



ISA CAPITAL DO BRASIL S.A.

ISA Capital do Brasil S.A.
Financial Statements at
June 30, 2007
and Independent Accountants'
Review Report

(A free translation of the original in Portuguese)



Independent Accountants' Review Report

To the Board of Directors and Shareholders
ISA Capital do Brasil S.A.

- 1 We have carried out a limited review of the accounting information included in the Quarterly Information (ITR) of ISA Capital do Brasil S.A. and of ISA Capital do Brasil Ltda. and its subsidiary for the quarter and six-month period ended June 30, 2007. This information is the responsibility of the Company's management.
- 2 Our review was carried out in accordance with specific standards established by the Institute of Independent Auditors of Brazil (IBRACON), in conjunction with the Federal Accounting Council (CFC), and mainly comprised: (a) inquiries of and discussions with management responsible for the accounting, financial and operating areas of the Company with regard to the main criteria adopted for the preparation of the quarterly information and (b) a review of the significant information and of the subsequent events which have, or could have, significant effects on the Company's financial position and operations.
- 3 Based on our limited review, we are not aware of any material modifications that should be made to the quarterly information referred to above in order that such information be stated in accordance with the accounting practices adopted in Brazil applicable to the preparation of quarterly information, consistent with the Brazilian Securities Commission (CVM) regulations.
- 4 As described in Note 30, according to the decision of the 49th Labor Court of São Paulo, as from September 2005, Fundação CESP started to process the payroll of beneficiaries of the supplementary pension plan established by State Law 4.819/58, with funds transferred by the subsidiary - CTEEP - Companhia de Transmissão de Energia Elétrica Paulista, as carried out until December 2003. In January 2006, the Attorney General's Office of the State of São Paulo started to understand that the responsibility of the State Government is restricted to the constitutional state limits determined for payments of the retirement benefits. Since then, the



ISA Capital do Brasil S.A.

State Government started to disallow part of the funds transferred to the subsidiary - CTEEP - Companhia de Transmissão de Energia Elétrica Paulista. The management of the Company and of the subsidiary - CTEEP - Companhia de Transmissão de Energia Elétrica Paulista, supported by the opinion of their legal advisors, understand that the responsibility for the payments of the benefits related to this supplementary pension plan is solely the responsibility of the State Government; consequently, it does not record any obligation in relation to this plan in the Quarterly Information of the subsidiary - CTEEP - Companhia de Transmissão de Energia Elétrica Paulista.

- 5 The Quarterly Information (ITR) also includes accounting information relating to the balance sheet for the quarter ended March 31, 2007. The limited review of the Quarterly Information (ITR) for the first quarter of 2007 was conducted by other independent accountants who issued a report thereon dated June 22, 2007, with emphasis paragraphs related to: (a) the decision of the 49th Labor Court about the processing of the payroll of the pension plan governed by Law 4,819/58 (Note 30), (b) the provisional adjustment of the Allowed Annual Revenue (RAP), authorized by the National Electric Energy Agency (ANEEL), based on the variations of the General Market Price Index (IGP-M) for the tariff cycles from July 2005 to June 2006 and July 2006 to June 2007 (Note 23) and (c) the spontaneous restatement of that Quarterly Information, with the objective of adapting the accounting practices used to evaluate the financial instruments traded in February and March 2007.
- 6 The statement of operations for the quarter and six-month period ended June 30, 2006 was not presented because the Company, complying with the applicable accounting standards, has recorded its expenses in the pre-operating phase as deferred charges.

São Paulo, August 10, 2007

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5

Sérgio Eduardo Zamora
Contador CRC 1SP168728/O-4



Assets	June 30, 2007		March 31, 2007	
	Company	Consolidated	Company	Consolidated
Current assets				
Cash and banks	14	48,827	7,128	8,687
Temporary cash investments		201,138	421,668	624,022
Consumers		173,817		165,646
Inventories		32,500		35,286
Accounts receivable - São Paulo State Finance Department		14,661		14,400
Allowance for doubtful accounts		(1,079)		(1,079)
Deferred income tax and social contribution		30,041		67,443
Recoverable taxes	775	29,994	717	84,372
Escrow deposits	45,851	49,430	48,388	51,863
Prepaid expenses	2,819	4,228	2,788	5,452
Other	60	16,703		13,119
	<u>49,519</u>	<u>600,260</u>	<u>480,689</u>	<u>1,069,211</u>
Non-current assets				
Long-term receivables				
Accounts receivable - ISA's parent company	47,783	47,783	49,845	49,845
Accounts receivable - São Paulo State Finance Department		256,631		232,115
Deferred income tax and social contribution		84,103		86,033
Escrow deposits		31,537		31,952
Prepaid expenses	16,746	28,195	17,264	27,818
Other		3,494		3,494
Investments	2,273,760		2,246,012	
Property, plant and equipment	30	3,974,435	13	3,907,017
Intangible assets		792,491		815,278
Deferred charges	2	2	2	2
	<u>2,338,321</u>	<u>5,218,671</u>	<u>2,313,136</u>	<u>5,153,554</u>
Total assets	<u>2,387,840</u>	<u>5,818,931</u>	<u>2,793,825</u>	<u>6,222,765</u>



Balance Sheets
In thousands of reais

(continued)

	June 30, 2007		March 31, 2007	
	Company	Consolidated	Company	Consolidated
Liabilities and shareholders' equity				
Current liabilities				
Suppliers	141	46,185		46,018
Taxes payable	47	16,591	54	28,320
Loans and financing	127,040	177,096	510,397	510,453
Payroll and related charges		9,255		12,114
Voluntary termination program		88,162		198,361
Accrued liabilities		18,230		22,478
Accounts payable Law No. 4,819/58				
São Paulo State Finance				
Department	5,800	5,800		
Accounts payable Law No. 4,819/58 - OPA	3,637	3,637		
Accounts payable - Fundação CESP		7,273		7,066
Declared interest on capital		1,667		1,918
Other		25,178	1,719	19,518
	<u>136,665</u>	<u>399,074</u>	<u>512,170</u>	<u>846,246</u>
Non-current liabilities				
Long-term liabilities				
Loans and financing	1,180,853	1,181,414	1,178,751	1,179,324
Accounts payable Law No. 4,819/58 - São Paulo State Finance				
Department	189,904	189,904	194,327	194,327
Accounts payable Law No. 4,819/58 - OPA	119,072	119,072	121,885	121,885
Accounts payable - Fundação CESP		224,218		224,045
Voluntary termination program		22,405		24,564
Reserve for contingencies		213,605		217,462
Accrued taxes		11,132		11,132
Special liabilities		24,053		24,053
Other		11,705		12,150
	<u>1,489,829</u>	<u>1,997,508</u>	<u>1,494,963</u>	<u>2,008,942</u>
Deferred income				
Negative goodwill - EPTE		92,003		96,249
Minority interest		2,569,000		2,484,636
Shareholders' equity				
Capital	828,267	828,267	828,267	828,267
Accumulated deficit	(66,921)	(66,921)	(41,575)	(41,575)
	<u>761,346</u>	<u>761,346</u>	<u>786,692</u>	<u>786,692</u>
Total liabilities and shareholders' equity	<u><u>2,387,840</u></u>	<u><u>5,818,931</u></u>	<u><u>2,793,825</u></u>	<u><u>6,222,765</u></u>

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

(A free translation of the original in Portuguese)



Statements of Operations

Quarter Ended June 30, 2007

In thousands of reais, except earnings (loss) per thousand shares

	<u>Company</u>	<u>Consolidated</u>
Gross operating revenue		
Electricity network usage charges		373,283
Other revenues		3,702
		<u>376,985</u>
Deductions from operating revenue		
Research and development		(2,845)
Global Reserve for Reversion - RGR		(8,927)
COFINS (tax on revenue)		(15,780)
PIS (tax on revenue)		(3,422)
Regulatory asset - recognition		1,028
Regulatory asset - realization		(133)
ISS (service tax)		(58)
		<u>(30,137)</u>
Net operating revenue		<u>346,848</u>
Cost of service		
Personnel	(245)	(52,208)
Materials	(2)	(3,840)
Outside services	(584)	(20,973)
Depreciation	(2)	(42,852)
Concession regulatory charges		(30,150)
Reserve for contingencies		3,519
Amortization of bond issuance expenses	(712)	(712)
Other expenses	220	(7,484)
	<u>(1,325)</u>	<u>(154,700)</u>
Gross profit (loss)	<u>(1,325)</u>	<u>192,148</u>
Equity in results of subsidiary	<u>50,535</u>	
Financial income (expenses)		
Amortization of goodwill	(22,731)	(22,731)
Amortization of negative goodwill		4,246
Financial income	1,719	11,136
Financial expenses	(29,999)	(34,854)
Gains (losses) on hedge transactions	(86,266)	(86,266)
Monetary and exchange rate variations, net	62,719	62,682
	<u>(74,558)</u>	<u>(65,787)</u>

**Statements of Operations**
Six Months Ended June 30, 2007

In thousands of reais, except earnings (loss) per thousand shares

(continued)

	<u>Company</u>	<u>Consolidated</u>
Income (loss) from operations	(25,348)	126,361
Non-operating income		1
Non-operating expenses		(113)
Non-operating expense, net		(112)
Income before income tax and social contribution	(25,348)	126,249
Income tax and social contribution		
Income tax - current		(20,145)
Social contribution - current		(7,237)
Income tax - deferred		(29,504)
Social contribution - deferred		(10,590)
		(67,476)
Income (loss) before minority interest	(25,348)	58,773
Minority interest		(84,121)
Loss for the period	(25,348)	(25,348)
Earnings (loss) per thousand shares - R\$	(30.67)	(30.67)

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

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(A free translation of the original in Portuguese)



Statements of Operations

Six Months Ended June 30, 2007

In thousands of reais, except earnings (loss) per thousand shares

	<u>Company</u>	<u>Consolidated</u>
Gross operating revenue		
Electricity network usage charges		730,683
Other revenues		7,345
		<u>738,028</u>
Deductions from operating revenue		
Research and development		(5,610)
Global Reserve for Reversion - RGR		(17,853)
COFINS (tax on revenue)		(30,613)
PIS (tax on revenue)		(6,639)
Regulatory asset - recognition		4,191
Regulatory asset - realization		(833)
ISS (service tax)		(109)
		<u>(57,466)</u>
Net operating revenue		<u>680,562</u>
Cost of service		
Personnel	(403)	(111,105)
Materials	(5)	(11,827)
Outside services	(1,446)	(41,233)
Depreciation	(3)	(85,362)
Concession regulatory charges		(63,138)
Reserve for contingencies		(12,487)
IPTU - Eletropaulo settlement		(35,562)
Reversal of reserve for contingencies - IPTU		63,524
Amortization of bond issuance expenses	(1,409)	(1,409)
Other expenses	(188)	(19,865)
	<u>(3,454)</u>	<u>(318,464)</u>
Gross profit (loss)	<u>(3,454)</u>	<u>362,098</u>
Equity in results of subsidiary	<u>135,747</u>	
Financial income (expenses)		
Amortization of goodwill	(45,631)	(45,631)
Amortization of negative goodwill		8,492
Financial income	6,727	83,683
Financial expenses	(68,849)	(77,678)
Gains (losses) on hedge transactions	(130,476)	(130,476)
Monetary and exchange rate variations, net	102,286	102,664
	<u>(135,943)</u>	<u>(58,946)</u>
Income (loss) from operations	<u>(3,650)</u>	<u>303,152</u>

**Statements of Operations**
Six Months Ended June 30, 2007

In thousands of reais, except earnings (loss) per thousand shares

(continued)

	<u>Company</u>	<u>Consolidated</u>
Non-operating income		10,967
Non-operating expenses		70,179
Non-operating expense, net		81,146
Income (loss) before income tax and social contribution	(3,650)	384,298
Income tax and social contribution		
Income tax - current		(21,370)
Social contribution - current		(7,675)
Income tax - deferred		(101,805)
Social contribution - deferred		(30,724)
		(161,574)
Income before minority interest	(3,650)	222,724
Minority interest		(226,374)
Loss for the period	(3,650)	(3,650)
Earnings (loss) per thousand shares - R\$	(4.41)	(4.41)

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



(A free translation of the original in Portuguese)

**Notes to the Financial Statements
for the Quarter and Six-month Period
Ended June 30, 2007
In thousands of reais, unless otherwise stated**

1 Operations

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

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 50.10% 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 its 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 September 12, 2006, ISA Capital do Brasil S.A. purchased another 10,021,687 common shares issued by CTEEP, held by the Government of the State of São Paulo, and became the holder of 31,351,911,751 common shares.

On January 9, 2007, 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 share, pursuant to the public offering notice published on December 4, 2006.



**Notes to the Financial Statements
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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. 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

The Quarterly Information (ITR) was prepared and is presented in accordance with accounting practices adopted in Brazil, based on the provisions of Brazilian Corporate Law, together with the complementary provisions of the Brazilian Securities Commission (CVM) and specific rules applicable to the concessionaires of public service of electrical energy, established by ANEEL.

This Quarterly Information is in conformity with the principles, methods and criteria adopted by the Company at December 31, 2006.

On February 12 and March 20, 2007, the Company entered into certain financial instrument operations that are used for its operational needs of reducing exposure to foreign exchange risks. These risks are administered through definition of strategies, implementation of control systems and determination of exposure limits. No operations are carried out involving financial instruments for speculation purposes.

The Company's management decided, spontaneously, to restate the Quarterly Information for the quarter ended March 31, 2007 to adapt the accounting practice of evaluation of these financial instruments, changing from the cash basis to the accrual basis in accordance with the related contractual clauses effective on the date of each balance sheet ("settlement accounting"). Consequently, the Quarterly Information referring to the quarter ended March 31, 2007, presented herein for comparison purposes, already includes these adjustments. The difference between the carrying amount and the fair value is presented in Note 28.

Other details of the accounting entries for these instruments are included in Notes 14, 14(ii), 28 and 28(f) to the Quarterly Information.

**Notes to the Financial Statements
for the Quarter and Six-month Period
Ended June 30, 2007**

In thousands of reais, unless otherwise stated

3 Payables from Acquisition of the Subsidiary CTEEP

Under the Share Purchase and Sale Agreement, relating to 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 court, as described in Note 30.

As of June 30, 2007, the supplementary purchase price is composed of two different transactions, as detailed below:

- (a) The amount of R\$ 195,704, 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. 4,819/58 - São Paulo State Finance Department", R\$ 5,800 in current liabilities and R\$ 189,904 in non-current liabilities, with a contra entry in the amount of R\$ 188,895 to the caption "investments - goodwill on acquisition of subsidiary" (Note 11). The difference of R\$ 6,809 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\$ 122,709, 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. 4,819/58 - OPA", R\$ 3,637 in current liabilities and R\$ 119,072 in non-current liabilities, with a contra entry in the amount of R\$ 120,306 to the caption "investments - goodwill on acquisition of subsidiary" (Note 11). The difference of R\$ 2,403 refers to the monetary adjustment of the obligation at the IPC-A beginning December 31, 2005.

4 Temporary Cash Investments

	<u>June 30, 2007</u>		<u>March 31, 2007</u>	
	<u>Company</u>	<u>Consolidated</u>	<u>Company</u>	<u>Consolidated</u>
Temporary cash investments				
CDB floating CDI		200,138		177,938
FIF Estatais (investment fund) - restricted (i)		1,000		24,416
Resale commitments (ii)			47	47
In foreign bank (iii)			421,621	421,621
		<u>201,138</u>	<u>421,668</u>	<u>624,022</u>

**Notes to the Financial Statements
for the Quarter and Six-month Period
Ended June 30, 2007**

In thousands of reais, unless otherwise stated

(i) FIF - estatais - restricted

This balance represents receipts from the sale of fixed assets no longer useable in the concession. According to ANEEL Resolution 20/99, all the funds deriving from these operations should be invested in a restricted account, opened for this purpose, controlled on an accounting basis as a supplementary record, up to the definitive investment of the funds in the concession.

(ii) Resale commitments

The balance at March 31, 2007 is represented by instruments in DI Funds and resale commitments backed by debentures available on demand.

(iii) In foreign bank

The balance at March 31, 2007 refers to a financial investment, in foreign currency, in the amount of US\$ 204 million held in an account with LaSalle Bank National Association, in Chicago, USA. This investment was represented by Fundo LaSalle Enhanced Liquidity Management remunerated at the rate of 4.735% p.a., available on demand. On April 11, 2007, the Company used these funds to settle the loan with ABN Amro Bank and JP Morgan in the amount of US\$ 204 million (Note 14).

5 Accounts Receivable - São Paulo State Finance Department

	Consolidated					
	June 30, 2007			March 31, 2007		
	Current	Non-current	Total	Current	Non-current	Total
Agreement for Acknowledgment and Consolidation of Debts	12,138	49,565	61,703	11,922	51,663	63,585
Pension benefit payments - Law No. 4,819/58		138,808	138,808		115,753	115,753
Sale of real property	2,523	10,302	12,825	2,478	10,738	13,216
Labor claims - Law No. 4,819/58		57,956	57,956		53,961	53,961
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)
	<u>14,661</u>	<u>256,631</u>	<u>271,292</u>	<u>14,400</u>	<u>232,115</u>	<u>246,515</u>

(a) 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

**Notes to the Financial Statements
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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.

(b) Pension benefit payments - Law No. 4,819/58

The amount of R\$ 138,808 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\$ 137,382 is supported by a decision of the 49th Labor Court of São Paulo and relates to the period from September 2005 to June 2007, which are paid by Fundação CESP using funds received from the State government and transferred by CTEEP (Note 30(c)). This balance is not monetarily adjusted and is not subject to any kind of interest until it is approved by the state government for payment to CTEEP.

(c) 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.

(d) 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 the state government for payment to CTEEP.

(e) 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.

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In thousands of reais, unless otherwise stated

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

6 Recoverable Taxes

	<u>June 30, 2007</u>		<u>March 31, 2007</u>	
	<u>Company</u>	<u>Consolidated</u>	<u>Company</u>	<u>Consolidated</u>
Income tax				
Overpaid		13,034		26,290
Withheld at source	775	1,590	717	11,663
Legal entity - third parties		87		69
	<u>775</u>	<u>14,771</u>	<u>717</u>	<u>38,022</u>
Social contribution				
Overpaid		8,272		8,272
Withheld at source		229		801
		<u>8,501</u>		<u>9,073</u>
COFINS				
Credits - Regulatory Instruction (IN) No. 658/06				8,396
Withheld at source		494		479
		<u>494</u>		<u>8,875</u>
PIS				
Credits - Regulatory Instruction (IN) No. 658/06		5,397		27,497
Withheld at source		107		104
		<u>5,504</u>		<u>27,601</u>
Other		784		801
	<u>775</u>	<u>29,994</u>	<u>717</u>	<u>84,372</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.



**Notes to the Financial Statements
for the Quarter and Six-month Period
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In thousands of reais, unless otherwise stated

The issuance, with 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 14).

As provided for in the agreement, the Company made two deposits at the Bank of New York, in Chicago, of US\$ 7,875 and US\$ 15,576, as guarantee for the two funding operations described above, respectively. These deposits amount to R\$ 45,851 as of June 30, 2007 and are recorded in current assets.

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 14), 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:

	June 30, 2007		March 31, 2007	
	Company	Consolidated	Company	Consolidated
Expenses on bond contract (tranche 1) with maturity in five years and amount of US\$ 200 million	7,572	7,572	7,490	7,490
Expenses on bond contract (tranche 2) with maturity in ten years and amount of US\$ 354 million	13,402	13,402	13,259	13,259
Regulatory asset		11,449		10,554
Other prepaid expenses		1,409		2,664
Total - expenses	20,974	33,832	20,749	33,967
Accumulated amortization	(1,409)	(1,409)	(697)	(697)
Total expenses, net	19,565	32,423	20,052	33,270
Total prepaid expenses - current	2,819	4,228	2,788	5,452
Total prepaid expenses - non-current	16,746	28,195	17,264	27,818
	19,565	32,423	20,052	33,270



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9 Deferred Income Tax and Social Contribution

Assets

In current assets of the CTEEP, the balance of R\$ 30,041 (R\$ 22,041 in income tax and R\$ 8,000 in social contribution) refers to the tax impacts on the provision for the Voluntary Termination Program.

In the non-current assets of CTEEP, these refer to tax credits resulting from the following provisions not currently deductible:

	<u>June 30, 2007</u>			<u>March 31, 2007</u>		
	<u>Consolidated</u>			<u>Consolidated</u>		
	<u>Income tax</u>	<u>Social contribution</u>	<u>Total</u>	<u>Income tax</u>	<u>Social contribution</u>	<u>Total</u>
Reserve for labor contingencies	35,917	12,930	48,847	37,139	13,370	50,509
Reserve for civil contingencies	256	92	348	256	92	348
Reserve for tax contingencies	17,536	6,313	23,849	17,194	6,189	23,383
Reserve for social security contingencies	1,706	614	2,320	1,706	614	2,320
Allowance for doubtful accounts	824	297	1,121	824	297	1,121
Voluntary Termination Program	5,601	2,017	7,618	6,141	2,211	8,352
	<u>61,840</u>	<u>22,263</u>	<u>84,103</u>	<u>63,260</u>	<u>22,773</u>	<u>86,033</u>

The realization of these short and long-term receivables, will occur when the provisions that originated them, currently temporarily non-deductible and controlled in part "B" of the Taxable Income Control Register (LALUR), become effective expenses.

10 Accounts Receivable - ISA's Parent Company

	<u>Company and consolidated non-current</u>	
	<u>June 30, 2007</u>	<u>March 31, 2007</u>
Foreign currency loan (*)		
Principal	51,146	51,146
Interest	2,014	1,045
Exchange variation	(5,377)	(2,346)
	<u>47,783</u>	<u>49,845</u>



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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 updating bases for this transaction; however, the maturity was agreed for a period of 8 years, in a lump sum.

11 Investment in Subsidiary

	<u>Company</u>	
	<u>June 30, 2007</u>	<u>March 31, 2007</u>
Cost		
Investee's shareholders' equity	4,107,869	3,972,970
Ownership interest percentage - % (v)	37.4615	37.4615
Investment at equity value	<u>1,538,869</u>	<u>1,488,334</u>
Goodwill		
Goodwill on acquisition of shares until December 31, 2006 (iii)	380,484	380,484
Goodwill on acquisition of shares on January 9, 2007 (iv)	115,143	115,143
Goodwill arising from shareholders' obligations - OPA - Law No. 4,819/58 - supplement (ii)	120,306	120,306
Goodwill - other costs	1,882	1,940
Goodwill arising from debt to the State Finance Department - Law No. 4,819/58 (i)	188,895	188,895
	<u>806,710</u>	<u>806,768</u>
Accumulated amortization of goodwill	<u>(71,819)</u>	<u>(49,090)</u>
Goodwill, net (vi)	<u>734,891</u>	<u>757,678</u>
Total investment	<u><u>2,273,760</u></u>	<u><u>2,246,012</u></u>

Change in investment and goodwill in subsidiary

Investment		
Beginning balance of investments	1,488,334	786,608
Investment from the acquisition of OPA shares on January 9, 2007		640,482
Equity in results of subsidiary	50,535	85,212
Proposed dividends		<u>(23,968)</u>
Ending balance of investments	<u><u>1,538,869</u></u>	<u><u>1,488,334</u></u>
Goodwill		
Goodwill on acquisition of subsidiary	757,678	540,312

(A free translation of the original in Portuguese)



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	<u>Company</u>	
	<u>June 30, 2007</u>	<u>March 31, 2007</u>
Goodwill on acquisition of OPA shares on January 9, 2007		235,449
Goodwill - other costs	(56)	1,940
Goodwill arising from debt to the State Finance Department - Law No. 4,819/58 - supplement		2,877
Amortization of goodwill	(22,731)	(22,900)
Ending balance of goodwill on acquisition of subsidiary (vi)	<u>734,891</u>	<u>757,678</u>

(i) Note 3(a).

(ii) Note 3(b).

(iii) 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 50.10% 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 related 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 of 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.

(iv) 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 share, pursuant to the public offering notice published on December 4, 2006.



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(v) 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.

(vi) The unamortized goodwill balance is classified as intangible assets in the consolidated balance sheet.

12 Property, Plant and Equipment

	Consolidated			
	June 30, 2007			March 31, 2007
	Restated cost	Accumulated depreciation	Net book value	Net book value
Subsidiary				
In service				
Land (i)	44,681		44,681	44,680
Buildings, construction and Improvements	582,394	(363,120)	219,274	223,853
Machinery and equipment	5,179,981	(2,375,473)	2,804,508	2,761,885
Vehicles	27,710	(25,913)	1,797	2,154
Furniture and fixtures	22,934	(13,750)	9,184	9,654
	<u>5,857,700</u>	<u>(2,778,256)</u>	<u>3,079,444</u>	<u>3,042,226</u>
In progress	911,029		911,029	880,954
Special liabilities (ii) Donations received	(16,068)		(16,068)	(16,176)
Total - Subsidiary	6,752,661	(2,778,256)	3,974,405	3,907,004
Total - Company	<u>32</u>	<u>(2)</u>	<u>30</u>	<u>13</u>
Consolidated	<u>6,752,693</u>	<u>(2,778,258)</u>	<u>3,974,435</u>	<u>3,907,017</u>

(i) 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 19(b)).

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



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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.

13 Taxes Payable

	June 30, 2007		March 31, 2007	
	Company	Consolidated	Company	Consolidated
Income tax - CETEMEQ				16,374
COFINS (tax on revenue)		4,682		4,318
PIS (tax on revenue)		1,015		936
Income tax - regulatory asset		2,862		2,639
Social contribution - regulatory asset		1,030		950
Income tax		3,873		1,250
Social contribution		1,389		438
ANEEL inspection fee		548		548
Other	47	1,192	54	867
	<u>47</u>	<u>16,591</u>	<u>54</u>	<u>28,320</u>

14 Loans and Financing

	June 30, 2007				March 31, 2007			
	Company		Consolidated		Company		Consolidated	
	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
Foreign currency								
ABN Amro Bank (i)					421,612		421,612	
Bond issuance (ii)	55,133	1,180,853	55,133	1,180,853	17,398	1,178,751	17,398	1,178,751
Local currency								
ABN Amro Bank (iii)	71,907		71,907		71,387		71,387	
Eletróbrás (iv)			56	561			56	573
Safra Bank (v)			50,000					
	<u>127,040</u>	<u>1,180,853</u>	<u>177,096</u>	<u>1,181,414</u>	<u>510,397</u>	<u>1,178,751</u>	<u>510,453</u>	<u>1,179,324</u>



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- (i) 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.
- (ii) 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 two 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 contracted at the 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 the exchange rate of R\$ 2.1170, and commitment to pay IGP-M plus 1.68% per year.
- Hedge of interest - non-deliverable 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>June 30, 2007</u>
Current liabilities	
Issuance of bonds - interest	38,396
Result of hedge transaction - interest exchange risk	8,577
Result of hedge transaction - principal exchange risk	8,160
	<u>55,133</u>
Non-current liabilities	
Issuance of bonds - principal	1,067,115
Result of hedge transaction - principal exchange risk	113,738
	<u>1,180,853</u>

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- (iii) 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.
- (iv) 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.
- (v) Refers to a loan agreement with Banco Safra, entered into on June 21, 2007, in the amount of R\$ 50,000, effective up to October 19, 2007. This loan bears monthly charges at the rate of 101.9% of the daily average of the Interbank Deposit Certificate (CDI) and falls due on the first business day of each month. Partial or total repayment may be made at any time during the contract.

15 Payroll and Related Charges - Subsidiary

	Consolidated	
	June 30, 2007	March 31, 2007
INSS (social security contribution)	2,948	3,335
FGTS (severance pay fund)	659	381
Withholding income tax - employees	1,793	4,530
Scholarship program (*)	3,572	3,450
Other taxes payable	283	418
	9,255	12,114

(*) 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.

16 Voluntary Termination Program - Subsidiary

CTEEP, which had 2,737 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



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R\$ 396,651 (amounts payable as of December 31, 2006) for the remaining terminations, which continue in 2007. The program's expenses include financial incentives, FGTS (Severance Pay Fund) fine, payment in notice period, healthcare, among others.

During the first half of the year, employee terminations totaled 948.

Of the provision recognized as of December 31, 2006, the amount of R\$ 110,567 remains, and of this amount R\$ 88,162 will be realized in the short-term, and R\$ 22,405 in the long-term.

17 Accrued Liabilities

	Consolidated	
	June 30, 2007	March 31, 2007
Vacation and vacation bonus	11,915	15,441
Payroll charges on 13th month salary, vacation and vacation bonus	6,315	7,037
	<u>18,230</u>	<u>22,478</u>

18 Accounts Payable - Fundação CESP

The amounts classified in current and long-term liabilities refer to two debt acknowledgement agreements for financing of actuarial deficit with Fundação CESP, totaling R\$ 231,491 (R\$ 231,111 at March 31, 2007), related to BSPS (Settled Proportional Pension Plans), with monthly payments and final maturities scheduled for September and November 2017, adjusted based on the greater of actuarial cost variation (General Price Index - Internal Availability (IGP-DI) plus interest of 6% per year) or the TR (a managed prime rate) plus interest of 8% per year.

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

As of December 31, 2006, the date of the last actuarial evaluation, 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.

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19 Reserve for Contingencies - Consolidated

Type	June 30, 2007			March 31, 2007		
	Reserve	Escrow deposits	Net liabilities	Reserve	Escrow deposits	Net liabilities
Labor	143,667	(8,054)	135,613	148,556	(7,716)	140,840
Civil	1,023		1,023	1,023		1,023
Tax - Municipal Real Estate tax (IPTU)	70,144		70,144	68,774		68,774
Social security - INSS	6,825		6,825	6,825		6,825
	<u>221,659</u>	<u>(8,054)</u>	<u>213,605</u>	<u>225,178</u>	<u>(7,716)</u>	<u>217,462</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	Consolidated							
	Likelihood of loss							
	June 30, 2007				March 31, 2007			
	Probable	Possible	Remote	Total	Probable	Possible	Remote	Total
Labor	143,667	21,973	144,104	309,744	148,556	18,348	140,211	307,115
Civil	1,023	2,763	10,389	14,175	1,023	2,710	10,281	14,014
Tax - Municipal Real Estate Tax (IPTU)	70,144			70,144	68,774			68,774
Social security - INSS	6,825			6,825	6,825			6,825
	<u>221,659</u>	<u>24,736</u>	<u>154,493</u>	<u>400,888</u>	<u>225,178</u>	<u>21,058</u>	<u>150,492</u>	<u>396,728</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.



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

(a) Labor

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

(b) Tax - Municipal Real Estate Tax (IPTU)

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\$ 6,881 and R\$ 63,263, respectively, totaling R\$ 70,144.

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.

(c) 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 non-current assets, under "Escrow deposits".

20 Accrued Taxes - Consolidated

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 non-operating 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 non-current assets, under the caption "Escrow deposits".



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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.

21 Special Liabilities - Reversal/Amortization - Consolidated

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.

22 Shareholders' Equity

The Company was established on April 28, 2006, as a limited liability partnership, 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 the date of the quarterly information, June 30, 2007.

As of June 30, 2007 and 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.	828,267,196
Luís Fernando Alarcón Mantilla	1
Fernando Augusto Rojas Pinto	1
Guido Alberto Nule Amin	1
Carlos Alberto Rodríguez Lopez	1
	<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.

23 Electricity Network Usage Charges - Consolidated

Revenues from electricity network usage charges for the first half of 2007 amounted to



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R\$ 730,683. This revenue is composed of the following:

	2007	
	Quarter	Six months
Basic network		
Existing assets	267,341	531,960
New investments	53,535	93,383
Surplus	515	2,928
	<u>321,391</u>	<u>628,271</u>
Other transmission facilities		
Existing assets	16,202	33,472
New investments	4,977	8,888
	<u>21,179</u>	<u>42,360</u>
Charges		
Fuel Consumption Account (CCC)	19,452	38,113
Energy Development Account (CDE)	11,729	22,982
Alternative Source Incentive Program (PROINFA)	2,667	5,226
	<u>33,848</u>	<u>66,321</u>
Adjustment	<u>(3,135)</u>	<u>(6,269)</u>
	<u>373,283</u>	<u>730,683</u>

(a) 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.



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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.

(b) Periodic Review of Allowed Annual Revenue (RAP)

In accordance with Concession Agreement No. 59, signed with the Federal Government on June 20, 2001, through the intermediation of ANEEL, every four years as from the date on which this agreement was signed, ANEEL will make a periodic review of the Allowed Annual Revenue (RAP) of electric energy transmission related to the installations of authorized projects whose business operations commenced after December 31, 1999, for the purpose of promoting efficiency and low rates, in accordance with the methodology approved by Normative Resolution No. 257, of March 6, 2007.

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, setting the new Allowed Annual Revenue (RAP) at -26.15%, to be applied to the Basic Network - New Facilities (RBNI) and Other Facilities - New Investments (RCDM) portions effective on July 1, 2005.

The effects of this rate adjustment will be backdated to July 1, 2005. The difference in the amounts charged from July 2005 to June 30, 2007, amounting to R\$ 66,688, will be offset in 24 (twenty-four) months by means of the contractual mechanism for an adjustment portion. The effects referring to the period from July 1, 2007 to June 30, 2008 were considered in Approving Resolution No. 496.



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(c) Annual Revenue Adjustment

On June 29, 2007, Approving Resolution No. 496 was issued, establishing CTEEP's annual allowed revenues for making available the transmission facilities that comprise the Basic Network and Other Transmission Facilities, for a twelve-month cycle from July 1, 2007 to June 30, 2008.

According to the mentioned Resolution, the Allowed Annual Revenue (RAP) of CTEEP, which was R\$ 1,314,400 on July 1, 2006 increased to R\$ 1,478,456 on July 1, 2007, which represents an increment of R\$ 164,056 or 12.5%.

The analysis of the revenue effective from July 1, 2007 to June 30, 2008 is as follows:

	<u>Amount</u>
Basic network	
Existing assets	940.542
New Investments	<u>174.618</u>
	<u>1.115.160</u>
Other Transmission Facilities (DIT)	
Existing Assets	270.584
New Investments	<u>20.060</u>
	<u>290.644</u>
LT Chavantes Botucatu	12.047
Adjustment portion	<u>60.605</u>
	<u><u>1.478.456</u></u>

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24 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 1st and 36th 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 Subsidiary 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, thus originating 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.



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- (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.
- (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.

25 Financial Income (Expenses)

	Quarter ended June 30, 2007	
	Company	Consolidated
Income		
Income from temporary cash investments	286	7,175
Interest on accounts receivable - State Finance Department		1,094
Interest on loans	969	969
Monetary adjustment of tax credits PIS/COFINS		599
Other	464	1,299
	<u>1,719</u>	<u>11,136</u>
Expenses		
Debt charges	(27,942)	(29,302)
CPMF (tax on banking transactions)	(1,790)	(4,343)
Charges on RGR (global reserve for reversion)		(279)
Other	(267)	(930)
	<u>(29,999)</u>	<u>(34,854)</u>
Monetary and exchange rate variations		
Assets	75,718	75,970
Liabilities	(12,999)	(13,288)
	<u>62,719</u>	<u>62,682</u>
Financial instruments		
Gains (losses) on hedge transactions	(86,266)	(86,266)
Total - net	<u>(51,827)</u>	<u>(47,302)</u>



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	Six-month period ended June 30, 2007	
	Company	Consolidated
Income		
Income from temporary cash investments	4,017	21,150
Interest on accounts receivable - State Finance Department		2,218
Interest on loans	1,990	1,990
Monetary adjustment - CETEMEQ		54,769
Monetary adjustment of tax credits PIS/COFINS		1,822
Other	720	1,734
	<u>6,727</u>	<u>83,683</u>
Expenses		
Debt charges	(61,301)	(63,930)
CPMF (tax on banking transactions)	(6,794)	(11,672)
Charges on RGR (global reserve for reversion)		(558)
Other	(754)	(1,518)
	<u>(68,849)</u>	<u>(77,678)</u>
Monetary and exchange rate variations		
Assets	145,640	146,751
Liabilities	(43,354)	(44,087)
	<u>102,286</u>	<u>102,664</u>
Financial instruments		
Gains (losses) on hedge transactions	(130,476)	(130,476)
Total - net	<u>(90,312)</u>	<u>(21,807)</u>

26 Income Tax and Social Contribution

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



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(a) Analysis of the Income Tax (IR) and Social Contribution (CS) Calculation

	Quarter ended June 30, 2007	
	Consolidated	
	Income tax	Social contribution
Result - current expense		
Result before taxation	126,249	126,249
Provision for tax contingencies - IPTU	1,494	1,494
Negative goodwill on the acquisition of investments	(4,246)	(4,246)
Reversal of provisions	(118,071)	(118,072)
Regulatory asset - recognition	(1,028)	(1,028)
Regulatory asset - realization	133	133
Amortization of goodwill	22,731	22,731
Net exchange variation	(72,001)	(72,001)
Loss with hedge transactions	86,266	86,266
Other	200	11
Adjusted profit	41,727	41,537
Tax loss of the parent company	38,876	38,876
Adjusted calculation basis	80,603	80,413
15% rate	(12,091)	
10% rate	(8,054)	
9% rate		(7,237)
Total - current expense	<u>(20,145)</u>	<u>(7,237)</u>
Result - deferred expense	<u>(29,504)</u>	<u>(10,590)</u>
Expense - total	<u><u>(49,649)</u></u>	<u><u>(17,827)</u></u>



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	Six-month period ended June 30, 2007	
	Consolidated	
	Income tax	Social contribution
Result - current expense		
Result before taxation	384,298	384,298
Provision for labor contingencies	9,916	9,916
Provision for tax contingencies - IPTU	7,584	7,584
Negative goodwill on the acquisition of investments	(8,492)	(8,492)
Reversal of provisions	(444,135)	(444,068)
Regulatory asset - recognition	(4,191)	(4,191)
Regulatory asset - realization	833	833
Amortization of goodwill	45,631	45,631
Net exchange variation	(111,510)	(111,510)
Loss with hedge transactions	130,476	130,476
Other	424	11
Adjusted profit	<u>10,834</u>	<u>10,488</u>
Tax loss of the parent company	<u>74,789</u>	<u>74,789</u>
Adjusted calculation basis	85,623	85,277
15% rate	(12,836)	
10% rate	(8,558)	
9% rate		(7,675)
Tax incentives	<u>24</u>	
Total - current expense	<u>(21,370)</u>	<u>(7,675)</u>
Result - deferred expense	<u>(101,805)</u>	<u>(30,724)</u>
Expense - total	<u>(123,175)</u>	<u>(38,399)</u>

(b) Calculation of tax loss carryforwards - Company

As of June 30, 2007, the Company's balance of unrecorded tax credits is R\$ 25,428, which can only be offset with the generation of future taxable income, limited to 30% per year.



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27 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. 4,819/58 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.

28 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.

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

(a) Credit risk

CTEEP has agreements with the ONS (National Electric System Operator), concessionaires and other agents regulating the provision of services related to the basic network for 214 users, with a bank guarantee clause. Likewise, CTTEP has agreements regulating the provision of services in other transmission facilities with 32 concessionaires and other agents, with a bank guarantee clause.

(b) Price risk

Pursuant to the concession agreement, CTTEP'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).

(c) Liquidity risk

CTTEP centralizes its financial investments in Banco Nossa Caixa S.A. (Note 4).

(d) 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 14). 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 14). No financial instrument was entered into to swap variable interest on this transaction for fixed interest.

Additionally, the subsidiary CTTEP 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 18).



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(e) Exchange risk - Company and Consolidated

The Company has transactions involving financial instruments to hedge against the effects of exchange variations on its liabilities (bonds) with net exposure in U.S. 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 its semiannual interest. Loss on these transactions, in the amount of R\$ 130,476 as of June 30, 2007, was fully recognized in the statement of operations, 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, with a five-year term, was contracted at the exchange rate of R\$ 2.1170, with commitment to pay IGP-M (general market price index) plus 2.12% per year. The second tranche, in the amount of US\$ 354 million, with a ten-year term, was also subject to an exchange rate of R\$ 2.1170, and commitment to pay IGP-M plus 1.68% per year.
- Hedge of interest - non-deliverable currency forward contract with JP Morgan related to 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 exchange rate of R\$ 2.1765 for payment in January 2008.

The gains (losses) on these transactions are described in Note 14.

(f) Fair value

As of June 30, 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, since these financial instruments have variable interest rates.

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



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	<u>Carrying Amount (*)</u>	<u>Fair value</u>
Loans and financing (Bond issuance)		
Swap transactions (Note 14(ii)) - principal	1,189,013	1,377,552
Currency forward transaction (Note 14 (ii)) - interest	<u>46,973</u>	<u>47,124</u>
	<u>1,235,986</u>	<u>1,424,676</u>

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

29 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.

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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 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 escrow deposit. In October 2001, ELETROBRÁS executed the sentence referring to the aforementioned financing agreement, charging R\$ 429,000 to Eletropaulo and R\$ 49,000 to EPTE, 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 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 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 appropriate, 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, to which the debt is being charged by ELETROBRÁS.

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The total contingency is currently estimated at approximately R\$ 901,954.

30 Supplementary Pension Plan Regulated by Law No. 4,819/58

(a) Significant event

(i) July 19, 2005

"In compliance with CVM Instruction No. 358/02, CTEEP 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 49th 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 49th 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



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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."

(ii) January 27, 2006

"CTEEP, 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 49th 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 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. 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 49th 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 49th 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."

(iii) February 24, 2006

"CTEEP, 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 49th 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.

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CTEEP continues its efforts to change the decision of the 49th 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."

(b) Decision of the 49th labor court of São Paulo

On April 27, 2006, the 49th 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 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 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 49th 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 49th 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.

(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 Superior Court of Justice, CTEEP passed on to Fundação CESP, in the period from September 2005 to June 2007, the amount of R\$ 489,869 for payment of benefits under State Law No. 4,819/58, having received from the State Finance Department the amount of R\$ 352,486 for that purpose. The difference between the amount passed on to Fundação CESP and the amount reimbursed by the State Finance Department, of R\$ 137,382, is being claimed by the Company at the administrative level (Note 5(b)).



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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 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, in progress at the 49th 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. 1, 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 49th 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 49th 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".

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31 Subsequent Events

(a) Dividends receivable - parent company and subsidiary

At the Extraordinary Meeting held on July 10, 2007, the Board of Directors of CTEEP approved the payment of dividends to shareholders in the amount of R\$ 240,247 corresponding to R\$ 1.609317 per thousand shares, beginning on July 18, 2007.

As a result of this approval, the Company received on July 18, 2007 dividends in the amount of R\$ 90,000.

(b) Reverse split of shares - subsidiary

The Extraordinary General Meeting - EGM of CTEEP held on July 12, 2007 approved the proposal of the Board of Directors, of June 18, 2007, referring to the reverse split of shares of CTEEP, attributing 1 (one) new share to replace each group of 1,000 (one thousand) shares of each existing type.

The reverse split will not change the capital of CTEEP and its purpose is to align with the negotiation parameters adopted by the São Paulo Stock Exchange (BOVESPA), which is instructing publicly-held companies to adopt the unit quotation for their shares instead of the quotation per thousand shares, with the objective of providing better conditions for negotiation of CTEEP shares issued.

(c) Significant event - parent company and subsidiary

On July 23, 2007, the Company and CTEEP published the following significant event:

"The managements of ISA Capital do Brasil S.A. ('ISA Brasil'), ISA Participações do Brasil Ltda. ('ISA Participações') and CTEEP - Companhia de Transmissão de Energia Elétrica Paulista, in compliance with the provision established in CVM Instruction No. 358, of January 3, 2002, as amended by CVM Instruction No. 449, of March 15, 2007, inform that they will submit to appreciation, deliberation and approval, according to the case, of the National Agency of Electric Energy ('ANEEL'), and later to their shareholders and quotaholders, the following corporate restructuring process:

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In thousands of reais, unless otherwise stated

- . ISA Brasil is the current majority shareholder of CTEEP and holder of the goodwill paid in the process of acquisition of the share control of that company ('Goodwill'). ISA Brasil is also the majority shareholder of ISA Participações;
- . The restructuring process comprises the transfer, by ISA Brasil, of the shares held in the capital of CTEEP, to the capital of ISA Participações. After this, ISA Participações will be merged into CTEEP, and, as a result of this transaction, the goodwill will be transferred to CTEEP.
- . There will not be any transfer of the share control of CTEEP due to the corporate restructuring intended.
- . The managements of the companies involved understand that the current corporate restructuring will allow an improvement in the capitalization conditions and cash flow of CTEEP, due to the tax savings generated by the amortization of goodwill; and
- . The operation will be implemented so that it does not result in transfer of any debts or liabilities, as well as any negative impact on the future flows of dividends to the shareholders of CTEEP. The tax benefit portion will be object of capitalization to the benefit of ISA Brasil, as provided in art. 7, of CVM Instruction No. 319, of December 3, 1999.

The operation is intended to be concluded in the second six-month period of 2007. The operation proposed is subject to previous approval of ANEEL. As soon as this approval is obtained, the other legal actions will be taken, and the significant event notice of CVM Instruction No. 319 will be published."

(d) Communication to the Market - subsidiary company

On July 26, 2007, CTEEP published the following communication to the market:

"We communicate that the financing to CTEEP, in the amount of R\$ 764.2 million, was approved in an Executive Board meeting of the National Bank for Economic and Social Development (BNDES) on July 17, 2007. The amount corresponds to 70% of the total investment, which includes work for systemic improvements, reinforcements, modernizations of the existing transmission system and new projects, and is part of the Multiyear Investment Plan 2006/2008.



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Additionally, we inform that this loan is still pending approval in Meetings of the Executive Board and of CTEEP Board of Directors, as well as the end of the documental phase of the process."

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Attachment

Comment on the Company's Performance During the Quarter

The objective of the Company comprises participation in the capital of other companies or projects, as partner or shareholder, partner in joint ventures, member of a consortium or other type of business association.

On January 4, 2007, CVM granted to ISA the 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, 24,572,554,070 common shares issued by CTEEP, corresponding to 39.28% of the total of this type of share, 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, 55,924,465,821 are owned by ISA Capital do Brasil S.A.

On January 29, 2007, the Company concluded a successful operation in the international capital markets, with the issue of bonds in the amount of US\$ 554 million. The issue, which had as agents J.P. Morgan and ABN Amro, was divided into two series of notes (senior notes), one in the amount of US\$ 200.0 million, with a 5-year term, interest rate of 7.875% p.a., with call option in 2010 and 2011, falling due in 2012, and another in the amount of US\$ 354.0 million, with a 10-year term and interest rate of 8.800% p.a., falling due in 2017 ("Notes"). Of the total issue, 60% was distributed in the United States, 36% in Europe, 2% in Latin America and 2% in Asia. The bonds are listed on the Luxemburg Stock Exchange and may be traded in the Market Portal of NASDAQ.

The success of this issue was based on the trust of the investors in the financial structure of the operation, the support of ISA Group to its investments in Brazil, the positive projection of CTEEP - Companhia de Transmissão de Energia Elétrica Paulista in the Brazilian energy sector and also counted on the credit risk ratings on the international level by Standard & Poor's (BB positive perspective) and Fitch Ratings (BB stable perspective). These ratings are similar to those of the Federative Republic of Brazil and reflect the low business risk of transmission of energy and the perspectives of expansion in that sector.

The funds originated from the offering of the Notes were used to settle the loans obtained by the Company with the banks J.P. Morgan and ABN Amro. In March 2007, the Company paid the loan of US\$ 23.8 million and, in April, the loan in the amount of US\$ 204.0 million.

As a result of the issue of bonds, ISA signed specific hedge agreements to cover the foreign exchange risks. This operation is segregated in two steps, which are:

Attachment**Comment on the Company's Performance
During the Quarter**

- . Hedge of Principal - Contracts with ABN Amro Bank and JP Morgan referring to the hedge of the two tranches. The first tranche in the amount of US\$ 200 million, with a five year term was contracted at the exchange rate of R\$ 2.1170, with commitment for payment of IGP-M plus 2.12% p.a. The second tranche, in the amount of US\$ 354 million, with a ten year term, was also contracted with an exchange rate at R\$ 2.1170, with commitment to pay IGP-M plus 1.68% p.a.
- . Hedge of Interest - Non-deliverable currency forward contract with JP Morgan referring to the hedge of semiannual interest with maturities in July 2007 and January 2008, corresponding to the two tranches. The hedge was contracted at the exchange rate of R\$ 2.1190 for payment in July 2007 and for January 2008 at the rate of R\$ 2.1765.

In the second six-month period of 2007, the Company had Operating Expenses in the amount of R\$ 1,325 and in the half-year to date of R\$ 3,454. In the same period, equity in the results of subsidiary was recorded in the amount of R\$ 50,535 relating to the interest of 37.46% in the total capital of the subsidiary CTEEP. In the half-year to date the equity accounting results was R\$ 135,747.

The Financial Result was negative in the second quarter in the amount of R\$ 74,558, and accumulating in the six-month period negative in R\$ 135,943.

Accordingly, the Operational Result obtained in the second quarter of 2007 was negative in R\$ 25,348. As there were no non-operating transactions, and the Company did not have Income Tax and Social Contribution payable, this second quarter ended with a loss of R\$ 25,348 and in the half-year to date a loss of R\$ 3,650.

Attachment**Comment on the Company's Performance
During the Quarter**

Comment on the company's performance in the quarter - Consolidated

CTEEP's main source of revenue refers to the use of its transmission system by the electric power public utility concessionaires and agents in the segment, whose annual tariffs were adjusted through the Authorizing Resolution (RH) No. 355/06 of the National Electric Energy Agency (ANEEL), effective up to June 30, 2007, and linked to the facilities of the Basic Network and Other Transmission Facilities.

In the second quarter of 2007, the Gross Operating Revenue reached R\$ 376,985, which, after the deduction of direct taxes and charges, resulted in a Net Operating Revenue of R\$ 346,848. In the accumulated for the six-month period of 2007, Net Operating Revenue was R\$ 680,562.

The Operating Expenses directly administered by Management, referring to expenses with personnel, materials, third-party services and other expenses, in the amount of R\$ 84,505, accounted for 24.4% of the Net Operating Revenue. These Expenses amount to R\$ 184,030 in the accumulated for the six-month period.

In the second quarter of 2007, the Gross Profit, in the amount of R\$ 192,148, is 55.4% of the Net Operating Revenue. In the accumulated for the six-month period, this Gross Profit reached R\$ 362,098.

EBITDA, represented by the Gross Profit plus Depreciation, reached R\$ 235,000 in the quarter, a margin of 67.7% on Net Operating Revenue.

The negative Financial Result was R\$ 65,787 in the second quarter, accumulating in the six-month period a negative result of R\$ 58,946.

Accordingly, the Operating Result obtained in the second quarter amounted to R\$ 126,361. In the six-month period, this Result reached R\$ 303,152.

After computing Non-operating Result, Income Tax and Social Contribution, and before minority interest, the Profit for the quarter was R\$ 58,773 and in the accumulated for the six-month period was R\$ 222,724.

After deduction of the minority interest, which represents 62.54% of the total capital of the subsidiary CTEEP, the loss was R\$ 25,348 for the quarter and R\$ 3,650 for the accumulated in the six-month period.

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