

Consolidated Financial Statements

Isa Capital do Brasil S.A. and subsidiaries

June 30, 2010
with Report of Independent Auditors

ISA Capital do Brasil S.A. and subsidiaries

Financial statements

June 30, 2010

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Limited review report of independent auditors

Board of directors and shareholders

ISA Capital do Brasil S.A.

São Paulo

1. We have carried out a limited review of the accompanying balance sheets (Company and consolidated) of ISA Capital do Brasil S.A. for the quarter ended June 30, 2010, and the related statements of income, changes in shareholders' equity, cash flows and accompanying notes, prepared under the responsibility of management.
2. Our review was conducted in accordance with specific standards of the Brazilian Institute of Independent Auditors - IBRACON and mainly comprised analytical review procedures applied to financial data and verification of the criteria adopted in preparing the financial statements, June 30, 2010, with those responsible for the accounting and financial areas. Considering that this review did not represent an audit of the financial statements in accordance with Brazilian Auditing Standards, we do not express an opinion on the referred to financial statements.
3. Based on our limited review, we are not aware of any material modifications that should be made to the financial statements referred to above in order for them to be in conformity with accounting practices adopted in Brazil.

4. As mentioned in 7 (c) and 38 (c), pursuant to a decision of the 49th São Paulo Labor District Court, from September 2005, Fundação CESP started to process the payroll for beneficiaries of the supplementary retirement benefit plan governed by Law No. 4819/58 through funds passed on to such beneficiaries by CTEEP in the form adopted until December 2003. In January 2006, the São Paulo (SP) State General Attorney's Office understood that the SP State Government liability is limited to the state legal limits prescribed for retirement benefit payouts. Since then, the State Government started to disallow part of the funds passed on to the CTEEP subsidiary for this purpose. The difference between the amount paid by the CTEEP subsidiary and the São Paulo State partial disallowance, amounted to R\$ 457,849 at June 30, 2010, is recorded under non-current assets, as described in Note 7. A decision rendered in October 2008, the Higher Court of Justice (STJ) reaffirmed the Courts of Law as the competent courts of jurisdiction in regard to Civil Class Actions involving the same parties and subject matter, a decision which was subject to requests for rehearing en banc. Grounded on the opinion of its legal advisors, the CTEEP management understands that the State Government is fully liable for the benefit payouts under said supplementary retirement benefit plan; as a consequence, no obligation or provision for losses on this plan was recorded in the consolidated financial statements.
5. As mentioned in Note 2, during 2009, various Accounting Pronouncements, Interpretation and Guidelines were approved by Brazil's National State Board of Accountancy (the CFC) issued by Brazil's FASB (the CPC) mandatory for 2010 that change accounting practices adopted in Brazil. In accordance with Resolution CFC 1281/10, the Company's management elected to present its interim financial statements utilizing the accounting practices adopted in Brazil up to December 31, 2009, i.e. did not apply the CPC mandatory for 2010.

São Paulo, August 21, 2010.

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

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

A free translation from Portuguese into English of financial statements prepared in Brazilian currency in accordance with the accounting practices adopted in Brazil

ISA Capital do Brasil S.A.

Balance sheets

June 30, 2010

(In thousands of reais, except when otherwise indicated)

	Note	Company		Consolidated	
		6.30.2010	3.31.2010	6.30.2010	3.31.2010
Assets					
Current assets					
Cash and cash equivalents	5	115,850	48,377	454,402	634,402
Trade accounts receivable	6	-	-	279,463	274,686
Inventories		-	-	50,206	46,720
Interest on equity capital/ receivable – Company		76,596	100,957	-	-
Amounts receivable – State Finance Department	7	-	-	21,153	20,271
Tax benefit – incorporated goodwill	9	-	-	28,832	28,832
Taxes and contributions to be offset	8	32,718	30,787	84,622	175,575
Deferred income and social contribution taxes	10	-	-	58,001	52,620
Pledges and linked deposits	11	2,520	32	2,520	32
Prepaid expenses	12	-	-	6,690	11,540
Other		4	10	19,891	26,466
		227,688	180,163	1,005,780	1,271,144
Non-current assets					
Long-term receivables					
Trade accounts receivable	6	-	-	33,165	48,210
Amounts receivable – State Finance Department	7	-	-	601,805	574,749
Tax benefit – incorporated goodwill	9	-	-	133,495	140,703
Deferred income and social contribution taxes	10	-	-	61,612	64,888
Pledges and linked deposits	11	-	-	42,921	39,400
Loans receivable	13	42,885	42,760	42,885	42,760
Receivables from subsidiaries		-	-	9,328	-
Other		-	-	3,238	3,195
		42,885	42,760	928,449	913,905
Investment	14	2,088,188	2,079,015	-	-
Property and equipment	15	43	43	4,825,281	4,708,581
Intangible assets	16	-	-	386,641	401,368
		2,088,231	2,079,058	5,211,922	5,109,949
		2,131,116	2,121,818	6,140,371	6,023,854
Total assets					
		2,358,804	2,301,981	7,146,151	7,294,998

	Note	Company		Consolidated	
		6.30.2010	3.31.2010	06.30.2010	3.31.2010
Total liabilities and shareholders' equity					
Current liabilities					
Loans and financing	18	2,091	827	196,857	403,712
Debentures	19	-	-	1,634	8,075
Trade accounts payable		597	1,409	74,991	64,238
Taxes and social charges payable	20	2,571	2,329	90,099	89,480
Tax installments Law No. 11941	21	-	-	10,041	9,911
Regulatory charges payable	22	-	-	40,836	42,031
Interest on equity capital and dividends payable		-	-	134,364	174,760
Provisions	23	-	-	22,292	17,573
Amounts payable Law No. 4819/58 - State Finance Department	4	6,891	6,891	6,891	6,891
Amounts payable Law No. 4819/58 - OPA	4	4,322	4,322	4,322	4,322
Amounts payable – Fundação CESP	24	-	-	6,793	6,256
Adjustment portion	27				
	(a)	-	-	82,086	55,519
	(ii)	-	-	16,187	19,625
Other		-	-	16,187	19,625
		16,472	15,778	687,393	902,393
Non-current liabilities					
Long-term receivables					
Loans and financing	18	57,019	56,370	608,092	640,060
Debentures	19	-	-	548,281	550,800
Regulatory charges	22	-	-	3,269	3,269
Provisions	23	-	-	152,536	160,793
Tax installments Law No. 11941	21	-	-	140,586	138,676
Amounts payable –CESP Foundation	24	-	-	6,800	10,201
Amounts payable Law 4819/58 – State Finance Department	4	217,731	214,347	217,731	214,347
Amounts payable Law 4819/58 - OPA	4	136,519	134,397	136,519	134,397
	27				
	(a)	-	-	-	-
	(ii)	-	-	-	15,958
Adjustment portion		-	-	-	15,958
Extraordinary liabilities – Reversal and amortization	25	-	-	24,053	24,053
Negative goodwill	3 (m)	-	-	41,048	45,294
		411,269	405,114	1,878,915	1,937,848
Equity holding of non-controlling shareholders					
		-	-	2,648,780	2,573,668
Shareholders' equity					
Capital reserves	26	840,378	840,378	840,378	840,378
Income reserves	26	1,199,400	1,199,400	1,199,400	1,199,400
Income reserves	26	117,624	117,624	117,624	117,624
Income/ loss for the year	26	(226,339)	(276,313)	(226,339)	(276,313)
		1,931,063	1,881,089	1,931,063	1,881,089
Total liabilities and shareholders' equity		2,358,804	2,301,981	7,146,151	7,294,998

See notes to financial statements.

ISA Capital do Brasil S.A.

Statement of income

June 30, 2010

(In thousands of reais, except when indicated otherwise)

	Note	Company			
				Six month periods ended	
		6.30.2010	6.30.2009	6.30.2010	6.30.2009
Statements of income					
Operating income (expenses)					
General and administrative expenses	29	(299)	(1,551)	(15,473)	(2,593)
Management fees	29	(351)	(318)	(864)	(745)
Financial expenses	30	(9,240)	(345,408)	(354,654)	(536,041)
Financial income	30	26,746	320,183	73,683	497,146
Other expenses	31	(13,992)	(13,992)	(27,984)	(27,984)
Equity pickup		74,022	82,408	149,086	167,924
Operating income		76,886	41,322	(176,206)	97,707
Income from discontinued operations					
Capital gains (losses)		(3,249)	-	(3,249)	-
Income before income and social contribution taxes and profit sharing		73,637	41,322	(179,455)	97,707
Income from the reversal of interest on equity capital		73,637	41,322	(179,455)	97,707
Reversal of interest on equity capital		(23,663)	(23,952)	(46,884)	(47,641)
Net income (loss) for the period		49,974	17,370	(226,339)	50,066
Earnings (loss) for the period per one thousand shares – R\$		0.03484	0.02066	(0.15779)	0.05956

ISA Capital do Brasil S.A.

Statements of income (Continued)

June 30, 2010

(In thousands of reais, except when otherwise indicated)

	Note	Consolidated			
		Quarters ended		Six month periods ended	
		6.30.2010	6.30.2009	6.30.2010	6.30.2009
Gross operating revenue					
Revenue from use of electrical energy network	27(a)	458,115	470,704	896,038	949,558
Other revenue	27(b)	3,844	5,372	8,295	9,841
		461,959	476,076	904,333	959,399
Deductions from operating revenue					
Taxes	28	(22,552)	(23,875)	(43,861)	(48,008)
Regulatory charges	28	(30,160)	(39,083)	(63,119)	(78,356)
		(52,712)	(62,958)	(106,980)	(126,364)
Net operating income		409,247	413,118	797,353	833,035
Cost of operating services	29	(102,547)	(90,565)	(205,707)	(176,773)
Gross profit		306,700	322,553	591,646	656,262
Operating income (expenses)					
General and administrative expenses	29	(22,225)	(16,539)	(63,649)	(39,756)
Management fees	29	(1,546)	(1,866)	(4,199)	(5,571)
Financial expenses	30	(83,741)	(411,503)	(502,404)	(666,182)
Financial income	30	15,395	305,127	52,766	491,276
Other expenses	31	(14,316)	(17,218)	(30,384)	(34,134)
Operating income		200,267	180,554	43,776	401,895
Discontinued operations income (losses)					
Capital gains (losses)		(3,249)	-	(3,249)	-
Income before income and social contribution taxes		197,018	180,554	40,527	401,895
Income and social contribution taxes					
Current taxes	32	(65,590)	(62,097)	(118,229)	(144,754)
Deferred taxes	32	2,105	(3,690)	21,062	(6,643)
Income from equity holdings of non-controlling shareholders and reversal of interest on equity capital		133,533	114,767	(56,640)	250,498
Equity holdings of non-participating shareholders		(122,822)	(137,383)	(247,661)	(279,965)
Reversal of interest on equity capital		39,263	39,986	77,962	79,533
Net income for the period		49,974	17,370	(226,339)	50,066
Earnings per one thousand shares					
– R\$		0.03484	0.02066	(0.15779)	0.05956

See accompanying notes.

ISA Capital do Brasil S.A.

Statements of changes in shareholders' equity

June 30, 2010

(Thousands of reais, except when otherwise indicated)

a) Quarter ended 6.30.2010

	<u>Note</u>	<u>Capital</u>	<u>Capital reserves</u>	<u>Income reserves</u>	<u>Retained earnings (accumulated losses)</u>	<u>Total</u>
Balances at March 31, 2010	26	<u>840,378</u>	<u>1,199,400</u>	<u>117,624</u>	<u>(276,313)</u>	<u>1,881,089</u>
Income for the period		<u>-</u>	<u>-</u>	<u>-</u>	<u>49,974</u>	<u>49,974</u>
Balances at June 30, 2010		<u>840,378</u>	<u>1,199,400</u>	<u>117,624</u>	<u>(226,339)</u>	<u>1,931,063</u>

b) Six-month period ended 6.30.2010

	<u>Note</u>	<u>Capital</u>	<u>Capital reserves</u>	<u>Income reserves</u>	<u>Retained earnings (accumulated losses)</u>	<u>Total</u>
Balances at December 31, 2009	26	<u>839,778</u>	<u>-</u>	<u>117,624</u>	<u>-</u>	<u>957,402</u>
Capital increase (from shareholder HSBC, March 2010)		<u>600</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>600</u>
Recognition of capital reserve (note 26)		<u>-</u>	<u>1,199,400</u>	<u>-</u>	<u>-</u>	<u>1,199,400</u>
Loss for the period		<u>-</u>	<u>-</u>	<u>-</u>	<u>(226,339)</u>	<u>(226,339)</u>
Balances at June 30, 2010		<u>840,378</u>	<u>1,199,400</u>	<u>117,624</u>	<u>(226,339)</u>	<u>1,931,063</u>

See accompanying notes.

ISA Capital do Brasil S.A.

Statements of cash flows

June 30, 2010

(In thousands of reais, except when otherwise indicated)

	Company			
	Quarters ended		Six month periods ended	
	6.30.2010	6.30.2009	6.30.2010	6.30.2009
Cash flow from operating activities				
Net income (loss) for the period	49,974	17,370	(226,339)	50,066
Adjustments to reconcile net cash with income generated by (applied in) operating activities				
Depreciation and amortization	3	721	12,758	1,441
Equity pickup	(74,022)	(82,408)	(149,086)	(167,924)
Goodwill amortization	13,992	13,992	27,984	27,984
Capital gains (losses)	3,249	-	3,249	-
Interest, monetary variation and foreign exchange gains and losses	6,077	51,072	305,732	81,499
(Increase) decrease in assets				
Accounts receivable	731	1,123	731	9,445
Offsettable taxes and charges	(3,482)	(5,628)	(3,634)	(3,560)
Pledges and linked deposits	(2,417)	(51,190)	37,758	2,982
Other	6	338	18	23
Increase (decrease) in liabilities				
Trade accounts payable	(812)	143	345	(20)
Taxes and social charges payable	2,209	620	(3,149)	(3,151)
Other	-	3	-	5
Net cash generated by (applied in) operating activities)	(4,492)	(53,844)	6,367	(1,210)

ISA Capital do Brasil S.A.

Statements of cash flows (Continued)

June 30, 2010

(In thousands of reais, except when otherwise indicated)

	Company			
	Quarters ended		Six month periods ended	
	6.30.2010	6.30.2009	6.30.2010	6.30.2009
Cash flows from investing activities				
Property, plant and equipment	(2)	(2)	(2)	(2)
Interest on equity capital and dividends received	71,967	63,357	132,344	109,247
Net cash generated by (applied in) investing activities	71,965	63,355	132,342	109,245
Cash flows from investing activities				
Loan repayments (including interest)	-	(454)	(1,252,863)	(95,962)
Increase in capital	-	-	600	-
Recognition of capital reserve	-	-	1,199,400	-
Net cash used in financing activities	-	(454)	(52,863)	(95,962)
Net increase (decrease) in cash and cash equivalents	67,473	9,057	85,846	12,073
Cash and cash equivalents at the end of the year	115,850	13,666	115,850	13,666
Cash and cash equivalents at the beginning of the year	48,377	4,609	30,004	1,593
Variation in cash and cash equivalents	67,473	9,057	85,846	12,073

ISA Capital do Brasil S.A.

Statements of cash flows (Continued)

June 30, 2010

(In thousands of reais, except when otherwise indicated)

	Consolidated			
	Quarters ended		Six month period ended	
	6.30.2010	6.30.2009	6.30.2010	6.30.2009
Cash flow from operating activities				
Net income (loss) for the period	49,974	17,370	(226,339)	50,066
Adjustments to reconcile net cash generated by (applied in) operating activities				
Equity holdings of non-controlling shareholders	122,822	137,383	247,661	279,965
Depreciation and amortization	49,231	47,733	112,631	95,029
Deferred income and social contribution taxes	(2,105)	3,690	(21,062)	6,643
Provision for contingencies	(8,243)	(3,773)	(10,077)	(5,238)
Residual value of permanent asset write-offs	3,192	1,612	13,014	9,916
Amortization of goodwill	21,200	21,200	42,401	42,401
Amortization of negative goodwill	(4,245)	(4,245)	(8,491)	(8,491)
Capital gains (losses)	3,249	-	3,249	-
Interest, monetary variation and foreign exchange gains and losses	37,068	76,583	366,982	102,390
(Increase) decrease in assets				
Trade accounts receivable	10,731	17,537	40,673	17,203
Inventories	(3,486)	(6,998)	(6,878)	(14,232)
Amounts receivable	(25,301)	(25,261)	(41,849)	(35,566)
Taxes and contributions to be offset	89,403	(7,756)	157,748	(6,405)
Pledges and linked deposits	(5,938)	(52,352)	38,789	954
Prepaid expenses	4,849	3,634	(4,106)	(3,574)
Other	(11,970)	(2,912)	(18,270)	9,421
Increase (decrease) in liabilities				
Trade accounts payable	10,601	12,980	8,797	1,096
Taxes and social charges payable	2,585	(14,782)	(3,971)	68,031
Tax installments – Law No. 11941				
Regulatory charges payable	(1,195)	2,935	817	(11,646)
Provisions	4,707	(1,191)	(10,714)	(5,276)
Amounts payable	(2,864)	(13,051)	(6,925)	(25,433)
Other	16,497	7,396	42,571	8,615
Net cash generated by (applied in) operating activities	360,762	217,732	716,651	575,869

ISA Capital do Brasil S.A.

Statements of cash flows (Continued)

June 30, 2010

(In thousands of reais, except when otherwise indicated)

	Consolidated			
	Quarters ended		Six-month period ended	
	6.30.2010	6.30.2009	6.30.2010	6.30.2009
Cash flow from investing activities				
Property, plant and equipment	(168,386)	(157,834)	(285,445)	(247,326)
Intangible assets	-	(190)	-	(4,325)
Net cash generated by (applied in) investing activities	(168,386)	(158,024)	(285,445)	(251,651)
Cash flows from financing activities				
Additions to loans	2,510	240,000	725,852	306,140
Payment of loans (includes interest)	(283,527)	(274,459)	(1,784,396)	(462,499)
Dividends paid	(119,389)	(129,550)	(219,528)	(205,782)
Capital increase	28,030	-	28,630	-
Setting-up capital reserve	-	-	1,199,400	-
Net cash used in financing activities	(372,376)	(164,009)	(50,042)	(362,141)
Net increase (decrease) in cash and cash equivalents	(180,000)	(104,301)	381,164	(37,923)
Cash and cash equivalents at the end of the period	454,402	86,694	454,402	86,694
Cash and cash equivalents at the beginning of the period	634,402	190,995	73,238	124,617
Variation in cash and cash equivalents	(180,000)	(104,301)	381,164	(37,923)

See accompanying notes.

ISA Capital do Brasil S.A.

Notes to financial statements

June 30, 2010

(In thousands of reais)

1. Operations

1.1 Business purpose

The business purpose of ISA Capital do Brasil S.A. ("ISA Capital" or "Company") comprises holding equity capital in other companies or ventures as a member, shareholder, joint venture or consortium member, or under any other form of business arrangement.

In the public auction on June 28, 2006, held at the São Paulo Stock Exchange (BOVESPA), under the terms of Tender Notice SF/001/2006, the São Paulo State Government, and the then majority shareholder Companhia de Transmissão de Energia Elétrica Paulista (CTEEP), sold 31,341,890,064 common shares that it held, corresponding to 50.1% of CTEEP common issue shares. The winning bidder was Interconexión Eléctrica S.A. E.S.P ("ISA").

Financial settlement of the transaction was undertaken at July 26, 2006, with the subsequent transfer of ownership of those shares to ISA Capital, a Brazilian company controlled by Interconexión Eléctrica S.A. E.S.P., organized to operate in Brazil, which accordingly became a subsidiary of CTEEP. The was approved by Brazil's National Electrical Energy Agency (ANEEL), on July 25, 2006, in accordance with Authoritative Resolution No. 642/06, published in the Official Gazette on July 26, 2006.

On September 12, 2006, the Company acquired 10,021,687 more common shares issued by CTEEP, held by the State of São Paulo, and then held 31,351,911,751 common shares.

On January 9, 2007, the Company acquired, through a public offering auction (OPA) held in the BOVESPA, under the terms of the Tender Notice dated December 4, 2006, 24,572,554,070 common CTEEP issued shares, corresponding to 39.28% of the total of this type of share.

At the end of this acquisition process the Company held the equivalent of 89.4% of voting capital and 37.46% of total capital in CTEEP. On July 12, 2007, CTEEP allowed the grouping of shares and the Company then held 55,924,465 common shares.

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

1. Operations (Continued)

1.1 Business purpose (Continued)

Later the Company paid up capital from CTEEP the equivalent of 1,169,404 common shares with 574,927 shares on August 24, 2009 and 594,477 shares at April 23, 2010. This capitalization stems from the tax benefit afforded to CTEEP with the partial amortization of the special goodwill reserve in 2008 and 2009. Accordingly, at June 30, 2010, the Company held 57,093,404 common shares, equivalent to 37.6% of total capital and 89.4% of CTEEP voting capital.

On March 9 and 19, 2010, in order to restructure its debts in foreign currency (bonds), the Company provided two capital increases with the issue of preferred shares at R\$ 2.020731 per share, which were totally subscribed by HSBC Finance (Brazil) S.A. Banco Múltiplo, as follows:

- (i) In the Extraordinary Shareholders' Meeting held on March 9, 2010, under the terms of the Executive Board Proposal dated March 8, 2010, a capital contribution of R\$ 840,000 was raised by the Company, of which R\$ 420 was allocated to capital and R\$ 839,580 was allocated to the capital reserve account through the creation and issue of 415,691,162 preferred registered shares distributed in 13 classes, with the right to fixed cumulative dividends. These were fully subscribed and paid-in on the same date, increasing the Company's capital from R\$ 839,778 to R\$ 840,198 divided into 1,256,316,162 shares. The reduction in mandatory dividends from 25% to 1%, and amendment of the Company's Charter was also approved in this meeting; and
- (ii) The Executive Board meeting held on March 19, 2010, a new Company capital increase was approved, within the limit of its authorized capital, with the issue of 178,153,342 redeemable preferred shares, distributed across 13 classes, with the right to cumulative fixed dividends, at the total amount of R\$ 360,000 fully subscribed and paid-up on the same date, of which R\$ 180 was allocated to capital and R\$ 359,820 was allocated to the Company's capital reserve.

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

1. Operations (Continued)

1.1 Business purpose (Continued)

Accordingly, after these two increases, in March 31, 2010, the Company's subscribed and paid-in capital is R\$ 840,378 (12.31.2009 – R\$ 839,778) and divided into 840,625,000 common shares and 593,844,504 preferred shares.

CTEEP shares are traded on the BOVESPA. In addition, CTEEP has an American Depositary Receipts (ADR) Program – Rule 144 in the United States. The depositor of the ADRs is The Bank of New York, and Banco Itaú S.A. is custodian.

In September 2002, CTEEP, acquired the BOVESPA's distinguished corporate governance practices Level 1. Commitments assumed due to this certification affords CTEEP greater transparency with the market, investors and shareholders which facilitates the monitoring of management activities.

CTEEP has its preferred shares registered on the BOVESPA Index (IBOVESPA) and also a member of the Corporate Governance Index (IGC) and the Electrical Energy Index (IEE).

1.2 Concessions

The Company has the right to indirectly use the following Electrical Energy Transmission Public Utility concessions:

Concessionaire	Contract	Holding (%)	Term (years)	Maturity	Annual Permitted Revenue - RAP	
					R\$ th	Base month
CTEEP	059/2001	37.6041	20	07.07.15	1,746,374	06/10
CTEEP	143/2001	37.6041	30	20.12.31	14,384	06/10
IEMG	004/2007	22.5195	30	23.04.37	12,873	06/10
IENNE	001/2008	9.4074	30	16.03.38	33,327	06/10
Pinheiros	012/2008	37.6041	30	15.10.38	6,756	06/10
Pinheiros	015/2008	37.6041	30	15.10.38	11,383	06/10
Pinheiros	018/2008	37.6041	30	15.10.38	2,903	06/10
IESul	013/2008	37.6041	30	15.10.38	4,068	06/10
IESul	016/2008	37.6041	30	15.10.38	7,323	06/10
IEMadeira	013/2009	19.2474	30	25.02.39	176,249	11/08
IEMadeira	015/2009	19.2474	30	25.02.39	151,788	11/08
Serra do Japi	026/2009	37.6041	30	18.11.39	21,804	05/09

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

1. Operations (Continued)

1.2 Concessions (Continued)

Due to the acquisition of CTEEP's shareholding control by the Company, on June 28, 2006, an Attachment to Concession Contract 059/2001 - ANEEL from CTEEP, on January 29, 2007, was signed in order to reflect the reality that CTEEP had a new controller. In the attachment the initially agreed conditions and clause defining that goodwill paid up the auction, as well as extraordinary obligations and amounts stemming from State Law No. No. 4.819/58 provided in the Tender Notice SF/001/2006, would be kept. These would not be considered by ANEEL in order to carry out a financial balance analysis for the concession. In addition to the terms of this amendment the Company and Interconexión Eléctrica S.A E.S.P. (Columbia) are committed to making the capital contributions to CTEEP.

On May 8, 2009, through ANEEL Auction No. 001/2009, carried out on the Rio de Janeiro stock exchange, in public session on the BM&FBOVESPA, CTEEP participated in the tenders that made up Lots C, D and E. Details of the lots, auctioned are as follows:

Lot C - Porto Velho Transmission Line - Jauru

Lot C refers to the third transmission line (TL) circuit of 230 kV between Jauru (in the State of Mato Grosso) and Porto Velho (in the State of Rondônia), amounting to 987 km. Linha Verde Transmissora de Energia S.A. was organized on July 2, 2009, for the operation of this transmission line. On May 19, 2010, Linha Verde registered with ANEEL, a request for prior approval in the transfer of shares held by CTEEP to Abengoa Concessões Brasil Holding S.A.

Investment for this project is estimated at R\$ 380 million and Annual Permitted Revenue (RAP) of R\$ 42.7 million, base date May 2009. The Company's shareholding in the venture is 25.5%. It is projected to enter into operation in November 2011.

Lot D - Porto Velho Transmission Line – Rio Branco

This lot refers to the second transmission line circuit of 230 kV between Porto Velho (Rondônia), Abunã and Rio Branco (in the State of Acre), totalling 487 km. Rio Branco Transmissora de Energia S.A. was organized on July 2, 2009, for the operation of this transmission line. The date of preparation of CTEEP financial statements did not include its participation in Linha Verde's capital.

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

1. Operations (Continued)

1.2 Concessions (Continued)

Investment in this project is estimated to be R\$ 210 million with Annual Permitted Revenue (RAP) of R\$ 24.4 million, base date May 2009. CTEEP shareholding participation in the venture is 25.5%. It is projected to enter into operation in November 2011.

Lot E – LT Jauru – Cuiabá and Jauru Substation

This lot refers to a 500 kV transmission line between Jauru and Cuiabá (Mato Grosso), totaling 348 km and Jauru substation of 500/230 kV. Transmissora Matogrossense de Energia S.A. was set up to operate these facilities on July 2, 2009, and on May 14, 2010, CTEEP transferred its shares in Matogrossense to Mavi Engenharia e Construções Ltda.

1.3 Corporate restructuring

In the Executive Board meeting held on February 11, 2008, the corporate restructuring involving CTEEP, ISA Capital and ISA Participações do Brasil Ltda. (“ISA Participações”) was approved. The National Electrical Energy Agency (“ANEEL”) authorized this restructuring through ANEEL Resolution No. 1164, dated December 18, 2007.

This corporate restructuring was intended to improve capitalization conditions and cash flows due to CTEEP’s use of a tax benefit amounting to R\$ 232,005, relating to goodwill paid by ISA Capital in the acquisition of CTEEP’s shareholding control and included the following phases:

- (a) Capital contribution from ISA Capital in a company investment vehicle, ISA Participações, with due diligence of shares held in the CTEEP’s capital to ISA Participações capital.
- (b) Setting up in ISA Participações a provision amounting to R\$ 450,363, corresponding to the difference between the goodwill paid R\$ 682,368 and the value of the tax benefit R\$ 232,005.
- (c) Incorporation by CTEEP of ISA Participações net assets, amounting to R\$ 232,005, represented by the tax benefit amount mentioned above, which, in accordance with the requirements of CVM Rule No. 319/99, was recorded as a matching entry in the special merger goodwill reserve account, in shareholders’ equity.

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

2. Presentation of financial statements

Authorization for the preparation of these financial statements was given in the Executive Board meeting dated August 2, 2010.

Further to ISA Capital having cancelled its registration as a publically traded company with Brazil's SEC (CVM) on May 27, 2010, it was therefore no longer obliged to follow requirements for publically traded companies. It continued to prepare financial statements but does not use the standard CVM format.

The financial statements were prepared and are presented in accordance with accounting practices adopted in Brazil, which comprise those established by the Brazilian Corporation Law (Law No. 6404/76, amended by Laws No. 9457/97, No. 10303/01, No. 11638/07 and No. 11941/09); rules and regulations issued by the Brazilian Securities and Exchange Commission (CVM); accounting pronouncements from the Brazilian FASB or IASB equivalent (CPC); and specific standards established by ANEEL applicable to electric public concessionaires..

The preparation of financial statements in accordance with accounting practices adopted in Brazil requires that management adopt estimates for recording certain transactions affecting the Company's assets and liabilities, income and expenses, as well as disclose information relating to these financial statements. Actual results of these transactions and information when effectively realized in subsequent periods may differ from these estimates.

Changes in Brazil's Corporation Law

The enactment of Law No. 11638/07 and No. 11941/09 (former Executive Order No. 449/08) amended and introduced new provisions to Brazil's Corporation Law. The main purpose of these laws was to update Brazil's Corporation Law to allow the convergence of accounting practices adopted in Brazil with those found in International Financial Reporting Standards issued by the International Accounting Standards Board (IASB).

Throughout 2008, CPC issued several accounting pronouncements, approved by the CVM, to become effective beginning on or after January 1, 2008. These accounting pronouncements were fully adopted by the Company which, according to CVM Rule No. 565, of December 17, 2008, which approved CPC No. 13, and set December 31, 2007 as its transition date for adoption of the new accounting practices.

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

2. Presentation of financial statements (Continued)

To continue this process, in the course of 2009, new accounting pronouncements were issued and approved:

<u>CPC</u>	<u>Title</u>
15	Business Combinations
16	Inventories
17	Construction Contracts
18	Investment in Associated Companies and Subsidiaries
19	Investment in Joint Ventures
20	Borrowing Costs
21	Interim Financial Reporting
22	Segment Information
23	Accounting Policies, Changes in Accounting and Errors
24	Subsequent Events
25	Provisions, Contingent Liabilities and Contingent Assets
26	Presentation of Financial Statements
27	Property, Plant and Equipment
28	Investment Property
29	Biological Assets and Rural Produce
30	Revenues
31	Non-current Assets Held for Sale and Discontinued Operations
32	Income Tax
33	Employee Benefits
35	Separated Financial Statements
36	Consolidated Financial Statements
37	First-time Adoption of International Financial Reporting Standards
38	Financial Instruments: Recognition and Measurement
39	Financial Instruments: Presentation
40	Financial Instruments: Disclosures
43	First-time Adoption of Accounting Pronouncements CPC 15 to 40
ICPC 01	Service Concession Arrangements
ICPC 02	Agreements for Construction of Real Estate
ICPC 03	Determining Whether an Asset Contains a Lease
ICPC 04	Extent of CPC 10 – Share-based Payments
ICPC 05	CPC 10 – Share-based Payment – Transactions involving Group and Treasury Shares
ICPC 06	Hedges of Net Investment in a Foreign Operation
ICPC 07	Dividend-in-kind Distribution
ICPC 08	Accounting for Proposed Dividend Distribution
ICPC 09	Individual, Consolidated and Separate Financial Statements and Adoption of the Equity Method
ICPC 10	Interpretation of First-time Adoption of Technical Pronouncements CPCs 27, Property, Plant and Equipment and CPC 28 Investment Property
ICPC 11	Transfers of Assets from Customers
ICPC 12	Changes in Existing Decommissioning, Restoration and Similar Liabilities
OCPC 03	Financial Instruments: Recognition, Measurement and Disclosure

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

2. Presentation of financial statements (Continued)

The Accounting Pronouncement that may cause the greatest impact on the Company's financial statements and those of its subsidiaries is technical Interpretation ICPC No. 01, that establishes principles on the recognition and measurement of liabilities and respective rights of concession contracts, may substantially change the Company's future financial statements.

Given the extent and complexity of the changes introduced, the Company has been assessing their impact on its financial statements, while keeping up with discussions and debates in the market, more specifically in accounting entities and associations as well as regulators, which will likely pronounce on aspects regarding the adoption of these rules. Until further clarification is obtained on these pronouncements, the Company understands that related effects, if any, on its financial statements cannot be reliably assessed or quantified at the moment.

The Company is also analyzing another item under the perspective of the adoption of CPC's 38 and 39 approved by CVM Rule 604 dated November 19, 2009 that may cause alterations or impacts on financial statements and the recognition of the restructuring of the debt in foreign currency (Note 18 (a)).

As such, as permitted by CVM Rule No. 603, dated November 10, 2009, amended by CVM Rule No. 626, dated March 31, 2010, the Company opted not to adopt pronouncements, interpretations and guidelines approved by the CVM and effective from financial years beginning January 1, 2010, early.

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)
June 30, 2010
(In thousands of reais)

2. Presentation of financial statements (Continued)

Consolidated financial statements

The consolidated financial statements were prepared in accordance with accounting practices adopted in Brazil and in a manner consistent with rules issued by the CVM and includes financial statements from ISA Capital and its subsidiaries:

	Base date of financial statements	Equity holding %	
		6.30.2010	3.31.2010
<u>Direct</u>			
CTEEP	6/30/10	37,6041	37,5021
<u>Indirect</u>			
Interligação Elétrica de Minas Gerais S.A. (IEMG)	6/30/10	22,5195	22,5175
Interligação Elétrica Norte e Nordeste S.A. (IENNE)	6/30/10	9,4074	9,4054
Interligação Elétrica Pinheiros S.A. (Pinheiros)	6/30/10	37,6041	37,5021
Interligação Elétrica do Sul S.A. (IESUL)	6/30/10	37,6041	37,5021
Interligação Elétrica do Madeira S.A. (IEMADEIRA)	6/30/10	19,2474	19,1454
Interligação Elétrica Serra do Japi S.A. (Serra do Japi)	6/30/10	37,6041	37,5021

With the exception of IEMG, all subsidiaries were at their pre-operating stage on the consolidated financial statement reporting date. Accordingly, consolidated statements of income only include information of CTEEP and IEMG.

Linha Verde Transmissora de Energia S.A. and Rio Branco Transmissora de Energia S.A. are not included in consolidated financial statements, as on the date of the preparation of CTEEP's financial statements the Company had not yet paid its interest in these companies' capital.

The consolidated financial statements include:

- the elimination of receivables and payables. As well as of the revenues, costs and expenses, arising from transactions between the companies included in the consolidation;
- the elimination of the parent company's investment against the stockholders' equity of the subsidiaries; and

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

2. Presentation of financial statements (Continued)

Consolidated financial statements (Continued)

- c) the minority stockholders' interest in the net equity and net income (loss) for the year of the subsidiaries is presented separately in the balance sheet and statement of operations, respectively.

3. Significant accounting practices

- a) Determination of profit and loss

This is determined on the accrual basis of accounting.

- b) Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank deposits and highly liquid short-term investments with an immaterial risk of change, and limits used in overdraft accounts.

- c) Financial instruments

- (i) *Classification and measurement*

The Company's financial instruments are cash, short-term investments, trade accounts receivable, other accounts receivable, loans and financing, suppliers and other accounts payable.

The Company classifies its financial instruments under the following categories: a) measured at fair value through profit or loss; and b) loans and receivables, held-to-maturity investments and available for sale. Classification depends on the purpose for which the financial statements were acquired. Management establishes the classification of financial assets at initial recognition.

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

3. Significant accounting practices (Continued)

c) Financial instruments (Continued)

(i) *Classification and measurement* (Continued)

Financial assets measured at fair value through profit and loss

Financial assets measured at fair value through profit or loss are financial assets held for active and frequent trading, classified as current assets. Gains or losses arising from any variation in their fair value are presented in the statement of income under "financial income (expenses)" in the period in which they occur.

Loans and receivables

This category comprises non-derivative financial instruments with fixed or determinable payments, not traded in an active market. They are included as current assets, except for those with maturity term exceeding 12 months after the balance sheet date (which are classified as noncurrent assets) and accounted for at amortized cost, under the effective interest rate method.

Assets held to maturity

These refer substantially to financial assets that cannot be classified as loans and receivables, as they are traded in an active market. In this case, these financial assets are purchased given the company's intent and financial capacity to hold them to maturity. They are measured at cost of acquisition, plus interest earned and matched against P&L for the year.

(ii) *Derivative financial instruments and hedge activities*

Initially, the derivatives are recognized at their fair value on the date when the derivatives agreement is signed. Subsequently they are remeasured at their fair value and the changes in fair value are recorded in income (loss), except when the derivatives are designated as a hedge instrument.

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

3. Significant accounting practices (Continued)

c) Financial instruments (Continued)

(ii) *Derivative financial instruments and hedge activities (Continued)*

In the Company's case, in complying with CVM Rule No. 566, dated December 17, 2008, that approved Accounting Pronouncement CPC 14, derivatives considered "derivative financial instruments intended as hedge" and foreign currency debt instruments (bonds) considered "hedge items", both recorded up to February 2010 at fair value. In March 2010, the Company implemented the restructuring of its debt in foreign currency (bonds) which culminated in the settlement of the aforementioned derivative financial instruments intended for hedge (Note 18 (a) and 34).

d) Trade accounts receivable

Includes the amounts billed by Company and subsidiaries for use of the base network systems and other transmission facilities (DIT) by electric utility concessionaires and companies connected to these systems (Note 6), with average receivables turnover below 60 days, and there is no need for adjustment to present value.

CTEEP does not have an allowance for doubtful accounts.

e) Inventories

The materials in stock are valued and stated at average cost of acquisition, which does not exceed their replacement cost.

f) Investment

(i) *Cost and/or equity value*

The investment in CTEEP is accounted for under the equity method, based on the financial information as at the same date as the Company's financial information, recognized in income (loss) for the year as operating expense (or income).

In the subsidiary, while in the pre-operating stage, investments are accounted for under the cost method. Afterwards, they will be recorded under the equity method of accounting.

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

3. Significant accounting practices (Continued)

f) Investment (Continued)

(ii) *Goodwill*

The goodwill or negative goodwill determined upon the acquisition of an investment is calculated as the difference between the purchase price and the book value of the net equity of the company acquired. Goodwill is based on: (i) asset appreciation, represented by the difference between the book value of the company acquired and the fair value of the assets and liabilities (recorded under Investments) and (ii) future profitability, represented by the difference between the fair value of the assets and liabilities and the purchase price (recorded under Intangible assets). The goodwill determined upon the acquisition of CTEEP is amortized over the concession period.

g) Property, plant and equipment

Property, plant and equipment items are stated at cost of acquisition and/or construction, plus price-level restatements up to December 31, 1995; interest on equity capital up to December 31, 1998, interest, monetary and exchange variation on loans and financing for property, plant and equipment in progress; net of the accumulated depreciation.

Depreciation is computed on the straight-line basis, at the rates disclosed in Note 15, which consider the estimated useful lives of the assets, in compliance with the regulatory agency.

h) Impairment of assets

The Company and its subsidiary believe that there is no indication of impairment of the recoverable amount of its property, plant and equipment and intangible assets. Nevertheless, the recoverability of these assets is tested for impairment on a yearly basis using the net present value of future cash flows method, including the indemnification set forth by the concession agreements for property, plant and equipment at the end of the concession period. The criteria for calculating this indemnification have not yet been defined by the Granting Authority. However, in the understanding of management and of its legal advisors, said indemnification amount should approximate the residual value of property, plant and equipment on that date (Note 17).

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

3. Summary of significant accounting practices (Continued)

i) Other current and non-current assets

These are stated at net realizable value.

The allowance for doubtful accounts corresponds to the value doubtful accounts at the balance sheet date.

j) Current and non-current liabilities

Stated at known or estimated amounts including, when applicable, related interest, monetary and/or exchange variation incurred up to the balance sheet date.

In the Company the main foreign-currency-denominated debt is being realized at fair value (market value) and recorded through hedge accounting methodology. After the restructuring of this loan, carried out in March 2010, this liability began to be stated at amortized cost.

k) Provisions

Provisions are recorded on an assessment of the likelihood of loss on ongoing lawsuits, supported by reports prepared by the legal advisors engaged by CTEEP.

l) Income and social contribution taxes

These are calculated in compliance with the provisions of applicable legislation, based on net income, adjusted by inclusion of non-deductible expenses and exclusion of non-taxable revenues as well as inclusion and/or exclusion of temporary differences. In 2009, the Company opted for having its taxable profit computed on its accounting records on a quarterly basis. Up to 2008, it had elected to calculate taxable profit on its accounting records on an annual basis.

m) Negative goodwill

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

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

3. Summary of significant accounting practices (Continued)

m) Negative goodwill (Continued)

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

n) Employment benefits

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

4. Obligations assumed on the acquisition of the subsidiary CTEEP

Under the share purchase agreement in connection with the privatization auction described in Note 1 the Company agrees to supplement the amount paid on the purchase of CTEEP shares in the event CTEEP is released from encumbrances related to the supplement of payments to the pension plan established in Law No. 4819/58, currently challenged in court. As described in Note 37.

At June 30, 2010, the supplemental purchase price comprises two separate transactions, as follows:

- a) The amount of R\$ 224,622 (R\$ 221,238 - 3.31.2010), determined on the acquisition of the first equity interest at the privatization auction held on June 28, 2006, recorded under "Amounts payable - Law No. 4819/58 - São Paulo State Finance Department", of which R\$ 6,891 (R\$ 6,891 - 3.31.2010) in current liabilities and R\$ 217,731 (3.31.2010 - R\$ 214,347) in non-current liabilities, with a corresponding entry at the time amounting to R\$ 188,895 under "Investments - goodwill on acquisition of subsidiary" (Note 14), with the difference of R\$ 28,518 recognized in the statement of income relates to the monetary adjustment of the obligation, based on the Amplified Consumer Price Index (IPC-A) as from December 31, 2005.

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

4. Obligations assumed on the acquisition of the CTEEP subsidiary (Continued)

- b) The amount of R\$ 140,841 (3.31.2010 - R\$ 138,719), determined on the acquisition of the third equity interest at the Public Offering auction (OPA) held on January 9, 2007, recorded under "Amounts payable - Law No. 4819/59 - OPA", of which R\$ 4,322 (3.31.2010 - R\$ 4,322) under current liabilities R\$ 136,519 (31.3.2010 - R\$ 134,397) under the noncurrent liabilities, with a corresponding entry at the time amounting to R\$ 120,306 under "Investments - goodwill on acquisition of subsidiary" (Note 14). The difference of R\$ 16,015 recognized in the statement of income relates to the monetary adjustment of the obligation, based on the Amplified Consumer Price Index (IPC-A) as from December 31, 2005.

5. Cash and cash equivalents

	Company		Consolidated	
	6.30.2010	3.31.2010	6.30.2010	3.31.2010
Cash and banks	1,229	18,548	4,691	19,190
Short-term investments	114,621	29,829	449,711	615,212
Total	115,850	48,377	454,402	634,402

Short-term investments are measured at fair value through profit or loss and refer to Bank Deposit Certificates, Rural Credit Notes (LCA) and transactions where yield is linked to the Interbank Deposit Certificate (CDI) variation, with daily liquidity.

6. Trade accounts receivable

CTEEP's customers are electric utility concessionaries/permittees and free consumers, connected to CTEEP's facilities.

	6.30.2010	3.31.2010
Basic network	295,098	305,197
Other transmission facilities - DIT	17,530	17,699
	312,628	322,896
Current	279,463	274,686
Non-current	33,165	48,210

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

6. Trade accounts receivable (Continued)

The Company has no history of loss in its trade accounts receivable, which are guaranteed by collaterals and/or access to current accounts operated by the National Electric System Operator (ONS) or directly by the Company and the break down by maturity is as follows:

	<u>6.30.2010</u>	<u>3.31.2010</u>
Falling due	<u>303,146</u>	315,889
Past due		
Up to 30 days	992	607
From 31 to 60 days	981	671
Over 61 days	<u>7,509</u>	<u>5,729</u>
	<u>9,482</u>	<u>7,007</u>
	<u>312,628</u>	<u>322,896</u>

On January 13, 2009, CTEEP signed an acknowledgment of debt and payment agreement with delinquent distributors. This agreement requires the balance to be paid up36 installments. Up to June 2010, installments were received as scheduled.

7. Amounts receivable from State Finance Department – Consolidated

	<u>6.30.2010</u>			<u>3.31.2010</u>
	<u>Current</u>	<u>Non-current</u>	<u>Total</u>	<u>Total</u>
Agreement for acknowledgment and consolidation of debt (a)	17,513	18,972	36,485	39,161
Disposal of property (b)	3,640	3,943	7,583	8,139
Payroll processing – Law No. 4819/58 (c)	-	457,849	457,849	434,108
Labor claims – Law No. 4819/58 (d)	-	121,041	121,041	113,612
Family allowance – Law No. 4819/58 (e)	-	2,218	2,218	2,218
Allowance for doubtful accounts	-	(2,218)	(2,218)	(2,218)
	<u>21,153</u>	<u>601,805</u>	<u>622,958</u>	<u>595,020</u>

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

7. Amounts receivable from State Finance Department – Consolidated (Continued)

a) Agreement for acknowledgment and consolidation of debt

On May 2, 2002, an Agreement for Acknowledgement and Consolidation of Debt was entered into with the São Paulo State Finance Department, in which the State Government acknowledges and admits that it owes to the Company the amounts corresponding to the disbursements originally made by CESP - Companhia Energética de São Paulo, in the period from 1990 to 1999, for paying supplemental retirement and pension payrolls, arising from benefits under the terms of State Law No. 4819/58. The debt amount acknowledged was adjusted up to January 2002, by the variation of the Fiscal Unit of the São Paulo State Government (UFESP) and, as from February 2002, by the monthly variation of the General Market Price Index (IGP-M), plus 6% per annum. The reimbursement will be made in 120 monthly installments, starting on August 1, 2002 and with final settlement on July 1, 2012.

b) Disposal of real estate

In July 2002, a Private Transaction Instrument was signed, containing a commitment to sell real estate, the recognition of liabilities and payment commitments, with the State Secretary of Finance, in that the State recognizes and states it is a debtor to CTEEP at an amount corresponding to the total market value of the area of real estate occupied by the State, partly utilized in the construction of penitentiary units.

The state committed, therefore, to pay CTEEP the aforementioned total in 120 monthly installments, with the first on August 1, 2002, and the last projected for July 1, 2010, with restatement in accordance with the monthly variation in the General Price Index (IGP-M) plus interest of 6% per year.

c) Payroll processing – Law No. 4819/58

The amount of R\$ 457,849 refers to the remaining balance of the payroll processing for the supplemental pension plan regulated by State Law No. 4819/58, R\$ 1,426 of which through individual injunctions from January to August 2005 and R\$ 456,423 from September 2005 to June 2010 as a result of a court decision by the 49th Labor District Court of São Paulo, whose payments are made by Fundação CESP using part of the funds received from the State Government and passed on by CTEEP (Nota 38 (c)). This balance will not be monetarily adjusted and no earnings will be recorded until the State Government approves its actual payment to CTEEP.

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)
June 30, 2010
(In thousands of reais)

7. Amounts receivable from State Finance Department – Consolidated (Continued)

d) Labor claims – Law No. 4819/58

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

e) Family allowance – Law No. 4819/58

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

Considering the expectation of loss, CTEEP management recorded an allowance for doubtful accounts, in noncurrent assets, amounting to R\$ 2,218.

8. Taxes recoverable

	Company		Consolidated	
	6.30.2010	3.31.2010	6.30.2010	3.31.2010
COFINS	-	-	9,477	98,134
PIS	-	-	34,721	40,944
Income tax	32,718	30,787	36,474	32,970
Social contribution tax	-	-	961	969
Other	-	-	2,989	2,558
Total	32,718	30,787	84,622	175,575

Due to filing issues, CTEEP amended its Federal Tax Debt and Credit Returns (DCTFs) for the years 2004-2007, determining tax credits related mostly to PIS and COFINS. These credits will be offset against future tax amounts payable, and the Company estimates to have them fully recovered by July 2010.

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)
June 30, 2010
(In thousands of reais)

8. Taxes recoverable (Continued)

Changes for the year ended June 30, 2010 are as follows:

Balance at 3.31.2010	137,763
Monetary restatement of receivable	1,182
Amount offset between April to June	(95,850)
Balances at 6.30.2010	<u>43,095</u>

9. Tax benefit – merged goodwill - Consolidated

The goodwill paid by the Company on acquisition of CTEEP shareholding control (Note 14) is economically based on the expected profitability during the concession term, originating from the acquisition of the concession right granted by the Government, under paragraph 2 b of 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 stockholders, a provision for maintaining integrity of its stockholders' equity (PMIPL) was recognized, in accordance with the provisions of CVM Ruling No. 349, of March 6, 2001.

Amortization of goodwill, net of reversal of the provision and of the corresponding tax effect, is neutral with respect to the result 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 by CTEEP over the remaining concession period, in monthly installments according to the projected annual future profitability and as permitted by ANEEL Resolution No. 1164 of December 18, 2007, as follows:

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

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

9. Tax benefit – merged goodwill – Consolidated (Continued)

To better present the Company's financial position in the financial statements, the net amount of R\$ 162,327, which essentially represents the merged tax credit, was classified, in the balance sheet, in current assets and in long-term receivables as tax benefit – merged goodwill, based on its expected realization.

Changes for the quarter ended June 30, 2010 are as follows:

	<u>Goodwill</u>	<u>Provision</u>	<u>Net</u>
Balances at 3.31.2010	498,634	(329,099)	169,535
Realization for the period	(21,200)	13,992	(7,208)
Balances at 6.30.2010	<u>477,434</u>	<u>(315,107)</u>	<u>162,327</u>
Current assets			<u>28,832</u>
Non-current assets			<u>133,495</u>

10. Deferred income and social contribution taxes – Consolidated

These refer to tax credits on the temporary differences in the determination of taxable profit, stated as follows:

	<u>Income tax</u>	<u>Social contribution tax</u>	<u>6.30.2010</u>	<u>3.31.2010</u>
			<u>Total</u>	<u>Total</u>
Provision for contingencies	38,124	13,724	51,848	53,677
Voluntary Redundancy Program - PDV	278	100	378	732
Negative goodwill	10,262	3,694	13,956	15,399
Provision for adjustment				
installment (Note 27 (a) (ii))	20,521	7,388	27,909	21,703
Other	18,766	6,756	25,522	25,997
	<u>87,951</u>	<u>31,662</u>	<u>119,613</u>	<u>117,508</u>
Current			<u>58,001</u>	<u>52,620</u>
Non-current			<u>61,612</u>	<u>64,888</u>

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

10. Deferred income and social contribution taxes – Consolidated (Continued)

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

<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>From 2015</u>
24%	27%	4%	-	-	45%

11. Pledges and restricted deposits

Company

In January 2007 the Company raised US\$ 554 million from the issue of bonds with JP Morgan and ABN AMRO Bank acting as agents, divided into two tranches: the first, amounting to US\$ 200 million, maturing in 2012 and call options in 2010 and 2011; and the second, of US\$ 354 million maturing in 2017 (Note 18 (a)).

As established in the agreement, the Company made two deposits in Bank of New York worth US\$ 7,875 thousand and US\$ 15,576 thousand, as a guarantee for interest payable biannually, relating to the two aforementioned capital raises, respectively. Due to the fact that in March 2010 the Company bought back 91.06% of 2017-maturity bonds and 100% of the 2012-maturity bonds the amount to be maintained in this accounts for the payment of biannual interest for the bonds left in the market is approximately US\$1.4 million. Accordingly, with the supplement to the deposit carried out by the Company in April 2010, the balance recorded in current assets at March 31, 2010, was R\$ 32, which at June 30, 2010, increased to R\$ 2,520.

Consolidated

In long-term receivables, given that there are uncertainties regarding the settlement of shares subject to deposit, CTEEP has a policy to maintain that them at their book value, and not record any monetary restatements or earnings.

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

11. Pledges and restricted deposits (Continued)

Consolidated (Continued)

The balances are comprised as follows:

	<u>6.30.2010</u>	<u>3.31.2010</u>
Notices of violation – ANEEL (a)	9,000	6,317
Judicial deposits (Note 23 (b))	33,723	32,885
Other	198	198
	<u>42,921</u>	<u>39,400</u>

(a) These refer to two deposits intended to settle ANEEL notices.

- (i) Deposit made on January 17, 2000, amounting to R\$ 3,040, was required in an annulment action filed by CTEEP against ANEEL, related to notice of violation 001/1999-SFE which had fined 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 Mid-West regions; noncompliance with the "inspection report" requirements; and noncompliance with the legal duty of rendering proper service.
- (ii) Deposit made on June 17, 2003, amounting to R\$ 3,277, relates to notice of violation 005/2002-SFE, dated May 7, 2002, as a consequence of punitive administrative process brought by ANEEL, for the breakage, on January 21, 2002, of one subconductor of a 440 kV transmission line between CTEEP substations in the Power Plant of Ilha Solteira and Araraquara. In July 2010 the waiver of the monetarily restated deposit was, given the merits of the action.
- (iii) Deposit made on August 29, 2008, amounting to R\$ 2,139, in order the settle Notice No. 062/2007 due to failure to comply to the date set for the installation of the 3rd bank of 345/88 kV transformers at Baixada Santista in the southeast region, authorized by ANEEL Resolution No. 197 dated 5/4/2004.
- (iv) Deposit made amounting to September 17, 2008, amounting to R\$ 544, in order to settle Notice No. 001/2008 due to failure to comply with the date set for the entry into operation of the Guarulhos – Anhanguera, 345 kV transmission line authorized by Authoritative Resolution No. 064/2005 dated 1/31/2005.

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

12. Prepaid expenses

Company

Due to the foreign currency denominated debt restructuring (bonus), as mentioned in Note 18 (a), that balance of this account was totally amortized on March 31, 2010.

Consolidated

Prepaid expenses refer to allocated insurance premiums and IPTU for CTEEP and its subsidiaries amounting to R\$ 6,690 (3.31.10 – R\$ 11,540).

13. Loans receivable – company and consolidated

	<u>6.30.2010</u>	<u>3.31.2010</u>
Principal	51,146	51,146
Interest	10	381
Foreign exchange variation	<u>(8,271)</u>	<u>(8,767)</u>
	<u>42,885</u>	<u>42,760</u>

This loan refers to the onlending to parent company of the total loan obtained in 2006 from ABN AMRO BANK, denominated in U.S. dollars, in the original amount of US\$ 23,800 thousand, payable in a lump sum on July 19, 2007 and bearing interest calculated based on the LIBOR rate plus 3% p.a. The Company maintained the same bases of adjustment for this transaction, with interest thereon received semiannually, but the principal debt maturity was renegotiated for an eight-year period, also as a lump sum.

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)
June 30, 2010
(In thousands of reais)

14. Investment

a) Information for CTEEP subsidiary

	<u>6.30.2010</u>	<u>3.31.2010</u>
Number of shares (quantity)		
Common – ON	63,860,513	63,199,250
Preferred - PN	87,968,467	87,457,309
Total	<u>151,828,980</u>	<u>150,656,559</u>
Shareholders' equity		
Capital	1,119,911	1,063,049
Capital reserve	2,054,369	2,054,369
Special goodwill reserve	176,744	205,576
Income reserve	860,393	860,999
Advance for future capital contribution	666	666
Accumulated income / losses	209,779	138,926
Total	<u>4,421,862</u>	<u>4,323,586</u>

b) Investment information

	<u>6.30.2010</u>	<u>3.31.2010</u>
Shares held - ON	57,093,869	56,499,392
Percentage of equity holding	37,6041	37,5021
Investment	<u>1,596,338</u>	<u>1,544,341</u>
Goodwill		
Goodwill to be amortized (Note 16)	315,106	329,098
Goodwill – Special reserve	176,744	205,576
Total goodwill (a)	<u>491,850</u>	<u>534,674</u>
Total investment	<u>2,088,188</u>	<u>2,079,015</u>

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)
June 30, 2010
(In thousands of reais)

14. Investment (Continued)

c) Changes in investments

	<u>CTEEP</u>
Balances at December 31, 2009	2,041,164
Equity pick-up	149,086
Losses of capital	(3,249)
Dividends declared in the period	(23,945)
Interest on equity capital declared in the period	(46,884)
Amortization of goodwill	(27,984)
Balances at June 30, 2010	<u>2,088,188</u>

- (a) The total goodwill balance of R\$ 491,850, is classified in intangible assets in the consolidated balance sheet, net of CTEEP's special goodwill reserve amounting to R\$ 176,744, as mentioned in Note 16. Studies conducted confirm that this goodwill will be able to be realized within the term of the concession contracts.

15. Property and equipment – Consolidated

Property, plant and equipment are broken down as follows:

	<u>6.30.2010</u>			<u>3.31.2010</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net</u>	<u>Net</u>	<u>Average annual rates of depreciation (%)</u>
In operation					
Land	44,355	-	44,355	44,358	
Buildings, civil works and improvements	585,742	(410,087)	175,655	180,006	3,64
Machinery and equipment	5,862,873	(2,796,858)	3,066,015	3,108,724	2,96
Vehicles	10,465	(9,320)	1,145	585	20,00
Furniture and fixtures	26,119	(18,563)	7,556	8,225	10,00
	<u>6,529,554</u>	<u>(3,234,828)</u>	<u>3,294,726</u>	<u>3,341,898</u>	
In progress	1,559,322	-	1,559,322	1,395,450	
Special obligations	(28,767)	-	(28,767)	(28,767)	
Total - Consolidated	<u>8,060,109</u>	<u>(3,234,828)</u>	<u>4,825,281</u>	<u>4,708,581</u>	

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

15. Property, plant and equipment – Consolidated (Continued)

Construction in progress refers, substantially, to the ongoing expansion works of the electric energy transmission systems. Throughout 2009, CTEEP analyzed the projects recorded in property, plant and equipment in progress and identified projects not yet completed for which a provision for losses amounting to R\$ 18,292 was recorded in other operating expenses.

Special obligations are represented by amounts received from electric utility concessionaires and customers for investments in the concession.

Concession agreements provide for indemnification for property, plant and equipment at the end of the concession period. The criteria for calculating this indemnification have not yet been defined by the Granting Authority. However, it is the understanding of Management and of its legal advisors that said indemnification amount should approximate the residual value of property, plant and equipment on that date.

Consequently, CTEEP adopts the annual depreciation rates established by ANEEL, restated in accordance with ANEEL Regulatory Resolution No. 44, of March 17, 1999, and revoked by ANEEL Regulatory Resolution No. 240, of December 5, 2006, for assets with similar use and characteristics in the area of electric power transmission and distribution.

In accordance with articles 63 and 64 of Decree No. 41019, of February 26, 1957, assets and installations used in electric power transmission are linked to these services and cannot be retired, sold or assigned or pledged as mortgage guarantees without the prior and express authorization of the regulatory agency. ANEEL Resolution No. 20, of February 3, 1999, regulates the electric power utility concession assets, giving prior authorization for not restricting assets no longer serviceable to the concession, when intended for sale, and also determining that the proceeds from the sale be deposited in a restricted bank account and invested in the concession. On the date of the financial statements there were no bank accounts linked directly to the disposal of assets.

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

16. Intangible assets – Consolidated

	<u>6.30.2010</u>	<u>3.31.2010</u>
Goodwill (Note 14 (b))	315,106	329,098
Rights-of-way	60,122	60,122
ERP implementation	11,262	11,997
Other	151	151
	<u>386,641</u>	<u>401,368</u>

Transmission line rights-of-way are associated to distribution in CTEEP's concession area, and in private urban and rural areas, imply indemnification in favor of the real estate owner. As they are permanent items, there is no amortization.

ERP implementation includes all expenditures incurred in the SAP structuring project, except for the training expenses which were charged to income. The project started in April 2008 and its completion is scheduled for February 2009, to be amortized over 5 years.

17. Impairment of assets - Consolidated

Subsidiary CTEEP tested the recoverability of its property, plant and equipment and intangible assets in December 2009 based on the present value of future cash flows and on the assumptions set out below.

The amounts under these assumptions represent management's assessment of future trends in the electric power sector based both on external sources of information and historical data. Forecast cash flows were based on results of operations and projections of the Company until the end of Concession Agreement No. 059/2001, premised on:

- Organic growth compatible with historical data and Brazilian economy growth prospects;
- Indemnification for property, plant and equipment at the book value of reversible assets at the end of the concession period; and
- Average discount rate reached by a method generally adopted in the market, taking into account weighted average capital cost (WACC).

The recoverable amount of these assets exceeds their book value and therefore, there are no impairment losses to be recognized.

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

18. Loans and financing

The breakdown of loans and financing is as follows:

	Company		Consolidated	
	6.30.2010	3.31.2010	6.30.2010	3.31.2010
Foreign currency				
Bonus (a)	59,110	57,197	59,110	57,197
Local currency				
BNDES				
CTEEP (b)	-	-	628,518	651,750
IEMG (c)	-	-	39,146	39,918
Promissory notes (d)				
2nd issue	-	-	-	218,901
Banco Bradesco (e)	-	-	55,522	54,760
Citibank (f)	-	-	19,956	18,953
Eletrobrás	-	-	466	478
Financial lease agreements	-	-	2,231	1,815
	<u>59,110</u>	<u>57,197</u>	<u>804,949</u>	<u>1,043,772</u>
Current	<u>2,091</u>	<u>827</u>	<u>196,857</u>	<u>403,712</u>
Non-current	<u>57,019</u>	<u>56,370</u>	<u>608,092</u>	<u>640,060</u>

a) Debt in foreign currency - Bonds

(i) *Issue of bonds in January 29, 2007 amounting to US\$ 554 million*

The issue had as agents J.P. Morgan S.A. and ABN Amro Real S.A., and was divided into two tranches: one amounting to 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 amounting to 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 operation was separated into two parts the first to cover the bond principal amounting to US\$ 554 million and the other the cover bi-annual interest payments in July 2007 and January 2008:

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

18. Loans and financing (Continued)

a) Debt in foreign currency – Bond (Continued)

- (i) *Issue of bonds in January 29, 2007 amounting to US\$ 554 million*
(Continued)

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, amounting to \$ 200 million and with a five-year term maturing in 2012, was contracted at the exchange rate of R\$ 2.1170, bearing General Market Price Index (IGP-M) plus 2.12% p.a. The second tranche amounting to US\$ 354 million, with a ten-year term maturing in 2017, was also contracted at the exchange rate of R\$ 2.1170, bearing 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, amounting to 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% per annum. The second tranche, amounting to 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% per annum. The recouping partial payment clause was excluded.

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

18. Loans and financing (Continued)

a) Debt in foreign currency – Bond (Continued)

(i) *Issue of bonds in January 29, 2007 amounting to US\$ 554 million* (Continued)

JP Morgan S.A. - on February 12, 2008. The hedge of 50% of the two tranches was contracted. The first tranche, amounting to 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% per annum. The second tranche, amounting to 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% per annum. 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 amounting to 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.

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

18. Loans and financing (Continued)

a) Debt in foreign currency – Bond (Continued)

(i) *Issue of bonds in January 29, 2007 amounting to US\$ 554 million* (Continued)

As provided by CVM Rule 566, which approved accounting 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. Due to the restructuring of debt, listed as follows, this methodology was applied up to February 2010.

(a.ii) Restructuring of foreign exchange debt - Bonus

Given the strategy of the ISA Group seeks to expand its business in Brazil, ISA Capital's management developed studies to restructure its debt in foreign currency "bonds" in order to reduce its indebtedness and at the same time create conditions favorable to the expansion of Company activities as well as those of its subsidiaries.

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

18. Loans and financing (Continued)

a) Debt in foreign currency – Bond (Continued)

- (i) *Issue of bonds on January 29, 2007 amounting to US\$ 554 million*
(Continued)

Bonds of US\$ 354 million maturing in 2017

On February 8, 2010, the Company began to implement this restructuring and announced outside Brazil the public buy-back of Company issue bonds maturing in 2017 up to the total amount in circulation equivalent to US\$ 354 million. As part of the integration operation, as well as payment of 108.25% of the market price, ISA Capital offered the 2017 bond holders that subscribed to the public offer before February 24, 2010 (denominated the prior period) an additional consent fee of 3.5% on the market value. Between February 24 and March 8, 2010 bondholders subscribing to the offer received 108.25% of market value. At the end of the offer period, 91.06% of the bondholders had subscribed. Accordingly, within the established conditions the Company in March 2010, bought back US\$ 322.3 million, equivalent to the total of 91.06% of a total of US\$ 354 million, leaving only 8.94% of the 2017 maturity bonds in the market equivalent to US\$ 31.6 million.

The total Company expenditure in the buyback of 91.06% of these securities occurred in March, and totaled US\$ 371.8 million equivalent to R\$ 665 million, comprised 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) Proportional interest of US\$ 3.2 million equivalent to R\$ 5.7 million; and (iv) Taxes on remittances of US\$ 8.6 million equivalent to R\$ 15.3 million.

For the amount of US\$ 31.6 million representing the bonds still on the market, the same condition agreed on issue were kept, with no covenants. The maturity of the principal remains 2017 and the interest continues to be paid bi-annually, in January and July of each year at the rate of 8.8% per year.

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

18. Loans and financing (Continued)

a) Debt in foreign currency - Bonds (Continued)

- (i) *Issue of bonds on January 29, 2007 amounting to US\$ 554 million*
(Continued)

Bonds of US\$ 200 million maturing in 2012

When the 2017-maturity bond operation was concluded the Company used its prerogative to call options provided for in the contract on bonds maturing in 2012, and began the buyback of these securities, and, within the terms and conditions established, bought back 100% of these securities totaling US\$ 200 million. Given that the buyback was at the market rate in force of 103.938%, as stipulated in the indentures for the exercise of the call option in 2010, ISA Capital spent US\$ 212.6 million or R\$ 380.8 million buying back these securities, comprised as follows: (i) Principal of US\$ 200 million or R\$ 358.2 million; (ii) Bonus of US\$ 7.9 million or R\$ 14.1 million; (iii) Proportional interest of US\$ 2.4 million or R\$ 4.4 million; and (iv) taxes levied on remittances of US\$ 2.3 million or R\$ 4.1 million.

Swap contracts

ISA Capital began negotiations with banks ABN Amro Real S.A. (Santander), JP Morgan S.A. and Deutsche Bank S.A. in order to settle swap contracts. This occurred concurrently with the bond buyback operations and in accordance with the settlement clauses provided for in derivative financial instruments (swaps). Accordingly, also in March, the Company settled the 4 (four) contracts totaling R\$ 182.4 million.

Accordingly, of the total of US\$ 554 million in bonds issued by the Company on January 29, 2007, only US\$ 31.6 million with 2017 maturity were left in the market and taking into consideration the existence of a loan agreement from the Company amounting to US\$ 23.8 million (Note 13), the Company's management believes that foreign exchange exposure is very low which is why it did not contract derivative financial instruments (swaps) for that purpose.

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

18. Loans and financing (Continued)

a) Debt in foreign currency – Bonds (Continued)

- (i) *Issued of bonds on January 29, 2007 amounting to US\$ 554 million*
(Continued)

Swaps (Continued)

The breakdown by transaction is as follows:

	<u>6.30.2010</u>	<u>3.31.2010</u>
Current liabilities		
Bond issue – interest	2,091	827
Hedge – exchange rate risk of the principal	-	-
	<u>2,091</u>	<u>827</u>
Non-current liabilities		
Bond issue - principal	57,019	56,370
Hedge – exchange rate risk of the principal	-	-
	<u>57,019</u>	<u>56,370</u>
Total liabilities	<u>59,110</u>	<u>57,197</u>

- b) (i) On September 17, 2007, CTEEP signed a loan agreement with the Brazilian Development Bank (BNDES), amounting to R\$ 764.2 million, reduced to R\$ 602.2 million in December 2008. This amount accounts for 70% of 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. On October 25, 2007, R\$ 400 million were drawn down, on February 25, 2008, R\$ 120 million, and on May 29, 2008, R\$ 82.2 million. This loan bears monthly interest of 2.3% p.a. above the Long-term Interest Rate (TJLP). Repayment will be in 78 monthly installments from January 2009. As guarantee, CTEEP has given bank sureties contracted effective up to December 15, 2015, from the banks Bradesco, Santander and Banco do Brasil, at the cost of 0.7% p.a., with quarterly maturities.

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

18. Loans and financing (Continued)

- (ii) On November 18, 2008, CTEEP entered into a loan agreement with BNDES amounting to R\$ 329.1 million. On January 27, 2010, R\$ 160 million was liberated, and the other draw downs are projected for the next quarters. The amount is intended to cover investments in strengthening and modernizing the current system and new connections to be made between January 2009 and December 2010. Interest thereon corresponds to TJLP plus 1.8% p.a. Repayment will be in 54 monthly installments as from January 2011 and up to the beginning of repayment, interest will be paid on a quarterly basis. CTEEP offered a bank guarantee effective up to January 15, 2015, with Bradesco bank, at a cost of 1.2% p.a with quarterly maturities.
- c) On January 14, 2009 the CTEEP subsidiary, IEMG signed a loan agreement with the Brazilian Development Bank (BNDES) amounting to R\$ 70.6 million, which was 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. This loan bears monthly interest of 2.4% p.a. above the Long Term Interest Rate – TJLP.

This loan will be amortized in 168 monthly installments due from May 15, 2009. An HSBC bank guarantee effective through March 18, 2010 was pledged as collateral for the loan. On February 18, 2010, an amendment to the bank guarantee was signed extending its effectiveness to March 15, 2011.
- d) 2nd issue – issued by CTEEP on April 24, 2009, amounting to R\$ 200 million maturing on April 19, 2010. The nominal charges 119.5% do CDI. The promissory notes issue costs totaled R\$ 1,692 and, in conformity with CPC 08, the costs of promissory note issue was recorded as deducted from financing and allocated to net income for the period of the transaction.

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

18. Loans and financing (Continued)

- e) Bills of credit for subsidiary IENNE with Banco Bradesco S.A:
- (i) Issued on July 13, 2009 limited to R\$ 180 million maturing February 14, 2010. Interest on this transaction will be paid on maturity, corresponding to CDI + 2.5% p.a. The transaction was guaranteed by a "Standby Letter of Credit" (SBLC).
 - (ii) Issued on July 15, 2009, limited to R\$ 58 million maturing February 17, 2010. Interest on this transaction will be paid on maturity, corresponding to CDI + 2.5% p.a. A bank guarantee contracted with HSBC was given in warranty.

On February 17, 2010, maturities of the aforementioned bills of credit were extended to July 30, 2010.

- f) On July 27, 2009, CTEEP's subsidiary, IESUL, signed a bill of bank credit with Citibank S.A limited to R\$ 40 million maturing on April 15, 2010. The charges levied on this operation will be paid on maturity and correspond to CDI plus 3% p.a. On April 15, 2010, the maturity of the aforementioned bill of credit was extended to October 13, 2010.

The maturities of long-term installments are distributed as follows:

	Company		Consolidated	
	6.30.2010	3.31.2010	6.30.2010	3.31.2010
2011	-	-	66,176	100,017
2012	20,584	20,350	152,300	151,900
2013	-	-	131,673	131,538
2014	-	-	131,668	131,538
2015	-	-	67,355	67,309
After 2015	36,435	36,020	58,920	57,758
Total	<u>57,019</u>	<u>56,370</u>	<u>608,092</u>	<u>640,060</u>

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Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

19. Debentures

	<u>Maturity</u>	<u>Quantity</u>	<u>Remuneration</u>	<u>6.30.2010</u>	<u>3.31.2010</u>
1st series	15.12.2014	49.100	CDI + 1,3% a.a	488,604	499,659
2nd series	15.12.2017	5.760	IPCA + 8,1 a.a	61,311	59,216
				549,915	558,875
Current				1,634	8,075
Non-current				548,281	550,800

In December 2009, CTEEP issued 54,860 debentures at a total amount of R\$ 548.6 million, with financial settlement in 2010. The first series will be amortized on the following dates: December 15, 2012, 2013 and 2014; and the remuneration will be paid biannually, on June 15, and December 15 each year, with the first date falling on June 15, 2010.

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

Maturities of long-term installments are as follows:

	<u>6.30.2010</u>	<u>3.31.2010</u>
2011	2,269	1,098
2012	162,709	163,667
2013	163,031	163,667
2014	175,810	178,342
2015	14,819	14,675
After 2015	29,643	29,351
	548,281	550,800

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

20. Taxes and social charges payable

	Company		Consolidated	
	6.30.2010	3.31.2010	6.30.2010	3.31.2010
Income tax	325	141	48,105	49,355
Social contribution tax	-	-	17,786	17,791
COFINS	2,194	2,148	7,246	6,287
PIS	-	-	1,095	897
Study Grant Program (a)	-	-	1,868	2,065
INSS	19	19	4,257	3,812
ISS	-	-	5,541	4,601
Other	33	21	4,201	4,672
Total	<u>2,571</u>	<u>2,329</u>	<u>90,099</u>	<u>89,480</u>

- a) Refers to liabilities assumed by CTEEP, in a collective bargaining agreement with unions, in order to make payments to its employees, with costs for the conclusion of their middle school, high school and higher education studies.

21. Tax installments – Law No. 11941 - Consolidated

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

Changes in the period ended June 30, 2010, are as follows:

Balance at 3.31.2010	148,587
Monetary restatement of tax debit	2,040
Payment made (*)	-
Balance at 6.30.2010	<u>150,627</u>
Current	<u>10,041</u>
Non-current	<u>140,586</u>

(*) Up to the approval of the taxes installments by the Brazilian IRS the monthly payments amount to R\$ 100.00 (one hundred reais).

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

22. Regulatory charges payable - Consolidated

	<u>6.30.2010</u>	<u>3.31.2010</u>
Research and development - R&D	34,889	32,562
Energy Development Account - CDE	1,640	2,689
Fuel Consumption Bill - CCC	1,388	2,275
Global Reversal Reserve – RGR	5,243	5,978
Alternative Energy Source Program -PROINFA	897	1,752
Inspection Fee – ANEEL	48	44
	<u>44,105</u>	<u>45,300</u>
Current	<u>40,386</u>	<u>42,031</u>
Non-current	<u>3,269</u>	<u>3,269</u>

23. Provisions – Consolidated

	<u>6.30.2010</u>	<u>3.31.2010</u>
Vacation accrual and social charges	16,729	13,253
Profit sharing – PLR	4,683	2,408
Voluntary termination program – PDV (a)	619	1,659
Sundry indemnities	303	309
Contingencies (b)	152,494	160,737
	<u>174,828</u>	<u>178,366</u>
Current	<u>22,292</u>	<u>17,573</u>
Non-current	<u>152,536</u>	<u>160,793</u>

(a) Voluntary termination program – PDV

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

At June, 2010, the remaining balance substantially refers to 1 employee whose severance has not yet been processed, as well as the provision for medical and dental assistance that the terminated employees have the right to receive 36 months after the termination of their contracts.

(b) Provision for contingencies – Consolidated

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

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

23. Provisions – Consolidated

Type	6.30.2010			3.31.2010		
	Provision	Judicial deposits	Net	Provision	Judicial deposits	Net
Labor (i)	136,375	(25,310)	111,065	142,196	(24,472)	117,724
Civil	3,244	-	3,244	3,383	-	3,383
Tax – IPTU (ii)	8,660	-	8,660	8,351	-	8,351
Tax – COFINS (iii)	-	(5,668)	(5,668)	-	(5,668)	(5,668)
Social security – INSS (iv)	3,393	(2,745)	648	3,142	(2,745)	397
ANEEL (v)	822	(9,000)	(8,178)	3,665	(6,317)	(2,652)
	152,494	(42,723)	109,771	160,737	(39,202)	121,535

Judicial deposits are recorded in noncurrent assets under "Pledges and restricted deposits".

CTEEP is a party to tax, labor and civil lawsuits, whose unfavorable outcomes are rated as possible by management, based on the assessment of its legal advisors, in the estimated amount of R\$ 101,212 (3.31.2010 – R\$ 92,880), mainly labor claims, for which no provisions have been recorded.

(i) Labor

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

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

CTEEP recognizes a provision to cover debts with the municipal government of São Paulo, related to administrative proceedings for rectification of areas, amounting to R\$ 8,660.

(iii) COFINS

CTEEP is challenging in court the constitutionality of the increase in the COFINS rate and calculation basis, in the amounts of R\$ 27,392 and R\$ 11,132, respectively. CTEEP obtained a favorable outcome regarding the increase in the calculation basis, and an unfavorable one in relation to the tax rate increase. In October 2009, CTEEP identified the amount originally deposited, and begun assessing the portion related to its restatement.

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

23. Provisions – Consolidated (Continued)

(iv) Social Security – INSS

On August 10, 2001, CTEEP received from the National Institute of Social Security (INSS) a delinquency notice for nonpayment of social security 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. Accordingly, management decided to establish a provision and made a judicial deposit amounting to R\$ 8,243, recorded in noncurrent assets, under "Pledges and restricted deposits". In January 2010, a decision found against the Company regarding meal tickets, morning snack and basket of food staples. Accordingly the judicial deposits, amounting to R\$ 5,498, were forwarded to the Federal Government and written off against net income, considering that a provision for this contingency had not been set up.

(v) ANEEL

CTEEP was notified by ANEEL for not meeting the deadline for installation of the 3rd bank of 345/88 kV transformers for substation (SE) Baixada Santista, authorized by ANEEL Resolution No. 197 of May 4, 2004, with a fine amounting to R\$ 1,981, and for the noncompliance with the deadline for the start-up of the 345 kV Guarulhos – Anhanguera Transmission Line, authorized by ANEEL Resolution No. 064/2005 of December 31, 2005, with a fine amounting to R\$ 886, totaling R\$ 2,867.

At June 30, 2010, the provision was reversed against net income.

In addition, the Company maintained the provision for maintenance fees of ANEEL delinquency notice No. 001/1999-SFE that imposed a penalty related to the interruption of electrical energy transmission and distribution in a greater part Southeast, South and Mid-West regions, due to allegations concerning the following infractions: a) impeding inspections; b) failure to comply with inspection report findings; and c) non-compliance with legal provision to provide adequate services. Up to the prior quarter, this provision was classified as a civil contingency.

24. Amounts payable – Fundação CESP

Based on an appraisal prepared by independent actuaries to calculate the actuarial liability, CTEEP recorded in its income for the year a gain of R\$ 3,400. Accordingly, the liability balance presented represents the current liability of CTEEP related to the supplementary pension and health assistance plans maintained with Fundação CESP.

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

24. Amounts payable – Fundação CESP(Continued)

a) Plan “A” – supplementary pension plans

Regulated by State Law 4819/58, applied to employees hired up to May 13, 1974, establishes supplementary pension plan benefits, additional leave entitlements and family allowance. The reserves necessary to cover the liabilities assumed in this plan are total responsibility of the applicable authorities of the State of São Paulo Government and therefore, with no risk and additional cost to CTEEP (Note 38).

b) Plans “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.

The Plan "B" refers to the Vested Supplementary Benefit Payout - BSPS, calculated on 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 on April 1, 1998 (EPTE), CTEEP implemented Plan "B1", which defines contributions and related matching responsibilities between CTEEP and the participants, to ensure the plan's appropriate asset-liability management. This plan provides pension benefits to CTEEP's 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).

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

24. Amounts payable – Fundação CESP (Continued)

c) Plano 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.

25. Special obligations – Reversion/Amortization – Consolidated

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.

26. Shareholders' equity

a) Capital

The Company was organized on April 28, 2006, as a limited liability company. On September 19, 2006, the Company was incorporated as a publically traded company.

On March 9 and March 19, 2010 the Company provided two capital increases with the issue of preferred redeemable shares at R\$ 2.020731 each, that were totally subscribed and paid-in by HSBC Finance (Brazil) S.A. Banco Múltiplo, as follows:

- (i) The Extraordinary Shareholders' Meeting held on March 9, 2010, under the terms of the Executive Board Meeting dated March 8, 2010, approved a capital increase in the Company amounting to R\$ 840,000, of which R\$ 420 was allocated to capital and R\$ 839,580 was allocated to the capital reserve account through the issue of 415,691,162 preferred redeemable shares distributed in 13 classes, with the right to cumulative and fixed dividends, which were fully subscribed and paid-up on the same date, increasing the Company's capital from R\$ 839,778 to R\$ 840,198 divided into 1,256.316,162 shares. The same meeting approved the reduction in mandatory dividend from 25% to 1%, and changes to the Company's Charter; and

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

26. Shareholders' equity (Continued)

a) Capital (Continued)

(ii) In the Executive Board meeting held on March 19, 2010, a new Company capital increase was approved, within the limits of its authorized capital, with the issue of 178,153,342 preferred redeemable shares, distributed in 13 classes, with the right to fixed cumulative dividends, amounting to R\$ 360,000 which was fully subscribed and paid-in on the same date. Of this amount R\$ 180 was allocated to capital and R\$ 359,820 was allocated to the Company's capital reserve.

Later, on May 14, 2010, the shareholder HSBC Finance (Brasil) S.A. Banco Múltiplo, then the holder of 593,844,504 preferred Company issue shares sold 50% to Banco Votorantim S.A.

Accordingly, at June 30, 2010 fully subscribed and paid-up Company capital is R\$ 840,378 (3.31.2010 – R\$ 840,378) and is divided into 840,625,000 common shares and 593,844,504 preferred shares, distributed as follows:

Shareholders	Quantity of shares		
	Common	Preferred	Total
Interconexión Eléctrica S.A. E S P	840,624,995	-	840,624,995
Luis Fernando Alarcón Mantilla	1	-	1
Fernando Augusto Rojas Pinto	1	-	1
Guido Alberto Nule Amin	1	-	1
Ana Mercedes Villegas Mejía	1	-	1
César Augusto Ramirez Rojas	-	-	-
Alfonso Camilo Barco Muñoz	1	-	1
HSBC	-	296,922,252	296,922,252
Banco Votorantim	-	296,922,252	296,922,252
Total	<u>840,625,000</u>	<u>593,844,504</u>	<u>1,434,469,504</u>

b) Capital reserve

After the decisions of March 9 and 19, 2010, mentioned above, the Company's capital reserve account at June 30, 2010 had a balance of R\$ 1,199,400. This amount as projected in the chronology will be used for the redemption of preferred redeemable shares in 13 classes, and may also as provided for in the shareholders agreement and Brazil's Corporation Law, Law No. 6.404/76, as amended, and will be utilized in the payment of dividends to those with rights over those shares.

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

26. Shareholders' equity (Continued)

c) Income reserves

	<u>6.30.2010</u>	<u>3.31.2010</u>
Legal reserve (i)	5,881	5,881
Retained earnings reserve (ii)	<u>111,743</u>	<u>111,743</u>
	<u><u>117,624</u></u>	<u><u>117,624</u></u>

(i) *Legal reserve*

Set up at 5% of net income for the year before any allocation, up to a limit of 20% of capital.

(ii) *Retained earnings reserve*

After setting up the legal reserve and payment of mandatory dividends and cumulative fixed dividends calculated based on the Company's Charter, the remaining portion of net income calculated each year will be allocated as established in the Corporate Charter and the shareholder agreement.

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

27. Operating revenue – Consolidated

a) Revenues from electricity network usage

Revenues from usage of the electricity network of CTEEP, accumulated for the quarters and six-month period ended June 30, 2010, is comprised as follows:

	Consolidated			
	Quarters ended		Six months ended	
	6.30.2010	6.30.2009	6.30.2010	6.30.2009
Basic network				
Existing assets	322,212	310,815	619,592	628,709
New investments	78,162	88,979	151,662	173,478
Bid	5,439	5,214	10,877	10,739
Surplus	159	(612)	3,748	4,496
Revenue adjustment	(511)	4,726	2,333	9,452
Variable deduction	(1,358)	150	(3,421)	(958)
	404,103	409,272	784,791	825,916
Other transmission facilities				
- DIT				
Existing assets	27,261	25,605	54,524	50,581
New investments	9,643	9,795	19,214	19,197
Revenue adjustments	260	1,175	521	2,869
	37,164	36,575	74,259	72,647
Charges				
Fuel Consumption Bill – CCC	5,910	9,510	12,658	18,718
Energy Development Account – CDE	6,986	10,314	14,963	20,301
Alternative Energy Source Program – PROINFA	3,952	5,033	9,367	11,976
	16,848	24,857	36,988	50,995
	458,115	470,704	896,038	949,558

(i) *Annual Revenue Allowed (RAP) of Miguel Reale Substation*

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

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

27. Operating revenue – Consolidated (Continued)

a) Revenues from electricity network usage (Continued)

(i) *Annual Revenue Allowed (RAP) of Miguel Reale Substation* (Continued)

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

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

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

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

Through Technical Note No. 130/2010-SRE/ANEEL, dated April 23, 2010 ANEEL kept amounts contained in Inspection Report No. 202/2004-SFF/ANEEL, concluding that CTEEP's plea would not be accepted, therefore, drawing down the funds in the administrative realm.

(ii) *Periodic review of Annual Revenue Allowed (RAP)*

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, in accordance with the methodology approved by Regulatory Resolution nº 257, of March 6, 2007.

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Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

27. Operating revenue – Consolidated (Continued)

a) Revenues from electricity network usage (Continued)

(ii) *Periodic review of Annual Revenue Allowed (RAP)* (Continued)

The review comprises revenue repositioning by determining:

- a) the basis for regulatory remuneration to the Base Network - New Facilities (RBNI);
- b) effective operating costs;
- c) the optimal capital structure and the transmission companies' remuneration;
- 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 Companhia de Transmissão de Energia Elétrica Paulista - 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 rate review as contractually provided for in July 2009 was postponed to July 2010. On December 21, 2009 ANEEL published Regulatory Resolution No. 386, which establishes overall concepts, related methodologies and procedures applicable to the Second Periodic Tariff Review Cycle – RTP of electric transmission public utility.

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Notes to financial statements (Continued)
June 30, 2010
(In thousands of reais)

27. Operating revenue – Consolidated (Continued)

a) Revenues from electricity network usage (Continued)

(ii) *Periodic review of Annual Revenue Allowed (RAP)* (Continued)

Second periodic tariff review cycle (Continued)

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 of R\$ 82,086, matched against the adjustment portion in current liabilities as follows:

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

Income from the second periodic tariff review was approved by Resolution No. 994 dated June 8, 2010. ANEEL had been fixing the Company tariff at less than 20.4%, to be applied to the RBNI and RCDM installments on June 1, 2009.

Due to the retroactive effects of the new revenue the amount of R\$ 82,086 overpaid up the period from July 1, 2009 to June 30, 2010, will be refunded in 12 monthly installments, through the contractual portion adjustment mechanism.

(iii) *Variable deduction - PV and additional RAP*

Regulatory Resolution No. 270 of July 09, 2007, regulates the Variable Deduction – PV and addition to the RAP. The Variable Deduction is the discount in the RAP for distributors due to the unavailability or limited operation of facilities in the basic network. The addition to the RAP corresponds to the amount to be added to distributor's revenue as an incentive to improve the availability of transmission facilities.

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Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

27. Operating revenue – Consolidated (Continued)

a) Revenues from electricity network usage (Continued)

(iv) *Annual revenue readjustment*

On June 29, 2010, Authorizing Resolution No. 1021, established CTEEP's , annual revenue allowed from the provision of the base network as well as other transmission facilities, for the 12 month cycle, comprising the period from July 1, 2010 to June 30, 2011.

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

The breakdown of the revenue effective from July 1, 2010, to June 30, 2011 breaks down as follows:

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

b) Other operating revenue – Consolidated

	Quarters ended		Six month periods ended	
	6.30.2010	6.30.2009	6.30.2010	6.30.2009
Rental	3,146	2,481	6,323	4,063
Services	698	2,891	1,972	5,778
	<u>3,844</u>	<u>5,372</u>	<u>8,295</u>	<u>9,841</u>

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

28. Deductions from operating revenues – Consolidated

	Quarters ended		Six-month period ended	
	6.30.2010	6.30.2009	6.30.2010	6.30.2009
Taxes on revenues				
COFINS	(18,506)	(19,520)	(35,964)	(39,270)
PIS	(4,012)	(4,233)	(7,799)	(8,516)
ISS	(34)	(122)	(98)	(222)
	<u>(22,552)</u>	<u>(23,875)</u>	<u>(43,861)</u>	<u>(48,008)</u>
Regulatory charges				
Fuel Consumption Charge – CCC	(5,365)	(8,630)	(11,489)	(16,986)
Energy Development Account – CDE	(6,340)	(9,360)	(13,578)	(18,423)
Global Reversal Reserve – RGR	(11,210)	(11,258)	(22,419)	(22,523)
Research and Development – P&D	(4,059)	(5,267)	(7,533)	(9,556)
Alternative Energy Source Program – PROINFA	(3,186)	(4,568)	(8,100)	(10,868)
	<u>(30,160)</u>	<u>(39,083)</u>	<u>(63,119)</u>	<u>(78,356)</u>
	<u>(52,712)</u>	<u>(62,958)</u>	<u>(106,980)</u>	<u>(126,364)</u>

29. Costs of operation services and G&A expenses

a) Quarters ended June 30

	Company		Consolidated	
	6.30.2010	6.30.2009	6.30.2010	6.30.2009
Personnel	(386)	(350)	(46,578)	(42,005)
CVM Rule No. 371	-	-	3,400	13,282
Services	(192)	(789)	(22,658)	(23,460)
Depreciation	(3)	(3)	(49,231)	(47,015)
Materials	-	-	(2,860)	109
Leases and rentals	(68)	-	(2,729)	(2,308)
Contingencies	-	-	2,192	(2,390)
Amortization of expenses				
- bonds	-	(718)	-	(718)
Other	(1)	(9)	(7,854)	(4,465)
	<u>(650)</u>	<u>(1,869)</u>	<u>(126,318)</u>	<u>(108,970)</u>

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

29. Costs of operation services and G&A expenses (Continued)

b) Six-months ended June 30

	Company		Consolidated	
	6.30.2010	6.30.2009	6.30.2010	6.30.2009
Personnel	(931)	(810)	(88,682)	(86,582)
CVM Rule No. 371	-	-	6,801	26,561
Services	(2,488)	(1,031)	(46,763)	(43,029)
Depreciation	(6)	(5)	(99,880)	(93,593)
Materials	-	-	(5,778)	(4,367)
Leases and rentals	(119)	-	(5,375)	(4,302)
Contingencies	-	-	(7,435)	(5,860)
Amortization of expenses - bonds	(12,752)	(1,436)	(12,752)	(1,436)
Other	(41)	(56)	(13,691)	(9,492)
	(16,337)	(3,338)	(273,555)	(222,100)

30. Financial income (expenses)

a) Quarters ended June 30

	2010		2009	
	Company	Consolidated	Company	Consolidated
Financial income				
Gains from short-term investments	2,119	9,447	238	4,621
Interest	961	2,998	781	1,724
Monetary and foreign exchange variation	-	2,129	175,065	178,442
Mark to market – debt (bonds)	-	-	120,147	120,147
Interest on equity capital	23,663	-	23,952	-
Other	3	821	-	193
	26,746	15,395	320,183	305,127
Financial expenses				
Interest payable	(1,241)	(19,380)	(23,853)	(39,797)
Monetary and foreign exchange variation	(5,615)	(5,615)		
Derivative financial instruments - SWAP	-	-	(195,924)	(195,924)
Mark to market - SWAP	-	-	(120,147)	(120,147)
Interest on equity capital	-	(39,263)	-	(39,986)
Charges on promissory notes	-	(1,970)	-	(9,279)
Debenture charges	-	(14,095)	-	-
IRRF on remittance of interest	(181)	(181)	(2,863)	(2,863)
PIS on interest on equity capital	(390)	(390)	(395)	(395)
COFINS on interest on equity capital	(1,798)	(1,798)	(1,820)	(1,820)
Other	(15)	(1,049)	(406)	(1,292)
	(9,240)	(83,741)	(345,408)	(411,503)
Financial income	17,506	(68,346)	(25,225)	(106,376)

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

30. Financial income (Continued)

b) Six-month period ended June 30

	2010		2009	
	Company	Consolidated	Company	Consolidated
Financial income				
Short-term investment gains	3,210	18,889	375	7,495
Monetary and foreign exchange variations	-	4,780	183,371	215,732
Mark to market – debt (bond)	17,309	17,309	263,858	263,858
Interest	1,951	6,538	1,901	3,803
Interest on equity capital	46,884	-	47,641	-
Other	4,329	5,250	-	388
	<u>73,683</u>	<u>52,766</u>	<u>497,146</u>	<u>491,276</u>
Financial expenses				
Interest payable	(16,061)	(50,666)	(51,704)	(84,389)
Monetary and foreign exchange variation	(10,370)	(10,370)	-	-
Derivative financial instruments - SWAP	(23,764)	(23,764)	(208,396)	(208,396)
Mark to market - SWAP	(17,309)	(17,309)	(263,858)	(263,858)
Interest on equity capital	-	(77,962)	-	(79,533)
Promissory note charges	-	(7,912)	-	(16,272)
Debenture charges	-	(25,825)	-	-
Withholding tax (IRRF) on remittances abroad	(2,647)	(2,647)	(6,820)	(6,820)
PIS on equity capital	(774)	(774)	(786)	(786)
COFINS on equity capital	(3,563)	(3,563)	(3,621)	(3,621)
Financial expenses – REDI Project	(280,046)	(280,046)	-	-
Other	(120)	(1,566)	(856)	(2,507)
	<u>(354,654)</u>	<u>(502,404)</u>	<u>(536,041)</u>	<u>(666,182)</u>
Financial income	<u>(280,971)</u>	<u>(449,638)</u>	<u>(38,895)</u>	<u>(174,906)</u>

31. Other operating revenues (expenses)

a) Quarters ended June 30

	Company		Consolidated	
	6.30.2010	6.30.2009	6.30.2010	6.30.2009
Revenues				
Realization of negative goodwill	-	-	4,246	4,247
Other	-	-	2,674	32
	<u>-</u>	<u>-</u>	<u>6,920</u>	<u>4,279</u>
Expenses				
Amortization of goodwill	(13,992)	(13,992)	(21,200)	(21,200)
Other	-	-	(36)	(297)
	<u>(13,992)</u>	<u>(13,992)</u>	<u>(21,236)</u>	<u>(21,497)</u>
	<u>(13,992)</u>	<u>(13,992)</u>	<u>(14,316)</u>	<u>(17,218)</u>

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

31. Other operating revenues (expenses) (Continued)

b) Six-month period ended June 30

	Company		Consolidated	
	6.30.2010	6.30.2009	6.30.2010	6.30.2009
Revenues				
Realization of negative goodwill	-	-	8,493	8,493
Other	-	-	3,559	71
	<u>-</u>	<u>-</u>	<u>12,052</u>	<u>8,564</u>
Expenses				
Amortization of goodwill	(27,984)	(27,984)	(42,401)	(42,401)
Other	-	-	(35)	(297)
	<u>(27,984)</u>	<u>(27,984)</u>	<u>(42,436)</u>	<u>(42,698)</u>
	<u>(27,984)</u>	<u>(27,984)</u>	<u>(30,384)</u>	<u>(34,134)</u>

32. Income and social contribution tax on net income

The Company has determined tax losses and has not recognized deferred income tax and social contribution on such losses.

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

	Quarters ended		Six-month period	
	6.30.2010	6.30.2009	6.30.2010	6.30.2009
Income before income and social contribution taxes	197,403	221,527	369,239	471,892
Tax rates	34%	34%	34%	34%
Expected income and social contribution tax rates	(67,117)	(75,319)	(125,541)	(160,443)
Income and social contribution taxes on permanent differences	3,632	9,532	28,374	9,046
Effective income and social contribution expenses	(63,485)	(65,787)	(97,167)	(151,397)
Income and social contribution taxes				
Current	(65,590)	(62,097)	(118,229)	(144,754)
Deferred	2,105	(3,690)	21,062	(6,643)
	<u>(63,485)</u>	<u>(65,787)</u>	<u>(97,167)</u>	<u>(151,397)</u>

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

33. Transactions with related parties

The main balances and transactions carried out between related parties are as follows:

	Type of operation	6.30.2010			6.30.2009		
		Assets	Liabilities	Income (expense)	Assets	Liabilities	Revenues (expense)
<u>Company</u>							
Key management personnel	Short-term benefits	-	-	(864)	-	-	(745)
CTEEP	Sublease	-	30	(118)	-	15	(94)
	Provision of services	-	21	(43)	-	7	(40)
ISA	Loan (Note 13)	42,885	-	2,167	46,455	-	(4,626)
<u>Consolidated</u>							
Key management personnel	Short-term benefits	-	-	(3,335)	-	-	(4,826)
ISA	Loan (Note 13)	42,885	-	2,167	46,455	-	(4,626)

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 signed including, among others, delivery of bookkeeping, tax calculation and payroll processing services.

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

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

34. Financial instruments

a) Identification and measurement of financial instruments

Company

The Company has accounts receivable related to a foreign currency loan to its parent company; foreign currency denominated debt contracts (bonds).

The Company's derivative financial instruments (swap) are used solely and exclusively to hedge against exchange rate risks in connection with the issue of bonds and have no speculative purpose. The amount of R\$ 182,390 was settled in March 2010 (12.31.2009 - R\$ 108,102), stemming from the restructuring of the aforementioned debt, as described in Note 18 (a).

Consolidated

CTEEP operates several financial instruments, especially cash and cash equivalents, including short-term investments, trade accounts receivable, trade accounts payable and loans and financing.

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

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

CTEEP does not have a policy on the use of derivative financial instruments and, in the financial year, it did not enter into agreements that may be considered derivative financial instruments.

b) Cash and cash equivalents, short-term investments, accounts receivable, other current assets and accounts payable

The amounts recorded approximate their realizable values.

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

34. Financial instruments (Continued)

c) Investment

The Company's investment consists of its interest in CTEEP's capital and is accounted for by the equity method.

CTEEP has holdings in companies in which it has strategic interest. These holdings, after the pre-operating stage, will be recorded under the equity method.

Considerations on the market value of the shares held are not applicable.

d) Financing

The Company recognizes foreign-currency-denominated debt contracts (bonds) at its fair (market) value.

Loans and financing in reais are linked to the CDI variation and approximate their market values.

e) Risk management

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

Credit risk - CTEEP has agreements with the National Electric System Operator (ONS), concessionaires and other agents for regulating the provision of services related to the 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, with a bank guarantee clause.

Price risk - pursuant to the concession agreement, CTEEP's revenues are annually adjusted by ANEEL based on the variation of the General Market Price Index (IGP-M), and part of the revenues is subject to periodic review every four years (Note 27 (a) (ii)).

Interest rate risk –CTEEP restated its financing agreement linked to the variation in the TJLP and the CDI (Notes 18 and 19).

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

34. Financial instruments (Continued)

e) Risk management (Continued)

Interest rate risk – CTEEP does not have financing, accounts receivable and assets in foreign currency. Its exposure corresponding to foreign exchange fluctuations on any import of equipment is insignificant.

After the restructuring of foreign-currency-denominated debt related to the issue of bonds on the foreign market, the Company's foreign exchange rate risk was practically nil. In March 2010 the Company bought back nearly all of its bonds as described in Note 18 (a). Accordingly, the remaining balance of debt denominated in foreign currency post-restructure is US\$ 31.6 million. The Company recorded a matching entry as accounts receivable denominated in foreign currency amounting to US\$ 23.8 million for loans receivable from its parent company (Note 13).

IGP-M Variation Risk – Given the settlement of derivative financial instruments (swap) that were indexed to the IGP-M index, the Company believes that there is no risk of the variation of the IGP-M.

CDI Variation Risk – In accordance with that provided in the Company's Charter, the Company shall remunerate preferred redeemable shares at the annual variation of CDI plus 1% p.a. The CDI variation means a cumulative factor resulting in the average rates referring to interbank deposits (CDI Extra Grupo), calculated and disclosed by CETIP S.A. based on a year of 252 (two hundred and fifty two) working days, expressed as a percentage per year.

35. Operating leases - Consolidated

Minimum future payments of operating vehicle and IT equipment leases of subsidiary CTEEP, in total and for each one of the periods, are as follows:

	<u>6.30.2010</u>	<u>3.31.2010</u>
Up to one year	4,254	5,010
Over one year and up to five years	4,921	5,732
	<u>9,175</u>	<u>10,742</u>

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)
June 30, 2010
(In thousands of reais)

36. Insurance coverage - Consolidated

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

Type	Coverage	Amount insured - R\$ thousand	Premium - R\$ thousand
Assets	9/1/09 to 9/1/10	2,067,000	3,784
Civil liability	9/1/09 to 9/1/10	15,000	242
National transport	9/30/09 to 9/30/10	106,113	17
Group accident	5/1/10 to 5/1/11	40,566	0.2
Vehicles	3/2/10 to 3/2/11	Market value	33
			<u>4,076</u>

a) Assets

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

b) Civil Liability

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

c) National transport

Coverage of damage caused to CTEEP's assets and equipment, transported within Brazil.

d) Collective personal accidents

Coverage against personal accidents to executives, interns and trainees.

e) Vehicles

Coverage against collision, fire, theft and third parties.

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

37. Collection Lawsuit by Eletrobrás against Eletropaulo and EPTE

In 1989, Centrais Elétricas Brasileiras S.A. - ELETROBRÁS filed a collection lawsuit against Eletropaulo - Eletricidade de São Paulo S.A. (currently Eletropaulo Metropolitana Eletricidade de São Paulo S.A. - "Eletropaulo") referring to the balance of a certain financing agreement. Eletropaulo did not agree with the criteria for said monetarily adjusting 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 amounts 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.

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.

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

37. Collection Lawsuit by ELETROBRÁS against Eletropaulo and EPTE (Continued)

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

38. Supplementary pension plan regulated by Law No. 4.819/58

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 22 (1) to the financial statements of the Company as of December 31, 2004.

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)
June 30, 2010
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38. Supplementary pension plan regulated by state Law No. 4819/58 (Continued)

a) Material fact notices(Continued)

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

The necessary funds to cover the charges of the plan are the responsibility of the applicable agencies of the Government of the State of São Paulo. This was implemented according to an agreement made on December 10, 1999 between the São Paulo State Finance Department and the Company, effective until December 31, 2003. Such procedure was regularly performed until December 2003 by Fundação CESP, with funds from the State Finance Department, transferred by CTEEP. From January 2004 onwards, the State Finance Department began to directly process those payments, without the participation of CTEEP and Fundação CESP.

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

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

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Notes to financial statements (Continued)
June 30, 2010
(In thousands of reais)

38. Supplementary pension plan regulated by state Law No. 4819/58 (Continued)

a) Material fact notices (Continued)

(ii) *January 27, 2006*

“CTEEP - Companhia de Transmissão de Energia Elétrica Paulista, in accordance with CVM Ruling No. 358/02, announces a change in procedure by the State Finance Department, due to a recent understanding of the State Attorney General regarding the transfer of funds to CTEEP for compliance with the decision of the 49th Labor Court of São Paulo, which authorized Fundação CESP to resume processing of pension plan benefit payments established by State Law No. 4819/58 using funds received from the State of São Paulo and transferred by CTEEP. This matter has been previously addressed in Note 21 of the quarterly information of CTEEP as of September 30, 2005.

The State Finance Department transferred to CTEEP, on January 27, 2006, an amount lower than necessary to comply with the decision of the 49th Labor Court. The effective expenditure of CTEEP this month for purposes of said court decision was R\$ 19,725, transferred to Fundação CESP, having received R\$ 14,976 from the State Finance Department for this purpose. As informed by the State Finance Department, certain expenses were disallowed in that month due to the recent understanding by the State Attorney General regarding the State's responsibility in this case.

The decision of the 49th Labor Court currently applies to 5,528 beneficiaries. The State Finance Department continues directly paying 794 benefits established by State Law no. 4819/58.

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

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)
June 30, 2010
(In thousands of reais)

38. Supplementary pension plan regulated by state Law No. 4819/58 (Continued)

a) Material fact notices (Continued)

(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 amount of R\$ 12,802 to comply with the decision of the 49th Labor Court of São Paulo, which ruled that Fundação CESP must process the pension plan benefit payments established by State Law No. 4819/58 using the funds received from the State of São Paulo and transferred by CTEEP. In February, CTEEP's total expenditure to comply with said court decision was R\$ 19,652.

CTEEP continues its efforts to change the decision of the 49th Labor Court so as to transfer responsibility for the pension plan benefit payments established by State Law No. 4819/58 back to the State Finance Department and to adopt other actions to protect the Company's interests”.

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

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

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

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

38. Supplementary pension plan regulated by state Law No. 4819/58 (Continued)

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

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

c) Current situation

As a result of the aforementioned facts and by force of said decision of the 49th Labor Court of São Paulo, as well as the decision of the STJ, CTEEP passed on to Fundação CESP, in the period of September 2005 to June 2010, the amount of R\$ 1,385,042 for payment of benefits under State Law No. 4819/58, having received from the State Finance Department the amount of R\$ 928,619 for that purpose. The difference between the amount passed on to Fundação CESP and the amount reimbursed by the State Finance Department, of R\$ 456,423, is currently claimed by the Company at the administrative level (Note 7).

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.

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)
June 30, 2010
(In thousands of reais)

38. Supplementary pension plan regulated by state Law No. 4819/58 (Continued)

c) Current situation (Continued)

In view of the aforementioned, it is clear that the PGE understanding of the issue, formally stated through its PGE/SF Official Letter No. 01, 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, the 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 requests for amendment.

Except if this sentence is changed by the requests thus lodged, which Management does not consider probable, the decision of the 49th Labor Court of São Paulo will be void and the issue will be defined by the State Justice.

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

39. Subsequent events

Material fact notice

On August 20, 2010, the Company published, in the newspaper Valor Econômico and the official Gazette for the State of São Paulo (D.O.E), a market statement on payment of supplementary public share offer price made on January 9, 2007.

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Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

Analysis of quarterly income June 30

The business purpose of the Company comprises holding equity capital in other companies or ventures as a member, shareholder, joint venture or consortium member, or under any other form of business arrangement.

In the 2nd quarter of 2010, the Company recorded general and administrative expenses amounting to R\$ 649, a 70.41% decrease year on year.

Financial income amounted to revenue of R\$ 17,506, compared with R\$ 25,225 in expenses in the 2nd quarter of 2009.

Equity pickup revenue of R\$ 74,022 was recorded in this quarter, stemming from holding 37.6% of capital in CTEEP's subsidiary.

Accordingly, operating income in the 2nd quarter 2010, was R\$ 73,638, compared with operating expenses of R\$ 41,322 in the 2nd quarter 2009. As there were no non-operating transactions and the Company did not calculate income and social contribution tax payable. In addition, considering the reversal of interest on equity capital amounting to R\$ 23,663, at the close of the 2nd quarter 2010, income of R\$ 49,975 was recorded.

During the 2nd quarter 2010, the Company recorded receivables of R\$ 23,663 under the heading interest on equity capital from the subsidiary CTEEP.

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

Analysis of quarterly income June 30 (Continued)

Analysis of quarterly income at June 30

	In thousands of reais	
	2010	2009
Gross operating revenue	461,959	476,076
Deductions from operating revenue	(52,712)	(62,958)
Net operating revenue	409,247	413,118
Cost of services / general and administrative expenses	(126,318)	(108,970)
Financial income	(68,346)	(106,376)
Other expenses, net	(14,316)	(17,218)
Operating income	200,267	180,554
Income from discontinued operations		
Capital gains/ losses	(3,249)	-
Income before income and social contribution taxes		
Income and social contribution taxes	(63,485)	(65,787)
Reversal of interest on equity capital	39,263	39,986
Non-controlling shareholders equity holdings	(122,822)	(137,383)
Net income for the period	49,974	17,370
Quantity of shares at the end of the period (in thousands)	1,434,469	840,625
Earnings (loss) per share at the end of the period		
R\$	0,03484	0.02066

Gross operating revenue fell 3%, to R\$ 461,959 thousand in the 2nd quarter of 2010, compared with R\$ 476,076 thousand in the 2nd quarter of 2009. This was mainly due to the setting up of a provision for weighted average cost of capital (WACC) (Note 24 (a) (ii)) and the reduction in consumption of free customers, partially offset in the readjustment of IGP-M on the 2008/2009 cycle.

There was a 16.3% decrease on operating revenue which reached R\$ 52,712 thousand in the 2nd quarter of 2010, compared with R\$ 62,958 thousand in the same period of 2009, due to a 22.8% reduction in regulatory charges, reflecting a fall in the consumption of free customers as mentioned above.

Net operating income fell 0.9% amounting to R\$ 409,247 thousand in the 2nd quarter 2010 compared with R\$ 413,118 thousand in the same period of 2009.

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

Operating costs and general and administrative expenses increased 15.9%, reaching R\$ 126,318 thousand in the 2nd quarter of 2010 compared with R\$ 108,970 thousand in the same period of 2009. This increase is mainly due to the 74.4% decrease in the actuarial gain in the supplementary private pension plan together with increases in expenses with personnel, materials and other expenses partially offset by the reduction in contingency expenses.

The reduction in actuarial gain for the supplementary private pension plan is mainly due to the Company having adopted the practice of recording the actuarial gain up to the limit of the actuarial liability and not recognizing any actuarial asset.

Personnel expenses increased 6.2% mainly due to a collective bargaining agreement of granted in August 2009.

The variation identified in materials was due to a reclassification of expenses to construction in progress posted in the 2nd quarter of 2009 (R\$ 2,357).

Other expenses increased compared with the 2nd quarter 2009, mainly due to the increases in IPTU (R\$ 1,254) and sponsorship of cultural events under the Rouanet Law (R\$ 1,618).

Contingency expenses fell, mainly due to a revision of losses in some proceedings.

The EBITDA margin was 81.3%, totaling R\$ 332,806 thousand in the 2nd quarter of 2010 in comparison with 85.4% – R\$ 352.909 thousand in the same period in 2009.

Financial income (expenses) amounted to R\$ 68,346 thousand in 2010, recording a reduction of 35.7% compared with R\$ 106,376 thousand in the 2nd quarter 2009 mainly due to charges on debentures issued in January 2010.

Non-operating income of R\$ 3,249 refers to the adjustment in the investment amount by the equity pick-up method after subscription of shares in CTEEP on April 23, 2010.

Expenses with income and social contribution taxes fell 3.5% amounting to R\$ 63,485 thousand in the 2nd quarter of 2010 compared with R\$ 65,787 thousand in the same period of 2009. The effective rate of income and social contribution taxes was 32.2% in the 2nd quarter of 2010 compared with 29.7% in the 2nd quarter of 2009.

ISA Capital do Brasil S.A.

Notes to financial statements (Continued)

June 30, 2010

(In thousands of reais)

Due to the matters described above and after deduction of equity held by non-controlling shareholders amounting to R\$ 122,822, which represents 62.39% of the total capital in the CTEEP subsidiary, and the reversal of interest in equity income amounting to R\$ 39,263, net income in the 2nd quarter 2010 totaled R\$ 49,974 thousand, amounted to 187.7 % higher than the R\$ 17,370 thousand recorded in the 2nd quarter of 2009.

- 1) Equity holding by type and class, for shareholders owning more than 5% of shares of each type and class in the Company's capital, directly or indirectly, up to the level of individual shareholder:

Shareholders	6.30.2010					
	Common		Preferred		Total	
	Quantity	%	Quantity	%	Quantity	%
ISA Interconexión Eléctrica S.A.						
Ministerio de Hacienda Y Bonds	569,472,561	52.08	-	-	569,472,561	52.08
Empresa Pública de Medellín	109,350,775	10.00	-	-	109,350,775	10
Empresa Colombiana de Petróleos - ECOPETROL	58,925,480	5.39	-	-	58,925,480	5.39
Treasury	17,820,122	1.63	-	-	17,820,122	1.63
Others	337,912,558	30.90	-	-	337,912,558	30.9
	<u>1,093,481,496</u>	<u>100</u>	<u>-</u>	<u>-</u>	<u>1,093,481,496</u>	<u>100</u>
Empresa Pública de Medellín						
Municipio de Medellín	4,223,308	100	-	-	4,223,308	100
Other	4	0.00	-	-	4	0.00
	<u>4,223,312</u>	<u>100</u>	<u>-</u>	<u>-</u>	<u>4,223,312</u>	<u>100</u>
Empresa Colombiana de Petróleos – ECOPETROL						
Ministerio da Hacienda Y Bonds	3,008,720	100	-	-	3,008,720	100
Other	8	0.00	-	-	8	0.00
	<u>3,008,728</u>	<u>100</u>	<u>-</u>	<u>-</u>	<u>3,008,728</u>	<u>100</u>

ISA Capital do Brasil S.A.

Executive Board and Board of Directors
June 30, 2010
(In thousands of reais)

Executive board

FERNANDO AUGUSTO ROJAS PINTO
Executive Chairman

CRISTIAN RESTREPO HERNANDEZ
Chief Financial Officer

Board of Directors

LUÍS FERNANDO ALARCÓN MANTILLA
Chairman

FERNANDO AUGUSTO ROJAS PINTO
Vice-Chairman

GUIDO ALBERTO NULE AMIN

ALFONSO CAMILO BARCO MUÑOZ

ANA MERCEDES VILLEGAS MEJIA

Accountant

CLAUDIO LUIZ PINTO DE BARROS
CRC-1SP195071/O-4