347, corresponding to R\$ 0.05952228 per share.

The Board of Directors approved fixed cumulative dividend distribution, totaling R\$142,985, as follows:

<u>Payment</u>	<u>Amount</u>	<u>Restatement</u>	<u>Amount per share</u>	<u>Shares</u>	<u>Approval</u>
3/18/2011	R\$ 107,637	R\$ 2,591	R\$ 0.181254	593,844,504	3/17/2011
4/4/2011	R\$ 35,347	-	R\$ 0.05952228	593,844,504	4/4/2011

**(c) Capital reserve**

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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 June 30, 2011. As previously scheduled, this amount will be used to redeem redeemable shares distributed into 13 classes and, as established in shareholders' agreement and Brazilian Corporation Law (Law No. 6404/76), as amended, may also be used to pay dividends to which redeemable preferred shares are entitled.

#### (d) Income reserve

	06.30.2011	12.31.2010
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 year in which the balance of the legal reserve plus the balance of the capital reserve provided for by paragraph 1 of article 182 of Brazilian Corporation Law exceeds 30% (thirty percent) of the amount of capital, it will no longer be necessary to allocate part of net income for the year to the legal reserve.

#### (ii) Reserve for retained profit

The portion of net income for the year remaining after attributing fixed cumulative dividends to redeemable preferred shares shall be allocated to this account, observing the limits established in the Company's articles of incorporation. While there are outstanding redeemable preferred shares, this account will only be used for payment of fixed cumulative dividends to which the redeemable preferred shares are entitled and, if the case, also for redemption of the redeemable preferred shares.

The balance at December 31, 2010 of R\$ 48,230 was fully used for the payment of fixed cumulative dividends attributed to the redeemable preferred shares on 03.18.2011.

## 24 Net operating revenue - Consolidated

### 24.1 Breakdown of net operating revenue – Consolidated

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June 30, 2011

(In thousands of reais, except where indicated otherwise)

	Consolidated		Consolidated	
	Three-month period ended 06.30.2011	06.30..2010	Six-month period ended 06.30.2011	06.30.2010
<b>Gross revenue</b>				
Construction (a)	298,657	134,177	505,075	228,546
Operation and maintenance (a)	137,990	99,424	286,683	178,659
Financial (b)	339,883	327,989	672,072	657,712
Rent	3,264	3,146	6,564	6,323
Services rendered	688	698	1,591	1,972
<b>Total gross revenue</b>	<b>780,482</b>	<b>565,434</b>	<b>1,471,985</b>	<b>1,073,212</b>
<b>Taxes on gross revenue</b>				
COFINS	(43,583)	(26,426)	(79,265)	(48,901)
PIS	(9,258)	(5,732)	(17,001)	(10,609)
ISS	(35)	(34)	(80)	(98)
	<u>(52,876)</u>	<u>(32,192)</u>	<u>(96,346)</u>	<u>(59,608)</u>
<b>Regulatory charges</b>				
Fuel consumption bill – CCC	(10,243)	(5,365)	(22,893)	(11,489)
Energy development account – CDE	(6,161)	(6,340)	(13,777)	(13,578)
Global reversion reserve – RGR	(13,112)	(11,210)	(25,980)	(22,420)
Research and development – R&D	(4,384)	(4,059)	(8,864)	(7,533)
Alternative energy source program – PROINFA	(2,971)	(3,186)	(6,349)	(8,100)
	<u>(36,871)</u>	<u>(30,160)</u>	<u>(77,863)</u>	<u>(63,120)</u>
	<u><b>690,735</b></u>	<u><b>503,082</b></u>	<u><b>1,297,776</b></u>	<u><b>950,484</b></u>

(a) **Construction, operation and maintenance services**

Revenue related to construction or improvement services under the utility concession agreement is recognized based on percentage of work completion. Operating and maintenance service revenues are recognized for the period for which the services are rendered by 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.

**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,

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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.

The review comprises revenue repositioning by determining:

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

- First periodic tariff review cycle

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

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

- Second periodic tariff review cycle

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

As set forth by article 6 of Regulatory 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:

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

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 in which they occur.

**24.5 Annual revenue adjustment**

On June 28, 2011, Authorizing Resolution No. 1171 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, 2011 to June 30, 2012.

In accordance with this Resolution, CTEEP's annual revenue allowed (RAP) that was R\$ 1,760,758 on July 1, 2010, increased to R\$ 2,008,277 on July 1, 2011, an increase of R\$ 247,519, or 14.1%.

Breakdown of CTEEP revenue effective from July 1, 2011 to June 30, 2012 is as follows:

	Concession agreement		Total
	059	143	
<b>Basic network</b>			
Existing assets	1,241,581	-	1,241,581
New investments	314,290	-	314,290
Bidder	-	15,925	15,925
Annual revenue adjustment	(17,795)	(132)	(17,927)
	1,538,076	15,793	1,553,869
<b>Other transmission facilities – DIT</b>			
Existing assets	360,076	-	360,076
New investments	106,099	-	106,099
Annual revenue adjustment	(11,767)	-	(11,767)
	454,408	-	454,408
	<b>1,992,484</b>	<b>15,793</b>	<b>2,008,277</b>

**25 Costs of construction, operation and maintenance services and general and administrative expenses**

**a) Quarter ended June 30**

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(In thousands of reais, except where indicated otherwise)

	Company			Consolidated			
	06.30.2011		Quarter ended 06.30..2010	06.30.2011			Quarter ended 06.30.2010
	Expenses	Total	Total	Costs	Expenses	Total	Total
Personnel	(420)	(420)	(386)	(40,736)	(11,050)	(51,786)	(50,405)
Services	(551)	(551)	(192)	(63,449)	(8,927)	(72,376)	(77,158)
Depreciation	(3)	(3)	(3)	-	(1,642)	(1,642)	(1,473)
Materials	-	-	-	(209,955)	(399)	(210,354)	(76,769)
Leases and rental	(60)	(60)	(68)	(2,346)	(1,269)	(3,615)	(2,729)
Contingencies	-	-	-	-	(12,606)	(12,606)	2,192
Other	(6)	(6)	(1)	(3,633)	(3,975)	(7,608)	(17,612)
	<u>(1,040)</u>	<u>(1,040)</u>	<u>(650)</u>	<u>(320,119)</u>	<u>(39,868)</u>	<u>(359,987)</u>	<u>(223,954)</u>

b) Six-month period ended June 30

	Company			Consolidated			
	Six-month period ended 06.30.2011		Six-month period ended 06.30.2010	Six-month period ended 06.30.2011			Six-month period ended 06.30.2010
	Expenses	Total	Total	Costs	Expenses	Total	Total
Personnel	(992)	(992)	(931)	(79,536)	(21,398)	(100,934)	(95,652)
Services	(697)	(697)	(2,488)	(126,691)	(20,525)	(147,216)	(130,245)
Depreciation	(6)	(6)	(6)	-	(3,158)	(3,158)	(2,939)
Materials	-	-	-	(356,576)	(652)	(357,228)	(133,745)
Leases and rents	(116)	(116)	(119)	(4,201)	(2,319)	(6,520)	(5,376)
Bonds amortization	-	-	(12,752)	-	-	-	(12,752)
Contingencies	-	-	-	-	(18,188)	(18,188)	(7,435)
Other	(29)	(29)	(41)	(8,852)	(10,081)	(18,933)	(27,521)
	<u>(1,840)</u>	<u>(1,840)</u>	<u>(16,337)</u>	<u>(575,856)</u>	<u>(76,321)</u>	<u>(652,177)</u>	<u>(415,665)</u>

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26 Financial income (expenses)

	Company		Consolidated	
	Three-month period ended 06.30.2011	Three-month period ended 06.30.2010	Three-month period ended 06.30.2011	Three-month period ended 06.30.2010
<b>Revenues</b>				
Short-term investment income	6,921	2,119	11,646	9,740
Interest receivable	323	961	1,186	2,997
Selic interest – Income tax (IR) recoverable	881	-	881	-
Monetary variation	2,557	-	3,087	2,129
Other	-	3	1,886	822
	<u>10,682</u>	<u>3,083</u>	<u>18,686</u>	<u>15,688</u>
<b>Expenses</b>				
Interest payable	(1,094)	(1,241)	(24,620)	(21,712)
Charges on promissory notes	-	-	(7,342)	(1,970)
Charges on debentures	-	-	(17,437)	(14,095)
IRRF on interest remittance	(151)	(181)	(151)	(181)
PIS on interest on equity capital	(394)	(390)	(394)	(390)
COFINS on interest on equity capital	(1,814)	(1,798)	(1,814)	(1,798)
Monetary variation	(9,622)	(5,615)	(9,622)	(5,615)
Hedge operation	-	-	(5,764)	-
Other	(19)	(15)	(7,703)	(1,876)
	<u>(13,094)</u>	<u>(9,240)</u>	<u>(74,847)</u>	<u>(47,637)</u>
	<u><b>(2,412)</b></u>	<u><b>(6,157)</b></u>	<u><b>(56,161)</b></u>	<u><b>(31,949)</b></u>

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	<b>Company</b>		<b>Consolidated</b>	
	<b>Six-month period ended 06.30.2011</b>	<b>Six-month period ended 06.30.2010</b>	<b>Six-month period ended 06.30.2011</b>	<b>Six-month period ended 06.30.2010</b>
<b>Revenues</b>				
Short-term investment income	14,597	3,210	25,118	19,841
Adjustment to market value – debt (SWAP)	-	17,309	-	17,309
Interest receivable	664	1,951	2,971	6,515
Selic interest – income tax ( IR) recoverable	1,843	-	1,843	-
Monetary variation	4,161	-	4,931	4,780
Other	-	4,329	1,987	5,250
	<u>21,265</u>	<u>26,799</u>	<u>36,850</u>	<u>53,695</u>
<b>Expenses</b>				
Interest payable	(2,246)	(16,061)	(46,098)	(54,566)
Charges on promissory notes	-	-	(11,925)	(7,911)
Charges on debentures	-	-	(33,665)	(25,825)
IRRF on remittance of interest	(316)	(2,647)	(316)	(2,647)
PIS on interest on equity capital	(801)	(774)	(801)	(774)
COFINS on interest on equity capital	(3,691)	(3,563)	(3,691)	(3,563)
Adjustment to market value - debt (SWAP)	-	(17,309)	-	(17,309)
Derivative financial instruments - SWAP	-	(23,764)	-	(23,764)
Monetary variation	(20,718)	(10,370)	(20,718)	(10,370)
Hedge operations	-	-	(5,762)	-
Financial expenses – REDI project	-	(280,046)	-	(280,046)
Other	(2,619)	(120)	(14,024)	(2,617)
	<u>(30,391)</u>	<u>(354,654)</u>	<u>(137,000)</u>	<u>(429,392)</u>
	<u><b>(9,126)</b></u>	<u><b>(327,855)</b></u>	<u><b>(100,145)</b></u>	<u><b>(375,697)</b></u>

**27 Other operating revenues (expenses)**

Other operating expenses refer, in the Company, to goodwill amortization in the amount of R\$27,984. In addition, there was recognition in the consolidated of loss on acquisition of controlling interest in IEMG, in the amount of R\$ 28,490 and amortization of merged goodwill of the Company (Note 9), in the amount of R\$14,416 and other revenues of R\$ 2,353.

**28 Income and social contribution taxes**

**a ) Current**

The Company provisions monthly income and social contribution taxes based on annual taxable income with

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monthly estimates. Until 2010, ISA Capital posted income and social contribution tax losses.

Income and social contribution tax expense for the period may be reconciled with book income as follows:

	<b>Company</b>			
	<b>Three-month period ended</b>		<b>Six-month period ended</b>	
	<b>06.30.2011</b>	<b>06.30.2010</b>	<b>06.30.2011</b>	<b>06.30.2010</b>
Income before income and social contribution taxes	58,099	47,623	114,236	(225,924)
Nominal rates in force	34%	34%	34%	34%
Expected income and social contribution tax expenses	(19,754)	(16,192)	(38,840)	76,814
Income and social contribution tax on permanent differences				
Interest on equity capital	(8,114)	(8,045)	(16,513)	(15,941)
Goodwill amortization	(4,757)	(4,757)	(9,515)	(9,515)
Equity pickup	25,685	24,368	52,083	50,830
IR/CS on income and social contribution tax losses	-	-	53,000	-
Other	(32)	4,626	(110)	(117)
Effective income and social contribution tax expense	<b><u>(6,972)</u></b>	<b><u>-</u></b>	<b><u>40,105</u></b>	<b><u>102,071</u></b>
Income and social contribution taxes				
Current	(4,879)	-	(9,023)	-
Deferred	(2,093)	-	49,128	-
	<b><u>(6,972)</u></b>	<b><u>-</u></b>	<b><u>40,105</u></b>	<b><u>-</u></b>
Effective rate	<b><u>12.00%</u></b>	<b><u>-</u></b>	<b><u>(35.11%)</u></b>	<b><u>-</u></b>

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	Consolidated			
	Three-month period ended		Six-month period ended	
	06.30.2011	06.30.2010	06.30.2011	06.30.2010
Income before income and social contribution taxes	226,394	225,367	476,912	116,836
Nominal rates in force	34%	34%	34%	34%
Expected income and social contribution tax expenses	(76,974)	(76,625)	(162,150)	(39,724)
Income and social contribution taxes on permanent differences:				
Interest on equity capital	13,463	13,350	27,399	26,507
Reduced fine and interest (REFIS benefit (Note 16))	7,144	-	7,144	-
Deferred taxes calculated on negative balance	-	-	53,000	-
Income and social contribution tax expenses – Company	-	-	-	(102,071)
Other	6,062	4,454	5,199	20,592
Effective income and social contribution tax expense	<u>(50,305)</u>	<u>(63,453)</u>	<u>(69,408)</u>	<u>(94,696)</u>
Income and social contribution taxes 1				
Current	(59,517)	(65,590)	(127,254)	(118,229)
Deferred	9,212	6,769	57,846	23,533
	<u>(50,305)</u>	<u>(58,821)</u>	<u>(69,408)</u>	<u>(94,696)</u>
Effective rate	<u>22.22%</u>	<u>26.10%</u>	<u>14.55%</u>	<u>81.05%</u>

The rate used in the reconciliations for 2011 and 2010 previously presented is of 34%, due by legal entities in Brazil on taxable income, as provided for by ruling tax legislation.

**b) Deferred income and social contribution taxes**

Based on projections of taxable income prepared by management in 2011, the Company expects to recover tax credits calculated on income and social contribution tax losses in the next 5 years.

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Breakdown of deferred income and social contribution taxes, assets and liabilities, is set out below:

	<b>Company</b>		<b>Consolidated</b>	
	<b>06.30.2011</b>	<b>12.31.2010</b>	<b>06.30.2011</b>	<b>12.31.2010</b>
Provision for contingencies	-	-	54,023	55,307
Concession agreement	-	-	(65,817)	(56,307)
Loss on acquisition of IEMG	-	-	9,688	-
Other	-	-	28,222	19,698
IR on income tax loss	36,153	-	36,153	-
CS on social contribution tax loss	12,975	-	12,975	-
<b>Net</b>	<b><u>49,128</u></b>	<b><u>-</u></b>	<b><u>75,244</u></b>	<b><u>18,698</u></b>
Current assets	<b><u>6,728</u></b>	<b><u>-</u></b>	<b><u>6,728</u></b>	<b><u>-</u></b>
Noncurrent assets	<b><u>42,400</u></b>	<b><u>-</u></b>	<b><u>88,402</u></b>	<b><u>28,050</u></b>
Noncurrent liabilities	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>(19,886)</u></b>	<b><u>(9,352)</u></b>

**29 Transactions with related parties**

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

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Related party	Type of operation	06.30.2011			06.30.2010		
		Assets	Liabilities	Income / (expenses)	Assets	Liabilities	Income / (expenses)
<b>Company</b>							
Key management personnel	Short-term benefits	-	-	(713)	-	-	(864)
CTEEP	Sublease	-	40	(116)	-	30	(118)
CTEEP	Provision of services	-	-	(43)	-	21	(43)
CTEEP	Dividends and interest on equity capital	90,513	-	-	65,844	-	-
Interconexión Eléctrica	Loans	37,161	-	(1,855)	39,663	-	2,167
<b>Consolidated</b>							
Key management personnel	Short-term benefits	-	-	(3,284)	-	-	(3,335)
Interconexión Eléctrica	Loans	37,161	-	(1,855)	39,663	-	2,167

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 the Company at CTEEP's main building, as well as the apportionment of condominium and maintenance expenses, among others.

In 2008, a service agreement was entered into with CTEEP 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**

**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 (R\$ 108,102 at December 31, 2009), given the aforementioned debt restructure, as mentioned in Note 15 (a.ii).

**(a) Identification and measurement of financial instruments**

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(In thousands of reais, except where indicated otherwise)

	<b>Company</b>		<b>Consolidated</b>	
	<b>06.30.2011</b>	<b>12.31.2010</b>	<b>06.30.2011</b>	<b>12.31.2010</b>
<b>Financial assets</b>				
Fair value through P&L				
Cash and cash equivalents	268,512	257,261	485,710	312,244
Lending and receivables				
Accounts receivable				
Current	-	-	1,326,355	1,424,390
Noncurrent	-	-	4,804,728	4,225,309
Receivables from State Finance Department				
Current	-	-	24,360	22,938
Noncurrent	-	-	730,583	681,129
Loans receivable				
Noncurrent	37,161	39,663	37,161	39,663
Receivables from subsidiaries	90,513	65,844	-	-
Held to maturity				
Pledges and restricted deposits				
Current	2,174	2,320	2,174	2,320
Noncurrent	-	-	45,298	42,248
<b>Financial liabilities</b>				
Amortized cost				
Loans and financing				
Current	1,812	1,934	756,802	334,347
Noncurrent	49,410	52,737	838,849	592,769
Debentures				
Current	-	-	1,966	2,154
Noncurrent	-	-	551,657	553,639
Trade accounts payable	112	147	97,437	94,064
Interest on equity capital and dividends payable			156,180	127,978
Fair value hedge				
Loans and financing	-	-	1,219	-

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.

CTEEP entered into in the three-month period a derivative financial instrument agreement (SWAP), as hedge against exchange rate risk of loans in foreign currency on the terms of Law No. 4131 of 09/03/1962.

Management of financial instruments follows the Policy on Risk Management / Guidelines on Financial Risks of the Company. The results from this operation and application of controls for managing this risk are part of financial risk monitoring adopted by CTEEP, as under:

	<b>Maturity</b>	<b>Notional value</b>	<b>Fair value</b>	<b>Amount receivable (payable)</b>
		<b>06.30.2011</b>	<b>06.30.2011</b>	<b>06.30.2011</b>
<b>Asset position:</b>				
SWAP (Banco Itaú)	April 2012	101,412	101,412	-
<b>Liability position:</b>				
SWAP (Banco Itaú)	April 2012	(101,412)	(102,631)	(1,219)
<b>Net amount</b>		-	-	(1,219)

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CTEEP adopted “*Hedge Accounting*” and classifies the derivative taken out as Fair Value Hedge, according to the parameters described in Brazilian accounting standard CPC 38 and in the International Standard IAS39.

**(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:

	<b>Company</b>		<b>Consolidated</b>	
	<b>06.30.2011</b>	<b>12.31.2010</b>	<b>06.30.2011</b>	<b>12.31.2010</b>
Loans and financing				
Current	1,812	1,934	756,802	334,347
Noncurrent	49,410	52,737	838,849	592,769
Debentures				
Current			1,966	2,154
Noncurrent			551,657	553,639
Payables – Law No. 4819/58 – State Finance Department				
Current	8,423	8,423	8,423	8,423
Noncurrent	226,188	215,498	226,188	215,498
Payables - Law No. 4819/58 - OPA				
Current	4,946	4,946	4,946	4,946
Noncurrent	142,159	135,456	142,159	135,456
Total debt (i)	<b>432,938</b>	<b>418,994</b>	<b>2,530,990</b>	<b>1,847,232</b>
Cash and cash equivalents	268,512	257,261	485,710	312,244
Net debt	<b>164,426</b>	<b>161,733</b>	<b>2,045,280</b>	<b>1,534,988</b>
Equity (ii)	2,105,245	2,093,889	4,792,487	4,831,253
Net debt-to-equity	7.8%	7.7%	42.7%	31.8%

**(c) Risk management**

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

**(i) Credit risk** – CTEEP has agreements with the National Electric System Operator (ONS), concessionaires and other agents for regulating the provision of services related to the 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, CTEEP's revenues are annually adjusted by ANEEL

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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 24.3 (a)).

- (iii) **Interest rate risk** – Financing agreements are restated based on TJLP, IPCA and CDI variation (Notes 15 and 16).
- (iv) **Currency risk** – CTEEP eliminated the currency risk of its liabilities taking out Swap derivative instrument, designated as "fair value hedge" of the loan agreement in foreign currency (CCB in foreign currency - Note 15(d)). The Company does not accounts receivable and other assets in foreign currency. Other exposures to the effects of exchange rate variation are considered irrelevant and correspond to adventitious equipment imports.
- (v) **Fund-raising risk** – CTEEP 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 and its subsidiaries take out insurance against operating and civil liability risks for their substations. However, given the difficulty in finding insurance companies willing to provide insurance coverage against any losses for transmission line damages, if any, arising from fire, lightning, explosions, short circuits and energy interruptions, such risks are not insured. Thus, any damages to transmission lines may result in significant additional costs and investments.
- (vii) **Liquidity risk** – CTEEP'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. CTEEP manages liquidity risk by maintaining bank credit lines and credit lines to take out loans it deems required, by monitoring its expected and actual cash flows on an ongoing basis, and by combining financial asset and liability maturity profiles.

CTEEP management does not believe its exposure to the abovementioned risks is significant and, therefore, it has not presented a sensitivity analysis statement chart, except in relation to currency risk arising from the loan in foreign currency.

In relation to CTEEP this risk arises from the possibility of loss due to increase in exchange rates increasing the balances of liabilities from loans and financing in foreign currency, referring to taking out of an international CCB abroad in April 2011 in the amount of US\$ 63.7 million (Note 15 (d)). In order to ensure that significant oscillations in the exchange rate to the foreign currency to which its liabilities are subject do not come to affect its results and cash flows, the Company has derivative financial instruments (swap) – exchange "hedge", representing 100% of this debt principal.

CTEEP adopted the fair value hedge accounting methodology for the operation taken out.

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

As such, in order to evaluate the effects of the variation on the cash flow of CTEEP, the sensitivity analysis set out below considers as probable scenario the exchange rate of September 30, 2011 of R\$ 1.592. On this rate we considered increase and decrease by 25% and 50%.

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Currency Risk – Effect on Cash Flow

Chart 1 – with rate appreciation

RS 000				
Operation	Risk	Probable Scenario	Scenario II	Scenario III
<b>Financial Assets and Liabilities</b>				
International CCB Contract	USD	(103,419)	(129,274)	(155,130)
Swap Asset End – International CCB Contract	USD	103,419	129,274	155,130
Variation		-	-	-
<b>Reference for Financial Assets and Liabilities</b>		<b>Rate appreciation by</b>		
			<b>25%</b>	<b>50%</b>
USD/R\$ rate		1.592	1.990	2.388

Chart 2 – with rate depreciation

RS 000				
Operation	Risk	Probable Scenario	Scenario II	Scenario III
<b>Financial Assets and Liabilities</b>				
International CCB Contract	USD	(103,419)	(77,565)	(51,709)
Swap Asset End – International CCB Contract	USD	103,419	77,565	51,709
Variation		-	-	-
<b>Reference for Financial Assets and Liabilities</b>		<b>Rate depreciation by</b>		
			<b>-25%</b>	<b>-50%</b>
USD/R\$ rate		1.592	1.194	0.796

31 Commitments assumed - operating lease agreements

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>06.30.2011</u>	<u>12.31.2010</u>
Up to one year	6,774	3,133
From one to five years	11,106	3,411
	<u>17,880</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 – transactions with related parties.

32 Insurance

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

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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	175,783	29
Collective personal accidents (d)	01/05/11 to 01/05/12	7,011	-
Vehicles (e)	02/03/11 to 02/03/12	Market value	35
			<b>3,067</b>

- (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 CTEEP 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.

**33 Collection lawsuit by Eletrobras against Eletropaulo and EPTE**

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

Under the partial spin-off 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 ELETROBRÁS regarding the balance of the aforementioned financing agreement, and allocation to EPTE's liabilities of the same amount referring to this debt.

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

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On September 26, 2003 a decision of the Court of Justice of the State of Rio de Janeiro was published, excluding Eletropaulo from the execution of the aforementioned sentence. Due to these facts, ELETROBRÁS filed, on December 16, 2003, 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 ELETROBRÁS were lodged by CTEEP.

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 ELETROBRÁS.

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 were not to be considered, the execution of the decision filed by ELETROBRÁS 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 to pay for a portion of the debt, 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 ELETROBRÁS.

**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 financial statements of the Company as of December 31, 2004.

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

Such procedure was regularly performed until December 2003 by Fundação CESP, with funds from the State Finance Department, transferred by CTEEP. 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 49<sup>th</sup> 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 49<sup>th</sup> 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,

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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.

#### **(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 49<sup>th</sup> Labor Court. The effective expenditure of CTEEP this month for purposes of said court decision was R\$ 19,725, transferred to Fundação CESP, having received R\$ 14,976 from the State Finance Department for this purpose. 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 49<sup>th</sup> Labor Court currently applies to 5,528 beneficiaries. The State Finance Department continues directly paying 794 benefits established by State Law no. 4819/58.

CTEEP is still endeavoring to overturn the decision rendered by the 49<sup>th</sup> 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.

#### **(iii) February 24, 2006**

CTEEP - Companhia de Transmissão de Energia Elétrica Paulista, in accordance with CVM Instruction 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 49<sup>th</sup> Labor Court of São Paulo, which ruled that Fundação CESP must process the pension plan benefit payments established by State Law No. 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 49<sup>th</sup> 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 49<sup>th</sup> 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.

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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.

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) Other information

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.

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, dated February 10, 2006, and respective PGE/SF Technical Note No. 01/06, 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.

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#### (d) 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\$ 1,734,014 to Fundação CESP, from September 2005 to June 2011, for payment of benefits under State Law No. 4819/58, having received R\$ 1,148,506 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\$ 585,508 (Note 7 (c)), was originally claimed by CTEEP at the administrative level, and, in December 2010, a collection lawsuit was filed.

According to the Material Fact Notices mentioned above, CTEEP continues its efforts to make the decision awarded by the 49<sup>th</sup> 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).

#### 35 Subsequent events - Consolidated

On July 11, 2011, CTEEP carried out the 5th issue of promissory notes in the amount of R\$ 300.0 million maturing on July 5, 2012, of which the nominal charges are CDI + 0.4% p.a.

On July 5, 2011, ISA CAPITAL paid fixed cumulative dividends to shareholders of HSBC Finance and Banco Votorantim in the amount of R\$ 37,286, corresponding to R\$ 0.06278740 per share.

#### 36 Approval of the quarterly information

This quarterly information was approved and authorized to be published by the Board of Directors on November 25, 2011.

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