



**ISA CAPITAL DO BRASIL S.A.**  
**BALANCE SHEETS AS OF MARCH 31, 2007, AND DECEMBER 31, 2006**  
**(In thousands of Brazilian reais - R\$)**

<b>ASSETS</b>	<b>Note</b>	<b>03/31/2007</b>		<b>12/31/2006</b>	
		<b>Company</b>	<b>Consolidated</b>	<b>Company</b>	<b>Consolidated</b>
<b>CURRENT ASSETS</b>					
Cash and banks		7.128	8.687	996	12.221
Temporary cash investments	4	421.668	624.022	5.659	508.905
Dividends receivable - subsidiary		-	-	30.596	-
Consumers		-	165.646	-	164.001
Inventories		-	35.286	-	36.992
Accounts receivable - São Paulo State Finance Department	5	-	14.400	-	14.036
Allowance for doubtful accounts		-	(1.079)	-	(1.079)
Deferred income and social contribution taxes	10	-	67.443	-	126.099
Recoverable taxes	6	717	84.372	777	88.873
Escrow deposits	7	48.388	51.863	-	3.541
Prepaid expenses	8	2.788	5.452	-	3.954
Other		-	13.119	-	18.294
<b>Total current assets</b>		<b>480.689</b>	<b>1.069.211</b>	<b>38.028</b>	<b>975.837</b>
<b>NONCURRENT ASSETS</b>					
Accounts receivable - ISA's parent company	11	49.845	49.845	55.266	55.266
Accounts receivable - São Paulo State Finance Department	5	-	232.115	-	207.326
Sale of assets and rights	5	-	-	-	70.496
Allowance for doubtful accounts	9	-	-	-	(70.496)
Deferred income and social contribution taxes	10	-	86.033	-	118.974
Escrow deposits	7	-	31.952	-	31.186
Prepaid expenses	8	17.264	27.818	3.011	11.102
Other		-	3.494	-	3.494
Investments	12	2.246.012	-	1.326.920	-
Property, plant and equipment, net	13	13	3.907.017	12	3.822.077
Intangible	12	-	815.278	-	597.817
Deferred charges, net		2	2	3	3
<b>Total noncurrent assets</b>		<b>2.313.136</b>	<b>5.153.554</b>	<b>1.385.212</b>	<b>4.847.245</b>
<b>TOTAL ASSETS</b>		<b>2.793.825</b>	<b>6.222.765</b>	<b>1.423.240</b>	<b>5.823.082</b>

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



**ISA CAPITAL DO BRASIL S.A.**  
**BALANCE SHEETS AS OF MARCH 31, 2007, AND DECEMBER 31, 2006**  
**(In thousands of Brazilian reais - R\$)**

<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>Note</b>	<b>03/31/2007</b>		<b>12/31/2006</b>	
		<b>Company</b>	<b>Consolidated</b>	<b>Company</b>	<b>Consolidated</b>
<b>CURRENT LIABILITIES</b>					
Suppliers		-	46.018	-	134.967
Taxes payable	14	54	28.320	786	11.060
Loans and financing	15	510.397	510.453	792.272	792.328
Payroll and related charges	16	-	12.114	-	12.642
Voluntary termination program	17	-	198.361	-	370.880
Accrued liabilities	18	-	22.478	-	48.375
Accounts payable - Fundação CESP	19	-	7.066	-	9.615
Declared interest on capital		-	1.918	-	26.345
Proposed dividends		-	-	-	115.003
Other		<u>1.719</u>	<u>19.518</u>	<u>1.236</u>	<u>36.572</u>
<b>Total current liabilities</b>		<b><u>512.170</u></b>	<b><u>846.246</u></b>	<b><u>794.294</u></b>	<b><u>1.557.787</u></b>
<b>NONCURRENT LIABILITIES</b>					
Loans and financing	15	1.178.751	1.179.324	-	586
Accounts payable Law No. 4,819/58 - São Paulo State Finance Department	3	194.327	194.327	186.018	186.018
Accounts payable Law No. 4,819/58 - OPA	3	121.885	121.885	-	-
Accounts payable - Fundação CESP	19	-	224.045	-	222.566
Deferred income and social contribution taxes	10	-	-	-	16.374
Voluntary termination program	17	-	24.564	-	25.771
Reserve for contingencies	20	-	217.462	-	265.075
Accrued taxes	21	-	11.132	-	11.132
Special liabilities - reversal/amortization	22	-	24.053	-	24.053
Other		-	<u>12.150</u>	-	<u>11.400</u>
<b>Total noncurrent liabilities</b>		<b><u>1.494.963</u></b>	<b><u>2.008.942</u></b>	<b><u>186.018</u></b>	<b><u>762.975</u></b>
<b>DEFERRED INCOME</b>					
Negative goodwill - EPTE		-	<u>96.249</u>	-	<u>100.495</u>
<b>MINORITY INTEREST</b>		-	<b><u>2.484.636</u></b>	-	<b><u>2.958.897</u></b>
<b>SHAREHOLDERS' EQUITY</b>					
Capital	23	828.267	828.267	506.201	506.201
Accumulated deficit		<u>(41.575)</u>	<u>(41.575)</u>	<u>(63.273)</u>	<u>(63.273)</u>
		786.692	786.692	442.928	442.928
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b><u>2.793.825</u></b>	<b><u>6.222.765</u></b>	<b><u>1.423.240</u></b>	<b><u>5.823.082</u></b>

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



STATEMENT OF INCOME  
FOR THE PERIOD ENDED MARCH 31, 2007  
(In thousands of Brazilian reais - R\$, except earnings per share)

		31/3/2007	
	Note	Company	Consolidated
<b>GROSS OPERATING REVENUE</b>			
Electricity network usage charges	25	-	357.400
Other revenues		-	3.643
<b>Total gross operating revenue</b>		-	<b>361.043</b>
<b>DEDUCTIONS FROM OPERATING REVENUE</b>			
Global Reserve for Reversion (RGR)		-	(8.926)
COFINS (tax on revenue)		-	(14.833)
PIS (tax on revenue)		-	(3.217)
Regulatory asset - recognition		-	3.163
Regulatory asset - realization		-	(700)
ISS (service tax)		-	(51)
<b>Total deductions</b>		-	<b>(24.564)</b>
<b>NET OPERATING REVENUE</b>		-	<b>336.479</b>
<b>COST OF SERVICE</b>			
Personnel		(158)	(58.897)
Materials		-	(7.984)
Outside services		(862)	(20.260)
Depreciation		(3)	(42.512)
Concession regulatory charges		-	(32.988)
Reserve for contingencies		-	(16.006)
IPTU - Eletropaulo settlement		-	(35.562)
Reversal of reserve for contingencies - IPTU		-	63.524
Amortization of bond issuance expenses		(697)	(697)
Other expenses		(409)	(15.147)
<b>Total cost of service</b>		<b>(2.129)</b>	<b>(166.529)</b>
<b>GROSS PROFIT</b>		<b>(2.129)</b>	<b>169.950</b>
<b>EQUITY IN SUBSIDIARY</b>		<b>85.212</b>	<b>-</b>
<b>FINANCIAL INCOME (EXPENSES)</b>			
Amortization of goodwill		(22.900)	(22.900)
Amortization of negative goodwill		-	4.246
Financial income	26	5.008	72.547
Financial expenses	26	(38.850)	(42.824)
Gains (losses) on hedge transactions	26	(44.210)	(44.210)
Monetary variations, net	26	39.567	39.982
<b>Total financial income (expenses)</b>		<b>(61.385)</b>	<b>6.841</b>
<b>INCOME (LOSS) FROM OPERATIONS</b>		<b>21.698</b>	<b>176.791</b>
Nonoperating income		-	10.966
Nonoperating expenses		-	70.292
<b>NONOPERATING EXPENSE, NET</b>		-	<b>81.258</b>
<b>INCOME BEFORE INCOME AND SOCIAL CONTRIBUTION TAXES</b>		<b>21.698</b>	<b>258.049</b>
<b>INCOME AND SOCIAL CONTRIBUTION TAXES</b>			
Income tax - current	27	-	(1.225)
Social contribution tax - current	27	-	(438)
Income tax - deferred	27	-	(72.301)
Social contribution tax - deferred	27	-	(20.134)
<b>Total income and social contribution taxes</b>		-	<b>(94.098)</b>
<b>INCOME BEFORE MINORITY INTEREST</b>		<b>21.698</b>	<b>163.951</b>
<b>MINORITY INTEREST</b>		-	<b>(142.253)</b>
<b>NET INCOME</b>		<b>21.698</b>	<b>21.698</b>
<b>EARNINGS PER THOUSAND SHARES - R\$</b>		<b>26</b>	<b>26</b>

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



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

NOTES TO THE INTERIM FINANCIAL STATEMENTS  
FOR THE QUARTER ENDED MARCH 31, 2007 (RESTATED)  
(Amounts in thousands of Brazilian reais - R\$, unless otherwise stated)

1. OPERATIONS

ISA Capital do Brasil S.A. (the “Company”) is engaged in holding equity interests in other companies or projects, as a partner or shareholder, partner in joint ventures, member of a consortium or other type of business cooperation.

In a privatization auction held on June 28, 2006, on the São Paulo Stock Exchange (BOVESPA), pursuant to Notice SF/001/2006, the São Paulo State Government, until then the majority shareholder of CTEEP - Companhia de Transmissão de Energia Elétrica Paulista (“CTEEP”), sold 31,341,890,064 common shares owned by it, corresponding to 50.12% of the common shares issued by CTEEP.

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

Interconexión Eléctrica S.A. E.S.P. is a company with head office in Colombia, controlled by that country’s federal government, which has 59% equity interest in that company’s total capital. In addition to investments in electric power transmission in Colombia, the Company also invests in Venezuela, Ecuador, Peru and Bolivia.

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

On January 9, 2007 ISA Capital do Brasil S.A. acquired, through a public offering auction for acquisition of shares held on BOVESPA, 24,572,559,070 common shares issued by CTEEP, corresponding to 39.28% of the total of this type of shares, pursuant to the public offering notice published on December 4, 2006.

Due to this acquisition, ISA Capital do Brasil S.A. began holding the equivalent to 89.40% of voting capital and 37.46% of total capital of CTEEP. Thus, of a total of 62,558,662,803 common shares issued by CTEEP, 55,924,470,821 are owned by ISA Capital do Brasil S.A.

CTEEP, a publicly-traded company, is authorized to operate as an electric power public service concessionaire, and is principally engaged in the planning, construction and



operation of electric power transmission systems, as well as in research and development programs related to energy transmission and other activities related to available technology, and its activities are regulated and inspected by the ANEEL.

## 2. PRESENTATION OF INTERIM FINANCIAL STATEMENTS

These interim financial statements should be read together with the financial statements of the Company for the year ended December 31, 2006, prepared in conformity with Brazilian accounting practices, rules of the ANEEL (National Electric Power Agency), and standards of the CVM (Brazilian Securities Commission).

The accounting practices adopted in the preparation of these interim financial statements are consistent with the practices adopted in the preparation of the financial statements as of December 31, 2006 and prior quarters.

On February 12 and March 20, 2007, the Company entered into certain financial instrument transactions to meet its operating needs of reducing exposure to exchange risks. These risks are managed through the establishment of strategies, implementation of control systems, and determination of exposure limits. No financial instrument transactions for speculative purposes are carried out.

The Company's Management has voluntarily decided to restate the interim financial statements for the quarter ended March 31, 2007, changing the accounting practice for recognition of these financial instruments from the cash basis to the accrual basis, according to the respective contractual clauses in effect at the balance sheet date (settlement accounting). The difference between the carrying amount and the fair value is disclosed in note 29.

The other details on the recognition of these financial instruments are included in notes 15, 15(b), 26 and 29.6 to the interim financial statements.

## 3. PAYABLES FROM ACQUISITION OF THE SUBSIDIARY CTEEP

Under the Share Purchase and Sale Agreement, subject matter of the privatization auction described in note 1, the Company agrees to supplement the payment of the CTEEP share purchase price should CTEEP be released from the encumbrances related to the supplementary payments to the pension plan set forth by Law No. 4,819/58, currently challenged in courts, as described in note 31.

As of March 31, 2007, the supplementary purchase price is composed of 2 different transactions, as detailed below:

- (a) The amount of R\$194,327, arising from the acquisition of the first investment at the privatization auction held on June 28, 2006, which was recorded under the caption "Accounts payable Law No. 4819/58 – São Paulo State Finance Department" in noncurrent liabilities, with a contra entry in the amount of R\$188,895 to the caption "investments – goodwill on acquisition of subsidiary" (note 12). The difference of



R\$5,432 refers to the monetary adjustment of the obligation at the IPC-A (Extended Consumer Price Index) beginning December 31, 2005.

- (b) The amount of R\$121,885, arising from the acquisition of the third investment at the public offering auction held on January 9, 2007, which was recorded under the caption “Accounts payable Law No. 4819/59 - OPA” in noncurrent liabilities, with a contra entry in the amount of R\$120,306 to the caption “investments – goodwill on acquisition of subsidiary” (note 12). The difference of R\$1,579 refers to the monetary adjustment of the obligation at the IPC-A beginning December 31, 2005.

#### 4. TEMPORARY CASH INVESTMENTS

	03/31/2007		12/31/2006	
	<u>Company</u>	<u>Consolidated</u>	<u>Company</u>	<u>Consolidated</u>
Temporary cash investments:				
CDB (bank certificates of deposit) - floating -				
CDI (interbank deposit rate)	-	177,938	-	445,622
FIF Estatais (investment fund)	-	-	-	34,099
CDB floating CDI - restricted (a)	-	-	-	22,623
FIF Estatais (investment fund) - restricted (a)	-	24,416	-	902
Resale commitments (b)	47	47	5,659	5,659
In foreign bank (c)	<u>421,621</u>	<u>421,621</u>	<u>-</u>	<u>-</u>
Total	<u>421,668</u>	<u>624,022</u>	<u>5,659</u>	<u>508,905</u>

(a) CDB floating CDI - restricted

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

(b) Resale commitments

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

(c) In foreign bank

Refers to an investment, originally in foreign currency, in the amount of US\$ 204 million, in an account at LaSalle Bank National Association, in Chicago, USA. This investment is made in Fundo LaSalle Enhanced Liquidity Management, with yield of 4.735% per year and immediate liquidity (note 32).



## 5. ACCOUNTS RECEIVABLE - SÃO PAULO STATE FINANCE DEPARTMENT

	03/31/2007			12/31/2006		
	Consolidated			Consolidated		
	Current	Non- -Current	Total	Current	Non- -Current	Total
Agreement for Acknowledgment and Consolidation of Debts	11,922	51,663	63,585	11,620	53,260	64,880
Pension benefit payments – Law No. 4,819/58	-	115,753	115,753	-	92,916	92,916
Sale of real property	2,478	10,738	13,216	2,416	11,070	13,486
Labor claims - Law No. 4,819/58	-	53,961	53,961	-	50,080	50,080
Family allowance – Law No. 4,819/58	-	2,218	2,218	-	2,218	2,218
Allowance for doubtful accounts	-	(2,218)	(2,218)	-	(2,218)	(2,218)
Total	<u>14,400</u>	<u>232,115</u>	<u>246,515</u>	<u>14,036</u>	<u>207,326</u>	<u>221,362</u>

## 5.1. Agreement for Acknowledgment and Consolidation of Debts

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

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

The amount of R\$115,753 refers to the remaining balance of pension benefit payments under State Law No. 4,819/58, of which R\$1,426 is supported by individual injunctions and relates to the period from January to August 2005, and R\$114,327 is supported by a decision of the 49th Labor Court of São Paulo and relates to the period from September 2005 to March 2007, which are paid by Fundação CESP using funds received from the State government and transferred to CTEEP (note 31.3). This balance is not monetarily adjusted and is not subject to any kind of interest until it is approved by government for payment to CTEEP.

## 5.3. Sale of real property

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



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

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

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

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

CESP made advances for monthly family allowance payments established by State Law No. 4,819/58, which were transferred to CTEEP upon the partial spin-off of CESP.

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

## 6. RECOVERABLE TAXES

	<u>03/31/2007</u>		<u>12/31/2006</u>	
	<u>Company</u>	<u>Consolidated</u>	<u>Company</u>	<u>Consolidated</u>
Income tax:				
Overpaid	-	26,290	-	26,290
Withheld at source	717	11,663	777	1,180
Legal entity - third parties	-	69	-	54
Subtotal	<u>717</u>	<u>38,022</u>	<u>777</u>	<u>27,524</u>
Social contribution tax:				
Overpaid	-	8,272	-	8,272
Withheld at source	-	801	-	324
Subtotal	-	<u>9,073</u>	-	<u>8,596</u>
COFINS:				
Credits - Regulatory Instruction (IN) No. 658/06	-	8,396	-	21,655
Withheld at source	-	479	-	502
Subtotal	-	<u>8,875</u>	-	<u>22,157</u>
PIS:				
Credits - Regulatory Instruction (IN) No. 658/06	-	27,497	-	29,618
Withheld at source	-	104	-	109
Subtotal	-	<u>27,601</u>	-	<u>29,727</u>
Other	-	801	-	869
Total	<u>717</u>	<u>84,372</u>	<u>777</u>	<u>88,873</u>



## 7. ESCROW DEPOSITS - COMPANY

In January 2007, the Company raised US\$554 million with issuance of bonds, which had a demand for US\$4.6 billion.

The issuance, which had JP Morgan and ABN AMRO Bank as agents, was divided into two tranches: the first one, in the amount of US\$200 million, with a five-year term and call option in 2010 and 2011; the second one, in the amount of US\$ 354 million, with a ten-year term (note 15).

As provided for in the agreement, the Company made two deposits at Bank of New York, in Chicago, one of US\$ 7,875 and US\$ 15,576, as guarantee for the two funding operations described above, respectively. These deposits amount to R\$ 48,388 as of March 31, 2007.

The interest will be paid semiannually, the first of which in July 2007.

## 8. PREPAID EXPENSES

During the bond issuance process concluded in January 2007 (notes 7 and 15), the Company incurred expenses and fees in the total amount of R\$ 20,749. These expenses were fully capitalized and are being amortized over the term of the original agreements, as described in the table below:

	03/31/2007		12/31/2006	
	Company	Consolidated	Company	Consolidated
Expenses on bond contract (tranche 1) with maturity in 5 years and amount of US\$ 200 million	7,490	7,490	-	-
Expenses on bond contract (tranche 2) with maturity in 10 years and amount of US\$ 354 million	13,259	13,259	3,011	3,011
Regulatory asset	-	10,554	-	8,091
Others prepaid expenses	-	2,664	-	3,954
Total – expenses	20,749	33,967	3,011	15,056
Accumulated amortization as of March 31, 2007	(697)	(697)	-	-
Total expenses, net	<u>20,052</u>	<u>33,270</u>	<u>3,011</u>	<u>15,056</u>
Total prepaid expenses – current	2,788	5,452	-	3,954
Total prepaid expenses – noncurrent	17,264	27,818	3,011	11,102
	<u>20,052</u>	<u>33,270</u>	<u>3,011</u>	<u>15,056</u>

## 9. SALE OF ASSETS AND RIGHTS - CONSOLIDATED

### Technical Equipment Maintenance Center (CETEMEQ)

On April 13, 1998, a Private Agreement for Assignment and Transfer of Rights and Obligations was executed by and between EPTE - Empresa Paulista de Transmissão de Energia Elétrica S.A. (“EPTE”), merged into CTEEP on November 10, 2001, and Eletropaulo Metropolitana Eletricidade de São Paulo S.A. (“Eletropaulo”) relating to the real property located at Rua Lavapés, 463, Cambuci, São Paulo, for the market price of R\$70,496, payable in 21 equal and successive monthly installments, with maturity on the first business day of each month, beginning May 1998. In view of the contestation by



Eletropaulo of the aforementioned amount and the fact that the installments had not been received, EPTE filed collection lawsuits on February 11, 1999 and October 18, 2000, with the 1<sup>st</sup> and 36<sup>th</sup> Civil District Courts of the Central Jurisdiction of São Paulo, respectively.

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

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

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

## 10. DEFERRED INCOME AND SOCIAL CONTRIBUTION TAXES

### 10.1. Assets

In current assets of the CTEEP, the balance of R\$67,433, of which R\$49,590 in income tax and R\$17,853 in social contribution tax, refers to the tax impacts on the provision for the Voluntary Termination Program.

Included in noncurrent assets are tax credits available for offset against future taxable income, calculated on temporarily nondeductible provisions controlled in part "B" of



the Taxable Income Computation Book (LALUR), and arising from the following provisions:

	03/31/2007			12/31/2006		
	Consolidated			Consolidated		
	Income tax	Social contribution tax	Total	Income tax	Social contribution tax	Total
Reserve for labor contingencies	37,139	13,370	50,509	34,660	12,478	47,138
Reserve for civil contingencies	256	92	348	256	92	348
Reserve for tax contingencies	17,194	6,189	23,383	31,552	11,359	42,911
Reserve for social security contingencies	1,706	614	2,320	1,706	614	2,320
Allowance for doubtful accounts	824	297	1,121	17,198	297	17,495
Voluntary Termination Program	<u>6,141</u>	<u>2,211</u>	<u>8,352</u>	<u>6,443</u>	<u>2,319</u>	<u>8,762</u>
Total	<u>63,260</u>	<u>22,773</u>	<u>86,033</u>	<u>91,815</u>	<u>27,159</u>	<u>118,974</u>

## 10.2. Liabilities

The balance of R\$16,374 in noncurrent liabilities in December 31, 2006, refers to income tax on gains from sale of CETEMEQ (note 9).

## 11. ACCOUNTS RECEIVABLE – ISA’S PARENT COMPANY

	03/31/2007	12/31/2006
	Company and consolidated <u>Noncurrent</u>	Company and consolidated <u>Noncurrent</u>
Foreign currency loan: (a)		
Principal	51,146	51,146
Interest	1,045	24
Exchange variation	<u>(2,346)</u>	<u>(262)</u>
Subtotal	<u>49,845</u>	<u>50,908</u>
Accounts receivable - income tax: (b)		
Principal	-	4,402
Exchange variation	-	<u>(44)</u>
Subtotal	-	<u>4,358</u>
Total	<u>49,845</u>	<u>55,266</u>

- (a) This loan refers to the full transfer of the loan from ABN Amro Bank, denominated in U.S. dollars, in the original amount of US\$23,800 thousand, maturing in a lump sum on July 19, 2007, subject to interest calculated based on LIBOR, plus 3.00% per year. The Company maintained the same assumptions for this transaction; however, the maturity was agreed for a period of 8 years, in a lump sum.
- (b) This amount corresponds to the amount to be reimbursed by Interconexión Eléctrica S.A. E.S.P. (ISA’s parent company), referring to the income tax on interest remittance by the Company on December 28, 2006 in the gross amount.



## 12. INVESTMENT IN SUBSIDIARY

	<u>03/31/2007</u>	<u>12/31/2006</u>
	<u>Company</u>	<u>Company</u>
<u>Cost:</u>		
Investee's shareholders' equity	3,972,970	3,745,505
Ownership interest percentage (e)	37.4615%	21.0014%
Investment	<u>1,488,334</u>	<u>786,608</u>
<u>Goodwill:</u>		
Goodwill on acquisition of shares until December 31, 2006 (c)	380,484	380,484
Goodwill on acquisition of shares on January 9, 2007 (d)	115,143	-
Goodwill arising from shareholders' obligations - OPA – Law No. 4,819/58 – supplement (b)	120,306	-
Goodwill – other costs	1,940	-
Goodwill arising from debt to the State Finance Department – Law No. 4,819/58 (a)	<u>188,895</u>	<u>186,018</u>
Subtotal	<u>806,768</u>	<u>566,502</u>
Accumulated amortization of goodwill	<u>(49,090)</u>	<u>(26,190)</u>
Goodwill, net (f)	<u>757,678</u>	<u>540,312</u>
Total investment	<u>2,246,012</u>	<u>1,326,920</u>
<u>Change in investments and goodwill in subsidiary:</u>		
<u>Investment</u>		
Beginning balance of investments	786,608	833,224
Investment from the acquisition of OPA shares on January 9, 2007	640,482	-
Equity in subsidiary	85,212	(16,020)
Proposed dividends - current assets	<u>(23,968)</u>	<u>(30,596)</u>
Ending balance of investments	<u>1,488,334</u>	<u>786,608</u>
<u>Goodwill</u>		
Goodwill on acquisition of subsidiary	540,312	566,502
Goodwill on acquisition of OPA shares on January 9, 2007	235,449	-
Goodwill – other costs	1,940	-
Goodwill arising from debt to the State Finance Department – Law No. 4,819/58 – supplement	2,877	-
Amortization of goodwill	<u>(22,900)</u>	<u>(26,190)</u>
Ending balance of goodwill on acquisition of subsidiary (f)	<u>757,678</u>	<u>540,312</u>

(a) Note 3.a.

(b) Note 3.b.

(c) On June 28, 2006, Interconexión Eléctrica S.A. E.S.P. (company with head office in Colombia) presented the winning bid in the auction in which the shares of CTEEP were sold, conducted according to Notice SF/001/2006 on the São Paulo Stock Exchange, to sell 31,341,890,064 common shares issued by CTEEP, directly or indirectly held by the State of São Paulo, representing 50.12% of the total common shares issued by CTEEP, and offered R\$1,193,813 for all common shares auctioned. The agreement for the



purchase of CTEEP's shares was signed by the Company, which is controlled by Interconexión Eléctrica S.A. E.S.P.

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

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

- (d) On January 9, 2007 ISA Capital do Brasil S.A. acquired, through a public offering auction for acquisition of shares held on BOVESPA, 24,572,554,070 common shares issued by CTEEP, corresponding to 39.28% of the total of this type of shares, pursuant to the public offering notice published on December 4, 2006.
- (e) Due to this acquisition, ISA Capital do Brasil S.A. began holding the equivalent to 89.40% of voting capital and 37.46% of total capital of CTEEP. Thus, of a total of 62,558,662,803 common shares issued by CTEEP, 55,924,465,821 are owned by ISA Capital do Brasil S.A.
- (f) The unamortized goodwill balance is classified as intangible assets in the consolidated balance sheet.

### 13. PROPERTY, PLANT AND EQUIPMENT

	03/31/2007			12/31/2006
	Adjusted cost	Accumulated depreciation	Net book value	Consolidated Net book value
<u>Subsidiary</u>				
In service:				
Land (a)	44,680	-	44,680	44,680
Buildings, construction and improvements	581,842	(357,989)	223,853	229,183
Machinery and equipment	5,103,595	(2,341,710)	2,761,885	2,706,096
Vehicles	27,710	(25,556)	2,154	2,511
Furniture and fixtures	23,010	(13,356)	9,654	10,032
Subtotal	<u>5,780,837</u>	<u>(2,738,611)</u>	<u>3,042,226</u>	<u>2,992,502</u>
In progress	<u>880,954</u>	-	<u>880,954</u>	<u>845,847</u>
Special liabilities- (b)				
Donations received	<u>(16,176)</u>	-	<u>(16,176)</u>	<u>(16,284)</u>
Total – Subsidiary	6,645,615	(2,738,611)	3,907,004	3,822,065
Total – Company	14	(1)	13	12
Consolidated	<u>6,645,629</u>	<u>(2,738,612)</u>	<u>3,907,017</u>	<u>3,822,077</u>



In accordance with articles 63 and 64 of Decree No. 41,019, of February 26, 1957, assets and installations used in the transmission of electric power are linked to these services and cannot be retired, sold or pledged as mortgage guarantees without the prior and express authorization of the regulatory body. ANEEL Resolution No. 20/99 regulates the electric power utility concession assets, giving prior authorization for not restricting assets no longer serviceable to the concession, when intended for sale, and determining that the proceeds from the sale be deposited in a restricted bank account, and invested in the concession.

- (a) Land owned by CTEEP in São José dos Campos, whose book value is R\$114. The land has been pledged as collateral for an IPTU (municipal real estate tax) tax collection proceeding (note 20.2.).
- (b) Represented by assets received from electricity concessionaires and customers for purposes of investments in the concession.

#### 14. TAXES PAYABLE

	03/31/2007		12/31/2006	
	Company	Consolidated	Company	Consolidated
Income tax – CETEMEQ	-	16,374	-	-
COFINS (tax on revenue)	-	4,318	-	4,579
PIS (tax on revenue)	-	936	-	993
Income tax - regulatory asset (a)	-	2,639	-	2,023
Social contribution tax - regulatory asset (a)	-	950	-	728
Income tax	-	1,250	-	-
Social contribution tax	-	438	-	-
ANEEL inspection fee	-	548	-	553
Other	54	867	786	2,184
Total	<u>54</u>	<u>28,320</u>	<u>786</u>	<u>11,060</u>

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

#### 15. LOANS AND FINANCING

	03/31/2007				12/31/2006			
	Company		Consolidated		Company		Consolidated	
	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
Foreign currency-								
ABN Amro Bank (a)	421,612	-	421,612	-	748,648	-	748,648	-
Bond issuance (b)	17,398	1,178,751	17,398	1,178,751	-	-	-	-
Local currency:								
ABN Amro Bank (c)	71,387	-	71,387	-	43,624	-	43,624	-
Eletrobrás (d)	-	-	56	573	-	-	56	586
Total	<u>510,397</u>	<u>1,178,751</u>	<u>510,453</u>	<u>1,179,324</u>	<u>792,272</u>	<u>-</u>	<u>792,328</u>	<u>586</u>



- (a) Loan from ABN Amro Bank, denominated in U.S. dollars, in the original amount of US\$204 million, maturing in a lump sum on July 9, 2007, subject to interest calculated based on LIBOR, plus 1.00% per year. This loan was settled on April 11, 2007 (note 32).
- (b) Bonds in the amount of US\$554 million. The issuance, which had JP Morgan and ABN Amro Bank as agents, was divided into two tranches: the first one, in the amount of US\$200 million, with a five-year term, interest rate of 7.875% per year, and call option in 2010 and 2011; the second one, in the amount of US\$354 million, with a ten-year term and interest rate of 8.800% per year. Of the total bonds issued, 60% were placed in the United States, 36% in Europe, 2% in Latin America, and 2% in Asia

The Company's management entered into agreements to hedge against exchange risks associated with the above-mentioned bond issuance operation. This operation is divided into 2 phases:

- Hedge of principal – Contracts with ABN AMRO Bank and JP Morgan related to hedge of the two tranches. The first tranche, in the amount of US\$200 million and with a five-year term, was subject to exchange rate of R\$2.1170 and commitment to pay IGP-M (general market price index) plus 2.12% per year. The second tranche, in the amount of US\$ 354 million and with a ten-year term, was also subject to exchange rate of R\$2.1170, and commitment to pay IGP-M plus 1.68% per year.
- Hedge of interest – Currency forward contract with JP Morgan related to hedge of semiannual interest, with maturity 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 exchange rate of R\$2.1765 for payment in January 2008.

The results of this operation were as follows:

	<u>03/31/2007</u>
Current liabilities:	
Issuance of bonds – interest	16,017
Gain (loss) on hedge transaction – interest exchange risk	<u>1,381</u>
	<u>17,398</u>
Noncurrent liabilities:	
Issuance of bonds – principal	1,135,922
Gain (loss) on hedge transaction – principal exchange risk	<u>42,829</u>
	<u>1,178,751</u>

- (c) Bank credit notes - secured account with ABN Amro Bank, whose funding limit is US\$55 million, with revolving maturity every six months and interest calculated based on 100% of the CDI, plus 1.75% per year.
- (d) Refers to two agreements originally signed with Eletropaulo - Eletricidade de São Paulo S.A., that due to a partial spin-off were transferred to EPTE - Empresa Paulista de Transmissão de Energia Elétrica S.A., which was merged into CTEEP, scheduled to expire in 2021, and whose principal is repaid in the amount of R\$50 per year.



## 16. PAYROLL AND RELATED CHARGES

	<u>03/31/2007</u>	<u>12/31/2006</u>
	<u>Consolidated</u>	<u>Consolidated</u>
INSS (social security contribution)	3,335	4,322
FGTS (severance pay fund)	381	1,946
Withholding income tax	4,530	2,801
Scholarship program (a)	3,450	3,532
Other taxes payable	<u>418</u>	<u>41</u>
Total	<u>12,114</u>	<u>12,642</u>

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

## 17. VOLUNTARY TERMINATION PROGRAM

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

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

During the first quarter of the year, employee terminations totaled 604.

Of the provision recognized as of December 31, 2006, the amount of R\$ 222,925 remains, and of this amount R\$ 198,361 will be realized in 2007, and R\$ 24,564 will be realized until 2009 (this provision is composed of health care provided to employees).

## 18. ACCRUED LIABILITIES

	<u>03/31/2007</u>	<u>12/31/2006</u>
	<u>Consolidated</u>	<u>Consolidated</u>
Vacation and vacation bonus	15,441	22,200
Payroll charges on 13 <sup>th</sup> salary, vacation and vacation bonus	7,037	9,020
Employee profit sharing (a)	-	<u>17,155</u>
Total	<u>22,478</u>	<u>48,375</u>

(a) Employee profit sharing was recorded according to the terms of Decree No. 41,497/96, observing the provisions of the 2006/2007 Collective Bargaining. The full payment of this obligation occurred in March 2007.



19. ACCOUNTS PAYABLE - FUNDAÇÃO CESP

The amounts classified in current and noncurrent liabilities refer to two debt acknowledgement agreements for Financing of Actuarial Deficit with Fundação CESP, totaling R\$231,111 (R\$ 232,181 in December 31,2006), related to BPS (Settled Proportional Pension Plans), with monthly payments and final maturities scheduled for September and November 2017, adjusted based on the greater of actuarial cost variation (General Price Index - Internal Availability [IGP-DI] plus interest of 6% per year) or the TR (a managed prime rate) plus interest of 8% per year.

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

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

20. RESERVE FOR CONTINGENCIES - SUBSIDIARY

Type	03/31/2007			12/31/2006		
	Reserve	Escrow deposits	Net liabilities	Reserve	Escrow deposits	Net liabilities
Labor	148,556	(7,716)	140,840	138,639	(7,621)	131,018
Civil	1,023	-	1,023	1,023	-	1,023
Tax - IPTU (municipal real estate tax)	68,774	-	68,774	126,209	-	126,209
Social security – INSS	<u>6,825</u>	<u>-</u>	<u>6,825</u>	<u>6,825</u>	<u>-</u>	<u>6,825</u>
Total	<u>225,178</u>	<u>(7,716)</u>	<u>217,462</u>	<u>272,696</u>	<u>(7,621)</u>	<u>265,075</u>

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

Type	Likelihood of loss				Likelihood of loss			
	03/31/2007				12/31/2006			
	Consolidated				Consolidated			
	Probable	Possible	Remote	Total	Probable	Possible	Remote	Total
Labor	148,556	18,348	140,211	307,115	138,639	15,172	216,516	370,327
Civil	1,023	2,710	10,281	14,014	1,023	1,467	32,178	34,668
Tax - IPTU (municipal real estate tax)	68,774	-	-	68,774	126,209	-	-	126,209
Social security – INSS	<u>6,825</u>	<u>-</u>	<u>-</u>	<u>6,825</u>	<u>6,825</u>	<u>-</u>	<u>-</u>	<u>6,825</u>
Total	<u>225,178</u>	<u>21,058</u>	<u>150,492</u>	<u>396,728</u>	<u>272,696</u>	<u>16,639</u>	<u>248,694</u>	<u>538,029</u>

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



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

Reserves have been recognized for contingencies classified as probable loss.

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

#### 20.1. Labor

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

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

The subsidiary CTEEP recognizes a provision to cover debts with the municipal governments of São Paulo and São José dos Campos, in the amounts of R\$ 6,680 and R\$ 62,094, respectively, totaling R\$ 68,774.

The provision for the São Paulo municipal government refers to the process of rectification of areas, due to differences in CTEEP's registration data, whereas the provision for the São José dos Campos municipal government involves land undergoing expropriation.

In the quarter there was a decrease in the provision referring to the São Paulo municipal government in the amount of R\$ 63,524, arising from the settlement between Eletropaulo and CTEEP (note 9).

#### 20.3. Social security - INSS

On August 10, 2001, CTEEP received from the National Institute of Social Security (INSS) a delinquency notice for nonpayment of social security contribution on compensation paid to its employees in the form of meal tickets, morning snack and basket of food staples for the period from April 1999 to July 2001. Accordingly, management decided to recognize a reserve and make an escrow deposit amounting to R\$6,825, which was recorded in noncurrent assets, under "Escrow deposits".

### 21. ACCRUED TAXES - SUBSIDIARY

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

Accordingly, CTEEP recognized the provisions in the amount of R\$38,524, of which R\$27,392 corresponds to the rate increase, with an escrow deposit, with a total net liability of R\$11,132. This net liability refers to the increase in the tax basis, in which CTEEP



understands there will be a favorable outcome, and also has an escrow deposit in the same amount recorded in noncurrent assets, under the caption “Escrow deposits”.

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

## 22. SPECIAL LIABILITIES - REVERSAL/AMORTIZATION - SUBSIDIARY

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

## 23. SHAREHOLDERS' EQUITY

The Company was established on April 28, 2006, as a limited liability company, according to its articles of organization filed with the Division of Corporations of the State of São Paulo. On July 19, 2006, the Company was transformed into a corporation. Subscribed capital is R\$828,267, fully paid-up through March 31, 2007, financial statement date.

As of March 31, 2007, capital is represented by 828,267,200 common shares, without par value, as follows:

<u>Shareholder</u>	<u>Number of shares</u>
Interconexión Eléctrica S.A. E.S.P.	828,267,197
Luís Fernando Alarcón Mantilla	1
Fernando Augusto Rojas Pinto	1
Guido Alberto Nule Amin	1
Total	<u>828,267,200</u>

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

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

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



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

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

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

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

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

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



## 25. ELECTRICITY NETWORK USAGE CHARGES - SUBSIDIARY

Revenue from electricity network usage charges in the period ended March 31, 2007 amounted to R\$357,400, including R\$43,759, relating to new projects that began commercial operations after December 31, 1999. This revenue is composed of the following:

	three-month period ended <u>03/31/2007</u> <u>Consolidated</u>
Basic network:	
Existing assets	264,619
New investments	39,848
Surplus	<u>2,413</u>
Subtotal	<u>306,880</u>
Other transmission facilities:	
Existing assets	17,270
New investments	<u>3,911</u>
Subtotal	<u>21,181</u>
Charges:	
Fuel Consumption Account (CCC)	18,661
Energy Development Account (CDE)	11,253
Alternative Source Incentive Program (PROINFA)	<u>2,559</u>
Subtotal	<u>32,473</u>
Adjustment	<u>(3,134)</u>
Total	<u>357,400</u>

## 25.1. Allowed Annual Revenue (RAP) of Miguel Reale Substation

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

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

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



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

On March 23, 2006, through Official Letter No. OF/F/1,372/2006, CTEEP filed an Administrative Appeal with ANEEL, requesting a review of the SFF's position.

## 26. FINANCIAL INCOME (EXPENSES)

	03/31/2007	
	<u>Company</u>	<u>Consolidated</u>
Income:		
Income from temporary cash investments	3,731	13,975
Interest on accounts receivable - State Finance Department	-	1,124
Interest on loans	1,021	1,021
Monetary adjustment – CETEMEQ	-	54,769
Monetary adjustment of tax credits PIS/COFINS	-	1,223
Other	<u>256</u>	<u>435</u>
Subtotal	<u>5,008</u>	<u>72,547</u>
Expenses:		
Debt charges	(33,359)	(34,628)
CPMF (tax on banking transactions)	(5,004)	(7,329)
RGR (global reserve for reversion)	-	(279)
Other	<u>(487)</u>	<u>(588)</u>
Subtotal	<u>(38,850)</u>	<u>(42,824)</u>
Monetary variations:		
Assets	69,922	70,781
Liabilities	<u>(30,355)</u>	<u>(30,799)</u>
Subtotal	<u>39,567</u>	<u>39,982</u>
Financial instruments:		
Gains (losses) on hedge transactions	<u>(44,210)</u>	<u>(44,210)</u>
Total – net	<u>(38,485)</u>	<u>25,495</u>

## 27. INCOME AND SOCIAL CONTRIBUTION TAXES

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



## 27.1. Reconciliation of income and social contribution taxes

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

	03/31/2007		
	Consolidated		
	Income	Social	
	tax	contribution	Total
		tax	
<u>Income statement – current expense:</u>			
Income before taxes	258,049	258,049	
Reserve for labor contingencies	9,916	9,916	
Reserve for tax contingencies – IPTU	6,090	6,090	
Negative goodwill on acquisition of investments	(4,246)	(4,246)	
Reversal of provisions	(326,064)	(325,996)	
Regulatory asset – Recognition	(3,163)	(3,163)	
Regulatory asset – Realization	700	700	
Goodwill amortization	22,900	22,900	
Monetary variation, net	(39,509)	(39,509)	
Losses on hedge transactions	44,210	44,210	
Other	224	-	
Income (loss) adjusted	(30,893)	(31,049)	
Tax loss for the period - Company	<u>35,913</u>	<u>35,913</u>	
Income - tax basis	<u>5,020</u>	<u>4,864</u>	
Rate of 15%	(753)	-	
Rate of 10%	(496)	-	
Rate of 9%	-	(438)	
Tax incentives	24	-	
Provision for income and social contribution taxes	<u>(1,225)</u>	<u>(438)</u>	<u>(1,663)</u>
<u>Income statement – deferred expense:</u>			
Reserve for labor contingencies	2,479	892	
Realization of provision – IPTU (municipal real estate tax)	(14,358)	(5,170)	
Realization of provision – allowance for doubtful accounts	(16,374)	-	
Realization of provision – voluntary termination program	(43,432)	(15,692)	
Recognition of provision – Other	(616)	(164)	
Deferred income and social contribution taxes	<u>(72,301)</u>	<u>(20,134)</u>	<u>(92,435)</u>
Total expense	<u>(73,526)</u>	<u>(20,572)</u>	<u>(94,098)</u>

## 27.2 Calculation of tax loss carryforwards - Company

As of March 31, 2007, the Company's balance of unrecorded tax credits is R\$12,210, which can only be offset with the generation of future taxable income at the rate of 30% per year.



## 28. CONCESSIONS - SUBSIDIARY

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

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

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

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

## 29. FINANCIAL INSTRUMENTS

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

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

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

### 29.1. Credit Risk - subsidiary

CTEEP has agreements with the ONS (National Electric System Operator), concessionaires and other agents for regulating the provision of services related to the basic network for 212 users, with a bank guarantee clause. Likewise, CTEEP has



agreements regulating the provision of services in other transmission facilities with 32 concessionaires and other agents, with a bank guarantee clause.

#### 29.2. Price Risk - subsidiary

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

#### 29.3. Liquidity Risk - subsidiary

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

#### 29.4. Interest Rate Risk – Company and consolidated

The Company has a foreign currency-denominated loan agreement with ABN Amro Bank, totaling US\$204 million, payable in a lump sum in July 2007. This agreement is monetarily updated at the rate of 1% per year, plus six-month LIBOR (note 15). No financial instrument was entered into to swap variable interest rate on this transaction for fixed interest rate. This agreement was settled on April 11, 2007.

The Company has also a bank credit note - secured account with ABN Amro Bank, whose funding limit is US\$55 million, with revolving maturity every six months and interest calculated based on 100% of the CDI, plus 1.75% per year (note 15). No financial instrument was entered into to swap variable interest rate on this transaction for fixed interest rate.

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

#### 29.5. Exchange Risk – Company and consolidated

The Company has transactions involving financial instruments to hedge against the effects of exchange variations on their liabilities (bonds) or net exposure in US dollars. Non-cash hedge transactions are used to swap the foreign exchange variations on liabilities for the General Market Price Index (IGP-M) plus spread from 1.68% to 2.12% p.a. for the principal amount of the bond issuance transaction and also to hedge their semiannual interest. Loss on these transactions, in the amount of R\$ 44,210 as of March 31, 2007, was fully recognized in the statement of income, under "gains (loss) on hedge transactions", and recorded as an increase in the corresponding loans and financing. The details of the transactions are as follows:

- Hedge of principal – Contracts with ABN AMRO Bank and JP Morgan related to hedge of the two tranches. The first tranche, in the amount of US\$200 million and with a five-year term, was subject to exchange rate of R\$2.1170 and commitment to pay IGP-M (general market price index) plus 2.12% per year. The second tranche, in the amount of US\$ 354 million and with a ten-year term,



was also subject to exchange rate of R\$2.1170, and commitment to pay IGP-M plus 1.68% per year.

- Hedge of interest – Currency forward contract with JP Morgan related to hedge of semiannual interest, with maturity 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 exchange rate of R\$2.1765 for payment in January 2008.

The gains (losses) on these transactions are described in note 15.

#### 29.6. Fair value

As of March 31, 2007, the fair values of temporary cash investments approximate the carrying amounts recorded in the interim financial statements due to their short-term nature. The fair values of loans and financing approximate their carrying amounts recorded in the interim financial statements, although these financial instruments have variable interest rates.

The carrying amounts and fair values of swap and currency forward transactions are as follows.

	March 31, 2007	
	Carrying amount (*)	Fair value
Loans and financing (Bond issuance):		
Swap transactions (note 15(b)) – principal	1,178,751	1,208,208
Currency forward transaction (note 15 (b)) – interest	17,398	17,347
Total	1,196,149	1,225,555

(\*) The Company's interim financial statements were prepared in conformity with Brazilian accounting practices, specially the financial instruments, which were recorded on an accrual basis, based on the respective contractual clauses in effect at the balance sheet date.

#### 30. COLLECTION LAWSUIT BY ELETROBRÁS AGAINST ELETROPAULO AND EPTE

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

Under the partial spin-off protocol of Eletropaulo, made on December 31, 1997 and that resulted in the establishment of EPTE - Empresa Paulista de Transmissão de Energia Elétrica S.A. and other companies, Eletropaulo is solely liable for obligations of any kind referring to acts until the spin-off date, except for contingent liabilities whose provisions



had been allocated to the merging companies. In the case in question, at the time of the spin-off, there was no allocation to EPTE of any provision for such purpose, leaving it clear that Eletropaulo was exclusively liable for said contingency. At the time of the spin-off there was only the transfer to EPTE assets of an escrow deposit in the historical amount of R\$4.00, made in 1988 by Eletropaulo, referring to the amount that it understood to be owed to ELETROBRÁS regarding the balance of the aforementioned financing agreement, and allocation to EPTE's liabilities of the same amount referring to this debt.

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

On September 26, 2003, a decision of the Court of Justice of the State of Rio de Janeiro was published, excluding Eletropaulo from the execution of the aforementioned sentence. Due to these facts, ELETROBRÁS filed, on December 16, 2003, a Special Appeal in the Superior Court of Justice and an Extraordinary Appeal in the Federal Supreme Court to maintain the aforementioned collection regarding Eletropaulo. Appeals similar to those of ELETROBRÁS were filed by CTEEP, and the Company's Special Appeal is already registered with the Superior Court of Justice under No. 809,672.

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

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

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

The total contingency is currently estimated at approximately R\$ 881,605.



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

## 31.1. Significant Event

- July 19, 2005

*“In compliance with CVM Instruction No. 358/02, CTEEP - Companhia de Transmissão de Energia Elétrica Paulista clarifies aspects related to the supplementary pension plan regulated by State Law No. 4,819/58. This plan applies to employees hired through May 13, 1974, as mentioned in Note 22.1. to the financial statements of the Company as of December 31, 2004. The necessary funds to cover the charges of the plan are the responsibility of the responsible agencies of the Government of the State of São Paulo; this was implemented according to an agreement made on December 10, 1999 between the São Paulo State Finance Department and the Company, effective until December 31, 2003. Such procedure was regularly performed until December 2003 by Fundação CESP, with funds from the State Finance Department, transferred by CTEEP. In January 2004, the Finance Department began to directly process those payments, without the participation of CTEEP and Fundação CESP.*

*The decision of the 49<sup>th</sup> Labor Court of São Paulo was communicated to CTEEP on July 11, 2005 (lawsuit No. 1,339/2005-1), authorizing Fundação CESP to resume processing the payment of benefits established by State Law No. 4,819/58, according to the respective regulation, in the same manner that had been made until December 2003, with funds transferred by CTEEP. On July 13, 2005, the 49<sup>th</sup> Labor Court of São Paulo gave 60 days for the fulfillment of this decision. There is also on the website of the Regional Labor Court of São Paulo a summary of a similar decision (lawsuit SDC No. 20058200400002000) of June 30, 2005, determining that Fundação CESP, using the funds transferred by CTEEP, may process again the beneficiaries’ retirement and pension payments established by State Law No. 4,819/58; such decision has not yet been published, nor has the Company been notified thereof.*

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

- January 27, 2006

*“CTEEP - Companhia de Transmissão de Energia Elétrica Paulista, in accordance with CVM Instruction No. 358/02, announces a change in procedure by the State Finance Department, due to a recent understanding of the State*



*Attorney General regarding the transfer of funds to CTEEP for compliance with the decision of the 49<sup>th</sup> Labor Court of São Paulo, which authorized Fundação CESP to once again process the pension plan benefit payments established by State Law No. 4,819/58 using funds received from the State of São Paulo and transferred by CTEEP. This matter has been previously addressed in Note 21 of the interim financial statements of CTEEP as of September 30, 2005.*

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

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

- February 24, 2006

*"CTEEP - Companhia de Transmissão de Energia Elétrica Paulista, in accordance with CVM Instruction No. 358/02, announces, supplementing the information included in the Significant Event Notice of January 27, 2006, that the State Finance Department transferred to CTEEP in February 2006 the amount of R\$12,802 to comply with the decision of the 49<sup>th</sup> Labor Court of São Paulo, which ruled that Fundação CESP must process the pension plan benefit payments established by State Law No. 4,819/58 using the funds received from the State of São Paulo and transferred by CTEEP. In February, CTEEP's total expenditure to comply with said court decision was R\$19,652.*

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

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

On April 27, 2006, the 49<sup>th</sup> Labor Court of São Paulo rendered a decision on the above-mentioned lawsuit, considering valid, in part, the claim at issue and maintaining the effects of the early relief previously granted (Significant Event Notice of July 19,



2005), in addition to ordering the payment of amounts falling due. On May 8, 2006, CTEEP filed appeals requesting clarification of the decision and amendment of certain aspects thereof.

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

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

### 31.3. Current Situation

As a result of the aforementioned facts and by force of said decision of the 49<sup>th</sup> Labor Court of São Paulo, as well as the decision of the Superior Court of Justice, CTEEP passed on to Fundação CESP, in the period from September 2005 to March 2007, the amount of R\$424,575 for payment of benefits under State Law No. 4,819/58, having received from the State Finance Department the amount of R\$310,248 for that purpose. The difference between the amount passed on to Fundação CESP and the amount reimbursed by the State Finance Department, of R\$114,324, is being claimed by the Company at the administrative level (note 5.2).

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



excluding possible benefits, established by the related regulation, that surpass or that are in conflict with the specific legislation.

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

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

## 32. SUBSEQUENT EVENTS

On April 11, 2007, the Company settled the US\$204 million loan from ABN Amro Bank and JP Morgan (note 15). This settlement was made with the same funds that were invested in LaSalle Bank (note 4).



## COMMENT ON THE COMPANY'S PERFORMANCE FOR THE QUARTER

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

On January 4, 2007, the Brazilian Securities Commission (CVM) granted ISA registration as a “Publicly-Traded Company”.

On January 9, 2007 ISA Capital do Brasil S.A. acquired, through a public offering auction for acquisition of shares held on BOVESPA, 24,572,559,070 common shares issued by CTEEP, corresponding to 39.28% of the total of this type of shares, pursuant to the public offering notice published on December 4, 2006.

Due to this acquisition, ISA Capital do Brasil S.A. began holding the equivalent to 89.40% of voting capital and 37.46% of total capital of CTEEP. Thus, of a total of 62,558,662,803 common shares issued by CTEEP, 55,924,470,821 are owned by ISA Capital do Brasil S.A.

On January 29, 2007, the Company concluded a successful transaction in the international capital market, with issuance of bonds in the amount of US\$554 million. The issuance, which had J.P.Morgan and ABN Amro Bank as agents, was divided into two tranches (senior notes), the first one, in the amount of US\$200 million, with a 5-year term, interest rate of 7.875% per year, with call option in 2010 and 2011, maturing in 2012, and the second one, in the amount of US\$354 million, with a ten-year term and interest rate of 8.800% per year, maturing in 2017 (Notes). Of the total issuance, 60% was distributed in the United States, 36% in Europe, 2% in Latin America, and 2% in Asia. Bonds are listed on the Luxembourg Stock Exchange and may be traded on the NASDAQ Stock Exchange Portal Market.

This issuance was successful due to the investors' confidence in the operation's financial structure, ISA Group's support to its investments in Brazil, positive projection of CTEEP - Companhia de Transmissão de Energia Elétrica Paulista in the Brazilian electric power sector, and the international-level credit risk ratings by Standard & Poor's (BB – positive outlook) and Fitch Ratings (BB – stable outlook). These ratings are similar to the Federative Republic of Brazil ratings and reflect the low risk of the electric power transmission business and the outlook for expansion in this sector.

Funds from the issuance of notes were used to settle loans obtained by the Company from J.P. Morgan and ABN Amro Bank. In March 2007, the Company settled the loan of US\$23.8 million, and in April the loan of US\$204 million.

As a result of the issuance of bonds, ISA signed specific hedge contracts as a hedge against exchange risks. This transaction is divided into two phases, as follows:

- Principal Coverage – Agreements with ABN Amro Bank and JP Morgan related to the coverage of two tranches, the first in the amount of US\$200 million, with a 5-year term. This coverage was contracted at the exchange rate of R\$2.1170, based on IGP-M (general market price index) plus 2.12% per year. The second tranche, of US\$354



million, with a 10-year term, was also contracted at the exchange rate of R\$2.1170, based on IGP-M plus 1.68% per year.

- Interest Coverage – Currency forward contract with JP Morgan related to the coverage of semiannual interest maturing in July 2007 and January 2008, corresponding to the two tranches. This coverage was contracted at the exchange rate of R\$2.1190 for payment in July 2007 and at R\$2.1765 for payment in January 2008.

In the first quarter of 2007, ISA recorded Operating Expenses in the amount of R\$2,129. This amount is composed of Personnel Expenses of R\$158, Outside Services of R\$862, Depreciation of R\$3, Amortization of Bond Issuance Expenses of R\$697, and Other Expenses of R\$409.

In the same period, the Company reported equity in subsidiary of R\$85,212 arising from the 37.46% interest in the total capital of the subsidiary CTEEP.

Financial income (expense) was negative, totaling R\$ 61,385.

Accordingly, Income from Operations for the quarter was R\$ 21,698. As there were no nonoperating transactions and the Company did not have income and social contribution taxes payable, the first quarter ended with a Net Income of R\$ 21,698.



## COMMENT ON THE COMPANY'S PERFORMANCE - SUBSIDIARY

The subsidiary CTEEP main source of revenue is the use of its transmission system by electric power public service concessionaires and sector agents, whose annual tariffs were adjusted by means of Ratifying Resolution – RH/ANEEL – No. 355/06, in effect through June 30, 2007, being linked to the installations of the basic network and other transmission installations.

In the first quarter of 2007, Gross Operating Revenues reached R\$361,043, which, net of direct taxes and charges, resulted in Net Operating Revenues of R\$336,479, up 13.4%, compared to R\$296,836 for the same quarter of the prior year.

Operating Expenses directly manageable by Management, comprising personnel, materials, outside services and others, in the amount of R\$100,859, represented 30.0% of Net Operating Revenues.

For the first quarter of 2007, Gross Profit, in the amount of R\$172,079, was 67.5% higher than the R\$102,759 for the same quarter of 2006.

EBITDA, expressed by Gross Profit plus Depreciation, reached R\$241,588, representing a 63.8% margin on Net Operating Revenues.

Due to the results achieved in operating management in the first quarter of 2007, the Company's Net Income was R\$227,465, 174.7% higher than the same quarter of 2006, when it was R\$82,818.

This significant increase in the quarter is basically due to the Transaction Agreement entered into by and between Eletropaulo and CTEEP, related to the disposal of CETEMEQ (Note 6 to the interim financial statements of the subsidiary CTEEP), whose effects on the Statement of Income are as follows:

**Operating Expenses**

IPTU – Eletropaulo Settlement.....	(35,562)
Reversal of Reserve for Contingencies – IPTU.....	<u>63,524</u>
	<u>27,962</u>

**Financial Income (Expenses)**

Monetary adjustment - CETEMEQ.....	<u>54,769</u>
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**Nonoperating (Expenses) Income, Net**

Reversal of allowance for doubtful accounts – CETEMEQ.....	<u>70,496</u>
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**Income and Social Contribution Taxes**

CETEMEQ/IPTU – Current.....	(6,529)
CETEMEQ/IPTU – Deferred.....	<u>(37,972)</u>
	<u>(44,501)</u>

<b>Effect on Net Income for the Period.....</b>	<u><b>108,726</b></u>
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## INDEPENDENT ACCOUNTANTS' REVIEW REPORT

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

1. We have performed a special review of the accompanying interim financial statements of ISA Capital do Brasil S.A. (the "Company") and subsidiary, consisting of the individual and consolidated balance sheets as of March 31, 2007, the related statement of income for the quarter then ended and the performance report, all expressed in Brazilian reais and prepared in accordance with Brazilian accounting practices under the responsibility of the Company's management.
2. Our review was conducted in accordance with specific standards established by the Brazilian Institute of Independent Auditors (IBRACON), together with the Federal Accounting Council, and consisted principally of: (a) inquiries of and discussions with certain officials of the Company and its subsidiary who have responsibility for accounting, financial and operating matters about the criteria adopted in the preparation of the interim financial statements, and (b) review of the information and subsequent events that had or might have had material effects on the financial position and results of operations of the Company and its subsidiary.
3. Based on our special review, we are not aware of any material modifications that should be made to the interim financial statements referred to in paragraph 1 for them to be in conformity with Brazilian accounting practices and standards established by the Brazilian Securities Commission (CVM), specifically applicable to the preparation of mandatory interim financial statements.
4. As described in Note 31, in accordance with a decision rendered by the 49th Labor Court of São Paulo, in September 2005, Fundação CESP started to process pension plan benefit payments ruled by State Law No. 4,819/58, using funds passed through by the Company, in the manner adopted until December 2003. In January 2006, the Attorney-General of the State of São Paulo expressed the opinion that the State government's responsibility is restricted to the State constitutional limits determined for payment of pension plan benefits. Since then, the State government has disallowed part of the funds passed through to the Company. The Company's management, supported by its legal counsel, understands that the payment of benefits related to this pension plan is the State government's responsibility; consequently, no obligation related to this plan is recorded in the Company's financial statements.



5. As described in note 24, ANEEL (National Electric Power Agency) granted provisional authorization for adjustments of the Allowed Annual Revenue (RAP) of the subsidiary CTEEP based on variations of the IGP-M (General Market Price Index) for the tariff cycles from July 2005 to June 2006, and from July 2006 to June 2007. The periodic review process remains in progress and is scheduled to be concluded in July 2007. Accordingly, any impacts should be applied retroactively to July 1, 2005.
6. We had previously audited the individual and consolidated balance sheets as of December 31, 2006, presented for comparative purposes, and issued an unqualified report thereon, dated February 7, 2007, with emphasis of matter paragraphs related to the matters mentioned in paragraphs 4 and 5 above. Additionally, the statement of income for the quarter ended March 31, 2006 was not presented because the Company was established on April 28, 2006.
7. As described in Note. 2 to the interim financial statements, the Company's Management has voluntarily decided to restate the interim financial statements for the quarter ended March 31, 2007, to conform the accounting practices used for recognition of its financial instruments traded in February and March 2007. Accordingly, net income for the quarter, previously presented in the amount of R\$ 58,514 thousand, was reduced to R\$ 21,698 thousand.
8. The accompanying interim financial statements have been translated into English for the convenience of readers outside Brazil.

São Paulo, June 22, 2007

DELOITTE TOUCHE TOHMATSU  
Auditores Independentes

Iara Pasian  
Engagement Partner