

**Individual financial statements (parent company) prepared in accordance with accounting practices adopted in Brazil and consolidated financial statements prepared in accordance with the international financial reporting standards (IFRS).**

**CTEEP - Companhia de  
Transmissão de Energia Elétrica  
Paulista**

December 31, 2010 and 2009  
with Independent Auditors' Report

# **CTEEP - Companhia de Transmissão de Energia Elétrica Paulista and its subsidiaries**

Individual financial statements

December 31, 2010 and 2009

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## **Independent Auditors' Report on the financial statements**

To the Management and Shareholders'

**CTEEP - Companhia de Transmissão de Energia Elétrica Paulista**

São Paulo - SP

We have audited the individual and consolidated financial statements of CTEEP – Companhia de Transmissão de Energia Elétrica Paulista (“Company”), identified as Parent Company and Subsidiary respectively, which comprise the balance sheet on December 31, 2010 and the related statements of income, equity and cash flows for the year then ended, and summary of the significant accounting practices and other notes.

### **Responsibility of the Management for the financial statements**

The Company's management is responsible for preparation and fair presentation of the individual financial statements in accordance with accounting practices adopted in Brazil and the consolidated financial statements in accordance with international financial reporting standards (IFRS) issued by the *International Accounting Standards Board - IASB*, and in accordance with the accounting practices adopted in Brazil, as well as the internal controls established by it as necessary to permit preparation of these financial statements free of material misstatement, whether due to fraud or error.

### **Responsibility of the independent auditors**

Our responsibility is to express an opinion on these financial statements based on our audit conducted in accordance with Brazilian and international auditing standards. Such standards require compliance with ethical requirements by the auditors and the audit is planned and performed in order to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit involves performing selected procedures to obtain audit evidence about the amounts and disclosures shown in the financial statements. The selected procedures depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In this risk assessment, the auditor considers the internal controls important for preparation and fair presentation of the Company's financial statements in order to plan the audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of such internal controls of the Company. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the presentation of the financial statements taken as a whole.

We believe that the audit evidence obtained is sufficient and appropriate to base our opinion.

### **Opinion on the individual financial statements**

In our opinion, the individual financial statements referred to above fairly present, in all material respects, the financial and equity position of CTEEP - Companhia de Transmissão de Energia Elétrica Paulista ("Company") on December 31, 2010, the performance of its operations and cash flows for the year then ended, in accordance with the accounting practices adopted in Brazil.

### **Opinion on the consolidated financial statements**

In our opinion, the consolidated financial statements referred to above fairly present, in all material respects, the consolidated financial and equity position of CTEEP - Companhia de Transmissão de Energia Elétrica Paulista ("Company") on December 31, 2010, the performance of its operations and consolidated cash flows for the year then ended, in accordance with the international financial reporting standards (IFRS) issued by the International Accounting Standards Board - IASB and the accounting practices adopted in Brazil.

### **Emphases**

As described in Note 2, the individual financial statements were prepared in accordance with accounting practices adopted in Brazil. In the case of CTEEP - Companhia de Transmissão de Energia Elétrica Paulista ("Company") these practices differ from the IFRS, applicable to separate financial statements, only in relation to the evaluation of the investments in subsidiaries, affiliates and joint subsidiaries by the equity method of accounting, but for IFRS purposes it would be the fair value or cost.

As described in Note 34, Law 4819/58 granted to the public servants of the companies under control of the State of São Paulo the advantages already granted to other public servants, especially the supplementary retirement remuneration and pension provision, and established that the State Government is full responsible for the expenses arising from the same. The operationalization of payments involves CESP Foundation, which prepares the payroll, and the State Government, which onlends the value to CTEEP (which in turn onlends to CESP Foundation for payment to the final beneficiary). This has been the procedure since the split up of CESP that created CTEEP and, until December 2003, was fully met by all the parties. Since 2004 the government of the State of São Paulo has applied for the right to process the payroll and pay the beneficiaries directly. However, in January 2006, the State Treasury, in view of the opinion issued by the Attorney General's office of the State of São Paulo began to annul some of the benefits paid to retirees and since then has generated the accounts receivable from the Government, since the Company make the payment of the annulled installments to be part of the benefits, as required by the decision of the 49th Labor Court. The Company's management, in addition of broadly and strongly supported by the opinion of its legal counsels, and also based on the fact that the State Treasury does not discuss its full responsibility to provide financial resources for payments of benefits related to the application of Law 4819/58 established by it, understands that no obligation or allowance for losses in relation to these accounts receivable should be recorded in the Company's financial statements.

**Other matters**

The individual and consolidated balance sheets, referring to the balance of January 1, 2009, prepared under accounting practices adopted in Brazil on that date, presented as a basis for the preparation of opening balances mentioned in note 5.1, were previously audited by other independent auditors who issued a report dated as of March 13, 2009, without reservations and with emphasis paragraph, on the matter mentioned in the above paragraph, in relation to the values receivable related to Law 4819/58.

As part of our audit of individual and consolidated financial statements on December 31, 2010, we also reviewed the adjustments described in Note 5.1, which were made to adjust the opening balances on January 1, 2009. We concluded that such adjustments are appropriate and were correctly made.

**Statement of added value**

We also audited the individual and consolidated statement of added value (DVA) for the year ended on December 31, 2010, whose presentation is required by the Brazilian corporate law for public companies, and as additional information in the IFRS that do not require the submission of DVA. These statements were submitted to the audit procedures described above and in our opinion, are fairly stated in all material respects, in relation to the financial statements taken as a whole.

São Paulo, March 16, 2011.

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

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

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Management Report - Year 2010

Dear shareholders,

The Management of CTEEP - Companhia de Transmissão de Energia Elétrica Paulista, in compliance with legal and statutory provisions, submits to you the Management Report and related Financial Statements, with the opinions of the Independent Auditors and the Audit Committee, regarding the year ended on December 31, 2010.

### **Message from Management**

Operating excellence. This was a strategic pillar of CTEEP in 2010. During the year, we focused our work on strengthening our operations and management and control of our assets in order to ensure the stability and quality of our services.

This was the strategic position adopted by the Company since in our business revenue comes from the availability of services. And, given the good results achieved by the end of the year, this alignment proved to be assertive.

In 2010, CTEEP surpassed its level in non-supplied power index (ENES), and today we have the best indicator of all power suppliers in Brazil. Result of the performance achieved, we received from Aneel, for the second consecutive year, the greatest additional RAP (Allowed Annual Revenue) award, for the availability of transmission assets.

At the same time we were focused on providing quality services and satisfaction to our customers, we also continue to pay attention to growth opportunities. We participated and will continue to participate in the auctions promoted by Aneel, making insightful analysis and always keeping discipline in the use of financial resources.

In line with this guideline, we exercise our right of first refusal to acquire the remaining 40% of interest in IEMG in a transaction also aligned with the Company's strategy of increasing its participation in transmission assets of electric power in Brazil.

2010 was also important in relation to the financial and economic performance. We recorded a 3.9% growth in gross operating revenue, which totaled R\$ 2.6 billion in the year. Net revenue reached R\$ 2.3 billion, income 5.0% higher than in 2009. These figures become even more relevant considering that in 2010, as well as the entire industry, we were submitted to the second cycle of periodic fee review.

In 2010, we energized 82 undertakings and installed 401.0 km of new transmission lines. Of the total investments promoted during the year (R\$ 504.9 million), R\$ 200 million were invested in projects to increase capacity, build new transmission lines and install equipment in substations.

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

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Operating excellence also means investing in human resources. In 2010 we increased the average hours of training per employee by 42%, totaling an investment of R\$ 1,629,400.

2010 was marked also by the launch of CTEEP Code of Ethics, prepared with the collective participation of the employees. Upon the creation of this document, we define the conduct and behavior expected from our employees in the professional relationship with stakeholders. At the same time, we emphasize the importance of sustainability integrated into business management.

We believe that a business strategy must be sustainable so that the Company may achieve results today and in the future. In CTEEP, we see the concept of sustainability as a joint strategy to generate value. So, we guide our actions focusing on integrated sustainable growth, which aligns the economic, social and environmental interests. For each of these fronts, we mobilize intellectual and material resources, always aiming to fulfill our role as agent of development and keep our commitment to provide quality and efficient service.

CTEEP remains committed to providing quality, efficient and stable services.

Thanks to all who are dedicated to growing our business: to our shareholders, customers and suppliers for their trust and support. And to our employees for their dedicated contribution and determination, which turned the CTEEP into the main private concessionaire in electric power transmission in Brazil - values that strengthen us and encourage us to face new challenges.

### **1. Company Profile**

Transmit power with quality and efficiency. This is the business of CTEEP - Companhia de Transmissão de Energia Elétrica Paulista, the main private concessionaire of the industry of electric power transmission in Brazil.

Through its grid - made up of 12,316 km of lines, 18,794 km of circuits, 2,488 km of fiber optic cables and 105 substations with voltage up to 550 kV - 30% of the power produced in Brazil and 60% of the power consumed in the Southeast region travel.

With an installed capacity of 43,992 MVA (Mega Volt Ampere), CTEEP is present, with its own assets and through subsidiaries and interest in 12 Brazilian states: Rio Grande do Sul, Santa Catarina, Paraná, São Paulo, Minas Gerais, Rondônia, Mato Grosso, Mato Grosso do Sul, Goiás, Tocantins, Maranhão and Piauí.

# CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

## Management Report - Year 2010

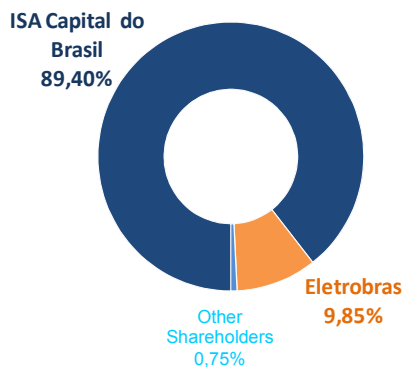
### 1. Company profile - Continued

CTEEP has interests in companies organized for the provision of utilities of power transmission: 100% in subsidiaries IEMG (Interligação Elétrica de Minas Gerais), Pinheiros (Interligação Elétrica Pinheiros) and Serra do Japi (Interligação Elétrica Serra do Japi); 50% in IESul (Interligação Elétrica Sul), 51% in IEMadeira (Interligação Elétrica Madeira) and 25% in IENNE (Interligação Elétrica Norte e Nordeste).

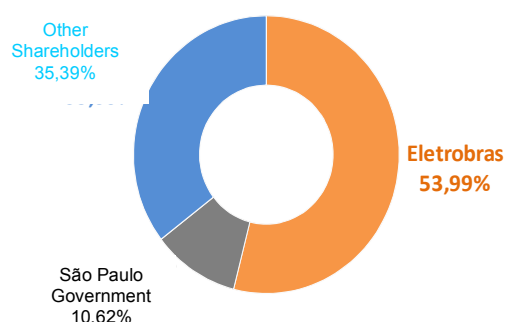
Controlled by ISA, one of the major power transmission groups in Latin America, which holds 89.40% of common shares, CTEEP also has among its investors Eletrobras, the major Brazilian power group, the state government of São Paulo and 61 thousand individual and legal entities as shareholders. In 2010, net operating revenue was R\$ 2.3 billion and net income R\$ 812.2 million.

### Shareholders

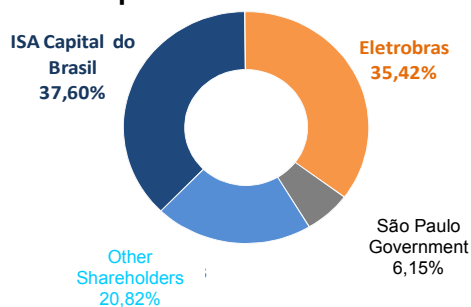
#### Common shares – TRPL 3% (42% of total)



#### Preferred shares – TRPL 4% (58% of total)



#### Total Capital Stock





## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Management Report - Year 2010

### **2. Scenario of the power industry**

According to data from Empresa de Pesquisa Energética (EPE) in 2010, the national consumption of electricity increased by 7.8% in relation to 2009, totaling 419,016 GWh (gigawatt-hours). This performance was boosted by the positive economic scenario in the year: the residential and commercial classes kept a high growth level and the industrial consumption consolidated the recovery initiated in the second half of 2009, after the 2008 crisis.

Thus, the total amount of power carried by CTEEP responsible for almost all of the electric power supply to the State of São Paulo, reached 141,127 GWh in 2010 - representing 33.7% of all the power consumed in the country and a growth of 5,9% in relation to 2009.

### **3. Operating performance**

In order to ensure the stability of the business, CTEEP adopts initiatives that help to strengthen its market share in electricity transmission and, consequently, achieve its growth purposes.

In 2010, the Company reported advances in non-supplied power index (ENES) and availability of assets, which were above the planned targets. The good results achieved are due to investments in upgrade of facilities, training and qualification of employees, and acquisition of innovative technologies for system operation.

Since 2007, CTEEP concentrates the remote operation of its 105 substations through the Transmission Operations Center, responsible for basic grid (voltage equal to or above 230 kV) and the Rear Operations Center, responsible for the operation of DITs (Other Transmission Facilities, with voltage below 230 kV).

In 2010, we continued the training activities in the Operator Training Simulator of the System, with the participation of generation companies and distribution and monitoring of ONS - National System Operator. This initiative has been confirmed as an important tool to qualify professionals when making simulations of real situations in the system, improving the level of responses in rearrangements in several occurrences.

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Management Report - Year 2010

### **3. Operating performance - Continued**

During the year, investment in the modernization of the assets and the adoption of new technologies for command and control of the electrical system were also promoted, with emphasis on:

- Expansion of the digitization project for substations Mairiporã, Porto Ferreira and Jaguarí, which received new systems of protection, measurement, command, control and supervision, which provide a more reliable and safe operation. The total investment was R\$ 8 million.
- Modernization of protections, inclusion of digital protection and installation of new breakers with better performance and more advanced technology. The investments of R\$ 5.9 million, will provide greater system reliability and faster analysis of incidents.
- Acquisition of RTDS (Real Time Digital Simulator), which will allow CTEEP to join a select group of companies capable of simulating the electrical grid with details of milliseconds, which will allow a deeper analysis of electric power and more precise adjustments in control and protection systems.

#### **3.1 Performance indicators**

Revenue of CTEEP is directly associated with availability of its assets. Therefore, the Company promotes permanent investments in order to ensure efficiency and quality in the maintenance and operation. Furthermore, the increased availability of its assets can generate a discount on their income (variable installment).

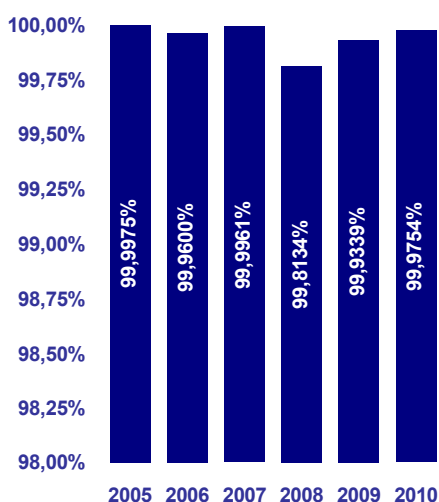
Following are some indicators that illustrate the Company's operating efficiency in 2010:

# CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

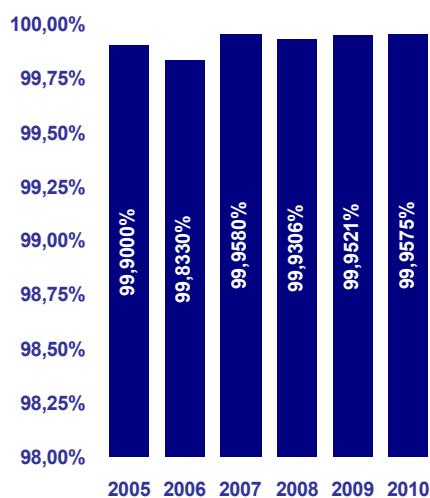
## Management Report - Year 2010

### 3.1. Availability of assets

**Transmission Lines**  
18.794 km of circuit



**Transformers**  
519 in operation



### 4. Extension and expansion of transmission system

Ensure greater system reliability, ensure quality of services provided and thus consolidate its position as a major player in the Brazilian electrical system. In order to ensure this positioning, CTEEP invests in increased capacity for processing, construction, refurbishment and reconducting of the transmission lines and the performance of other reinforcements.

In 2010, through Authorizing Resolutions edited by Aneel or Contracts for Connection to the Transmission System (CAT), signed with free customers, CTEEP energized 82 undertakings, six in the Basic Network and 76 in DITs. These undertakings corresponded to investments of R\$ 60.3 million and R\$ 139.7 million, respectively, making up a total of R\$ 200.0 million.

The available undertakings added to the system 1,119.25 MVA of transformation capacity, with emphasis on substation Água Vermelha, located in the municipality of Iturama - MG, where the third autotransformer bench was installed (500-440 kV), an increase of 750 MVA, to expand the processing capacity installed in the system, improving the exchange of power between the states of Mato Grosso, Minas Gerais and São Paulo.

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Management Report - Year 2010

### **4. Extension and expansion of transmission system - Continued**

Works were also made in 401.0 km of the transmission lines, such as the refurbishment of 138 kV Bariri - Barra Bonita and Votuporanga II - São José do Rio Preto and 88 kV of Salto Grande - Chavantes and Assis - Canoas I - Canoas II, all of them increasing the transmission capacity and more reliability for the operations. Other important projects were the reconstruction of transmission line 88 kV Salto Grande - Chavantes and the launches of the second circuit in line 138 kV line Flórida Paulista - Tupã and part of line 138 kV Ribeirão Preto - Euclides da Cunha.

### **5. Financial and economic performance**

The gross operating revenue increased 3.9% to R\$ 2,551,542 thousand in 2010, compared to R\$ 2,455,811 thousand in 2009 due to an increase of 22.7% of revenues from construction and 2.0% of the financial revenue, partially offset by a reduction of 11.5% of revenues from operation and maintenance.

Revenues from construction totaled R\$ 693,803 thousand in 2010, compared to R\$ 565,468 thousand in 2009, due to the progress of the works of IEMadeira offset by the reduction of reinforcement works and expansion of CTEEP and completion of works or even beginning of operation of subsidiaries IEMG, IENNE and Pinheiros.

Financial income totaled R\$ 1,398,245 thousand in 2010, compared to R\$ 1,371,068 thousand in 2009, substantially by the growth of the balance of accounts receivable from construction, reflecting the progress in the stage of CTEEP works and its subsidiaries.

Revenues from maintenance and operation totaled R\$ 442,469 thousand in 2010, compared to R\$ 500,001 thousand in 2009 due to the reduction of RAP, provided by the second cycle of periodic fee review of CTEEP, partially offset by the beginning of the operations of the subsidiary Pinheiros.

Deductions from operating revenue decreased 3.8%, reaching R\$ 295,257 thousand in 2010 against R\$ 306,799 thousand in 2009 due to a 14.6% reduction in regulatory charges, reflecting the drop in consumption of the free consumers and increased balance to be applied in Research & Development projects in 2009, partially offset by an increase of 8.3% in taxes on the revenue.

Due to the above-mentioned factors, the net operating revenue increased 5.0% totaling R\$ 2,256,286 thousand in 2010 compared to R\$ 2,149,012 thousand in 2009.

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Management Report - Year 2010

### **5. Financial and economic performance - Continued**

Construction and operation and maintenance costs have increased 32.6% reaching R\$ 948,270 thousand in 2010 compared to R\$ 714,992 thousand in 2009. This increase results from an increase of 33.1% of construction costs combined with an increase of 32.1% of operating and maintenance costs.

Increase in **construction costs** arise from the progress of the works of IEMadeira offset by the reduction of reinforcement works and expansion of CTEEP and completion of works or even beginning of operation of subsidiaries IEMG, IENNE and Pinheiros.

The increase in **operating and maintenance costs** result from the greater number of maintenance interventions at CTEEP facilities and beginning of operation of the subsidiaries IEMG, IENNE and Pinheiros.

The general and administrative expenses were reduced by 38.1% reaching R\$ 137,933 thousand in 2010, compared to R\$ 223.003 thousand in 2009, due substantially to the fine resulting from tax adjustment jobs recorded in 2009.

**EBITDA** margin was 52.1%, totaling R\$ 1,176,130 thousand in 2010 compared to 56.6%, R\$ 1,215,730 thousand in 2009.

The **financial income** reached expense of R\$ 356,289 thousand in 2010 an increase of 31.1% compared to \$ 271.721 thousand in 2009 due to higher debt for 2010 compared to 2009, represented substantially by the issuance of debentures.

Expenses with **income tax and social contribution** decreased 18.0% totaling R\$ 229,376 thousand in 2010 against R\$ 279,785 thousand in 2009. The effective rate of income tax and social contribution was 29.0% in 2010 compared to 31.4% in 2009.

As a result of the above-mentioned factors, **net income** for 2010 totaled R\$ 812.171 thousand, an amount 5.8% lower when compared to R\$ 867,975 thousand in 2009.

### **6. Investments**

In 2010, investments by CTEEP in reinforcements, upgrades and improvements of existing assets, capitalization of manpower and contributions in subsidiaries totaled R\$ 504.9 million.

**CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**  
Management Report - Year 2010

**6. Investments - Continued**

Multi-Year Investment Plan 2011/2013

In a meeting held on January 26, 2010, the Board of Directors approved the Multi-Year Investment Plan for the triennium 2011/2013, based on estimates for execution of the Company's investments.

<b>Investments (R\$ million)</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>Own (A)</b>	<b>363.6</b>	<b>330.3</b>	<b>316.3</b>
Corporate	18.1	8.8	8.8
TELECOM Project	7.1	0	0
Reinforcements Type 1	160.6	196.5	200.1
Reinforcements Type 2	63.3	23.3	8.4
New connections	24.6	3.1	0
PMT	31.5	47.1	61.3
PMIS	45.9	38.4	24
Capitalization staff	12.5	13.1	13.8
<b>Contributions to subsidiaries (B)</b>	<b>413.6</b>	<b>159.1</b>	<b>21.4</b>
IEMG	15.2	0	0
IENNE	3.2	0	0
IEPinheiros	24.5	0	0
IESul	19	0.3	0
IEMadeira	303.1	158.8	21.4
Serra do Japi	48.5	0	0
<b>Total (A+B)</b>	<b>777.2</b>	<b>489.4</b>	<b>337.6</b>

In order to ensure the effectiveness of the Multiyear Investment Plan, CTEEP will seek financial support from different sources to fund its investments in the reinforcements, new connections, maintenance (PMT and PMIS) and Telecom projects, as well as its contributions to its subsidiaries.

**7. Corporate governance**

Since its organization, CTEEP has improved its management processes and control systems. The Company was the first power company in the State of São Paulo to adhere Level 1 of Bovespa's Corporate Governance in September 2002. With the adhesion, in addition to integrating Ibovespa, it became part of the Corporate Governance Index (IGC), theoretical portfolio of shares of companies that exhibit high standards of personal relationships with all its shareholders and other stakeholders.

Code of Ethics and Code of Corporate Governance

In line with best practices of the market management, CTEEP Board of Directors approved the creation of Code of Ethics and Code of Corporate Governance of the Company.

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Management Report - Year 2010

### **7. Corporate governance - Continued**

#### Code of Ethics and Code of Corporate Governance - Continued

Constructed with the participation of the employees, the Code of Ethics is a milestone in the development of corporate transparency and in the Company's relationship with its stakeholders. CTEEP always maintained an ethical behavior that throughout its history, has guided the actions of its employees. And the existence of a specific code on the subject will strengthen the commitment of all the ethical principles defined by the Company.

The Code of Corporate Governance, in turn, aims to translate CTEEP ethical principles into objective recommendations in order to guide the relationship between shareholders, the Board of Directors, Audit Committee and Executive Board.

In the governance model adopted by CTEEP, which prioritizes the administrative efficiency and professionalism of their managers, boards and committees play an important role as central decision-making forums and definition of the general guideline of the Company's business. These include the Boards of Directors and Audit Committee and the specialized committees of Internal Audit and Compensation.

### **8. Capital market**

The CTEEP common and preferred shares (BM&FBovespa: TRPL3 and TRPL4) ended 2010 quoted at R\$ 61.10 and R\$ 55.10, respectively, representing an increase of 13.15% and 6.47%, also respectively, compared to 2009. During the year, Ibovespa presented an increase of 1.04% and the Electric Power Index (IEE) increased by 11.98%.

Over the years, the CTEEP preferred shares presented a daily average volume of trading at BM&FBovespa R\$ 7.2 million, with a daily average of 690 businesses.

CTEEP also participates in the program sponsored of American Depositary Receipts (ADR) Level 1, backed by common and preferred shares at a ratio of 1 Depositary Share for every share of both species. At the end of the year 2010, the Company's shareholder was composed of 23,699 ADSs referred to the common shares and 2,066,718 ADRs referred to the preferred shares. In the same period, ADRs backed by common shares presented an increase by 33.66% and ADRs backed by preferred shares of 11.79%.

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Management Report - Year 2010

### **8. Capital markets - Continued**

#### Compensation to Shareholders

In relation to the net income in 2010, including dividends paid in January 2011, the shareholders received R\$ 573.6 million as dividends, which corresponds to R\$ 3.78 per share for both species.

#### First Public Issuance of Debentures

On January 6, 2010, CTEEP made the record at the Securities & Exchange Committee (CVM) to its 1st Public Issue of Debentures. 54,860 unsecured debentures, non convertible into shares, were subscribed and paid-in, in two series, all registered and book shares with a par value of R\$ 10,000.00, totaling R\$ 548,600,000.00.

### **9. Corporate social responsibility**

CTEEP believes that the continuity of its business rests on the commitment with its stakeholders, ensuring shared generation of a value and seeking balance and transparency in the relationships. The programs and activities carried out in 2010 progressed in the way of structuring and withstanding the industry and the Company growth.

#### Customers

One of the focuses of action of CTEEP is to build sustainable relationships with its customers and thus provide quality services at competitive costs. In 2010, the Company continued the Customer Satisfaction Research in Operations, Maintenance and Developments areas reaching the result of 79.5% in the customer satisfaction index (CSI). The index measures changes in the perception of the customers against various factors and effectiveness of action plans to ensure continuous improvement in the relationship and the contribution of CTEEP for the electric sector to provide a quality service to the community.

#### Suppliers

In order to build relationships of trust and transparency with its suppliers, CTEEP holds regular meetings for the presentation of results, demands and strategies of supplies and in 2010, performed the first evaluation of CTEEP Supplier Award, whose result and awarding will occur in 2011 and to recognize the best partners from a evaluation process based on criteria, such as quality, innovation and social responsibility.



## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Management Report - Year 2010

### **9. Corporate social responsibility - Continued**

#### Shareholders and Investors

The permanent communication with shareholders and the market is part of the position adopted by CTEEP. In 2010, the Company strengthened this position by participating in five conferences with investors and eight non deal road shows, and holding meetings at the Company's main place of business, in addition to responses by e-mail and telephone.

It also strengthened its relationship with the individual investor by participating in the 8th Expomoney Edition, financial education event for active and potential investors, when it received the award "Respect for the Individual Investor".

#### State

CTEEP maintains active participation in boards of directors, committees, commissions of government bodies and professional associations in order to contribute to the discussions relevant to the development of the power sector. By means of the regulatory committee, focused on proactively analyzing possible solutions to the major themes of interaction with regulating entities, CTEEP remains attentive to the management of the impacts of regulation on the business.

#### Community

Contributing to sustainable development and promoting social inclusion are guidelines that govern the CTEEP relationship with the community.

In 2010, with a focus on education, the Company has supported groups Jovens e Guri da Santa Marcelina, projects consisting of a cycle of musical training with the main purpose of promoting social inclusion of young people through music. It also promoted the Circuito Cultural Cinema at School, which involved three thousand students of public schools, encouraging the knowledge of issues such as sustainable development, citizenship and living with electrical grids.

In order to disseminate the culture, supported the exhibition of Ouros de Eldorado - Pre-Hispanic Art of Colombia, at the State Art Gallery, with pieces from Museo del Oro in Bogota, Colombia.

CTEEP maintained its partnership in Pomar Project, which provides for environmental and landscaping restoration of the banks of Pinheiros River in São Paulo, and the continuity of CUCA Project, environmental education initiative undertaken at Cantareira park for children and young people and the awareness program of the population of the risks of slash and burn next to the transmission lines.

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Management Report - Year 2010

### **9. Corporate social responsibility - Continued**

#### Community - Continued

Aiming at greater engagement with the Community and in partnership with government agencies, it worked to raise awareness of the population that lives next to the transmission lines, acting in the revitalization of spaces and creation of recreational areas and inhibiting the disposal of debris at the site, that cause damages to the surrounding population.

In the environmental management, coupled with the principle of ensuring sustainability in the conduct of its activities, minimizing the environmental impact on areas where it is installed, CTEEP invested in 2010 R\$ 2.4 million in initiatives for prevention, management, mitigation and treatment.

#### Employees

CTEEP's relationship with its 1,416 employees is guided by the Company's interests in contributing to the full development of its professionals, enhancing their performance for business growth. Thus, the company maintains discipline in the process of performance evaluation in order to identify the contribution of each employee, monitor and recognize their progress and act on developing the skills required for the business, through qualification and training of the corporate education program.

In 2010 training and qualification measures were taken aiming at the development of required skills and thus preparing the team for the challenges of the Company that reached an average of 68 annual training hours per employee. CTEEP also used e-learning training resources for 812 employees, making it possible to intensify the qualification reducing impact on displacements and optimizing the company's resources. He also developed a training matrix on the basis of the operation and maintenance activities that ensures the proper training and compliance with all regulatory training for the safe and effective exercise of the activity.

Moreover, the Internship Program continued for college level, which ended the year with 40 participants and a hiring index of 70% as well as the Inclusion of People with Disabilities program, with which it reinforces its commitment to build a culture of respect for the differences, promoting diversity.

Another initiative that has significantly advanced during the year was the Knowledge and Innovation Management Project, created in 2009 in order to retain, share, disseminate and build essential knowledge to maintain the competitiveness of CTEEP in the market.

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Management Report - Year 2010

### **10. Research and development program**

The Research and Development Program - R&D is one of the mechanisms of generation, testing, expansion and management of business and industry knowledge. Since 2001, by signing the concession contract, CTEEP thereby committed approximately R\$ 30.5 million in the development of projects completed or in progress.

As a result of this joint effort between employees and renowned researchers in the country, as well as a significant scientific and participative production in the electric power sector by 2010, 77 projects was completed and four patents were generated, and two more orders in the cycle 06/07 are expected.

In 2010, the first action for Technological Prospection was taken, within the Knowledge and Innovation Management Project, gathering together 50 experts from Brazil, USA, Italy, China and Colombia to discuss about transmission industry trends and opportunities of technological development. The results will base the strategic recommendations for Research and Development projects and the innovation processes of the Company.

In 2010, the first action for Technological Prospection was taken, within the Knowledge and Innovation Management Project, gathering together 50 experts from Brazil, USA, Italy, China and Colombia to discuss about transmission industry trends and opportunities of technological development. The results will base the strategic recommendations for Research and Development projects and the innovation processes of the Company.

CTEEP also has developed several initiatives to promote integration of the power transmission sector, improve the ability to strategically monitor the most promising and innovative technologies, acquire and share knowledge, resulting in improvement of skills and increased efficiency in the sector. Among them, the coordination of task force of R&D at ABRATE (Brazilian Association of Large Companies of Power Transmission).

### **11. Independent auditors**

Regarding the provision of services not related to the external audit, CTEEP follows principles that preserve the independence of the auditor, who should not audit his own work nor perform management functions or advocate for his customer.

The individual and consolidated financial statements with respect to the year ended on December 31, 2010 were audited by Ernst & Young Auditores Independentes S.S. ("Ernst & Young Terco").

**CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**  
Management Report - Year 2010

**11. Independent auditors - Continued**

The value of services provided by Ernst & Young Terco in 2010 was R\$ 134,998.18 and refers to consultancy to diagnose and assess the maturity level of the control environment and key management mechanisms, hired on 04/12/2010, for 6 weeks. This service provision corresponded to 52.8% of the global external audit contract.

Policies and procedures

The policies of the Company and its subsidiaries prohibit the hiring of independent auditors to provide services that lead to conflict of interest or loss of objectivity of the same.

The Management

## CTEEP - Companhia de Transmissão de Energia Elétrica Paulista

### Balance sheets

December 31, 2010 and 2009 and January 1, 2009

(In thousands of reais)

	Note	Parent company			Subsidiary		
		2010	2009 (Restated)	01.01.2009 (Restated)	2010	2009 (Restated)	01.01.2009 (Restated)
<b>Assets</b>							
<b>Current</b>							
Cash and cash equivalent	6	40,334	18,564	104,229	54,983	43,234	123,024
Accounts receivable	7	1,413,681	1,422,671	1,337,868	1,424,390	1,430,606	1,343,671
Inventories		44,791	43,328	31,952	44,791	43,328	31,952
Values receivable – Treasury secretary	8	22,938	19,439	19,786	22,938	19,439	19,786
Taxes and contributions payable	9	9,780	212,715	3,145	11,230	213,317	3,240
Advanced expenses		1,828	2,508	2,884	2,611	3,768	2,917
Others		35,944	18,863	27,545	35,802	17,190	22,093
		<b>1,569,296</b>	<b>1,738,088</b>	<b>1,527,409</b>	<b>1,596,745</b>	<b>1,770,882</b>	<b>1,546,683</b>
<b>Non-current</b>							
<b>Long term receivable</b>							
Accounts receivable	7	3,231,704	3,205,624	3,143,981	4,225,309	3,656,679	3,243,022
Values receivable Treasury secretary	8	681,129	557,027	454,639	681,129	557,027	454,639
Tax benefit – incorporated premium	10	147,911	176,743	205,575	147,911	176,743	205,575
Deferred income tax and social contribution	28	28,050	28,420	27,125	28,050	28,420	27,125
Escrows and related deposits	11	42,248	43,946	51,860	42,248	43,946	51,860
Loans with subsidiaries		56,338	-	-	-	-	-
Inventories		184,264	126,854	70,557	184,264	126,854	70,557
Others		1,267	2,405	2,405	6,624	4,382	2,407
		<b>4,372,911</b>	<b>4,141,019</b>	<b>3,956,142</b>	<b>5,315,535</b>	<b>4,594,051</b>	<b>4,055,185</b>
<b>Investments</b>							
Fixed assets	12	531,314	296,737	51,569	-	-	-
Intangible assets	13	9,044	10,086	7,974	9,194	10,260	7,974
	14	9,944	12,882	10,493	9,944	12,882	10,493
		<b>550,302</b>	<b>319,705</b>	<b>70,036</b>	<b>19,138</b>	<b>23,142</b>	<b>18,467</b>
		<b>4,923,213</b>	<b>4,460,724</b>	<b>4,026,178</b>	<b>5,334,673</b>	<b>4,617,193</b>	<b>4,073,652</b>
<b>Total assets</b>							
		<b>6,492,509</b>	<b>6,198,812</b>	<b>5,553,587</b>	<b>6,931,418</b>	<b>6,388,075</b>	<b>5,620,335</b>

	Note	Parent company			Subsidiary		
		2010	2009 (Restated)	01.01.2009 (Restated)	2010	2009 (Restated)	01.01.2009 (Restated)
Liabilities and shareholders' equity							
Current							
Loans and financing	15	133,317	518,690	294,492	332,413	592,129	345,502
Debentures	16	2,154	-	-	2,154	-	-
Suppliers		48,856	47,497	32,889	93,964	70,806	36,293
Taxes and social charges payable	17	87,731	87,439	19,171	88,745	88,505	19,476
Taxes paid in installments - Law no. 11.941	18	10,353	9,853	-	10,353	9,853	-
Regulatory charges payable	19	49,244	39,742	36,528	49,559	40,018	36,528
Interests on shareholders' equity and dividends payable	23(b)	193,822	6,116	4,882	193,822	6,116	4,882
Allowances	20	22,284	27,523	34,895	22,662	27,688	34,895
Values payable – CESP foundation	21	6,503	6,917	6,210	6,503	6,917	6,210
Others		12,885	22,182	5,111	13,874	29,313	6,806
		<b>567,149</b>	<b>765,959</b>	<b>434,178</b>	<b>814,049</b>	<b>871,345</b>	<b>490,592</b>
Non-current							
Long term payable							
Loans and financing	15	450,577	419,786	511,286	540,032	457,281	511,286
Debentures	16	553,639	-	-	553,639	-	-
Taxes paid in installments - Law no. 11.941	18	144,964	137,885	-	144,964	137,885	-
PIS and COFINS deferred		24,430	16,896	-	117,632	60,218	9,697
Deferred income tax and social contribution	28	-	-	-	9,352	3,060	637
Regulatory charges payable	19	2,174	3,269	2,805	2,174	3,269	2,805
Allowances	20	161,688	167,953	174,152	161,688	167,953	174,152
Special liabilities – reversal/amortization	22	24,053	24,053	24,053	24,053	24,053	24,053
		<b>1,361,525</b>	<b>769,842</b>	<b>712,296</b>	<b>1,553,534</b>	<b>853,719</b>	<b>722,630</b>
Net equity							
Capital	23	1,119,911	1,063,049	1,000,000	1,119,911	1,063,049	1,000,000
Capital reserve		2,231,113	2,259,945	2,286,374	2,231,113	2,259,945	2,286,374
Profit reserve		1,014,124	971,069	891,683	1,014,124	971,069	891,683
Distribution proposal of additional dividend		198,021	368,282	228,390	198,021	368,282	228,390
Advance for future capital increase		666	666	666	666	666	666
		<b>4,563,835</b>	<b>4,663,011</b>	<b>4,407,113</b>	<b>4,563,835</b>	<b>4,663,011</b>	<b>4,407,113</b>
Total liabilities and net equity		<b>6,492,509</b>	<b>6,198,812</b>	<b>5,553,587</b>	<b>6,931,418</b>	<b>6,388,075</b>	<b>5,620,335</b>

The notes are part of the financial statements.

## CTEEP - Companhia de Transmissão de Energia Elétrica Paulista

Income and comprehensive income statement  
December 31, 2010 and 2009  
(In thousands of reais)

	Note	Parent company		Subsidiary	
		2010	2009 (Restated)	2010	2009 (Restated)
Net operating revenue	24	<b>1,735,190</b>	1,815,000	<b>2,256,286</b>	2,149,012
Construction and maintenance and operation services costs	25	<b>(474,656)</b>	(442,765)	<b>(948,270)</b>	(714,992)
Gross income		<b>1,260,534</b>	1,372,235	<b>1,308,016</b>	1,434,020
operating (expenses) revenue					
General and administrative	25	<b>(118,028)</b>	(164,967)	<b>(129,851)</b>	(213,641)
Management fees	25	<b>(5,966)</b>	(7,989)	<b>(8,082)</b>	(9,362)
Financial expenses	26	<b>(385,305)</b>	(420,597)	<b>(403,846)</b>	(427,748)
Financial revenue	26	<b>43,553</b>	153,744	<b>47,557</b>	156,027
Other expenses, net	27	<b>(23,842)</b>	(48,146)	<b>(23,840)</b>	(48,146)
Equity in the earnings		<b>12,553</b>	4,445		
Operating profit		<b>783,499</b>	888,725	<b>789,954</b>	891,150
Income tax and social contribution					
Current	28	<b>(222,549)</b>	(278,654)	<b>(222,630)</b>	(278,654)
Deferred	28	<b>(372)</b>	1,294	<b>(6,746)</b>	(1,131)
Profit before reversal of interest on shareholders' equity		<b>560,578</b>	611,365	<b>560,578</b>	611,365
Reversal of interest on shareholders' equity		<b>251,593</b>	250,610	<b>251,593</b>	250,610
Net income of the year		<b>812,171</b>	861,975	<b>812,171</b>	861,975
Basic and diluted earnings per share – R\$		<b>5.36207</b>	5.7533		

The Company did not determine other items that are characterized as "comprehensive income" under CPC 26, in the periods presented and therefore is not presenting the statement of comprehensive income.

The notes of the management are part of the financial statements.

## CTEEP - Companhia de Transmissão de Energia Elétrica Paulista

Statement of equity  
December 31, 2010 and 2009  
(In thousands of reais)

	Profit reserves						Proposal of distribution of additional dividends	Advance for future capital increase	Total	
	Capital	Capital reserve	Legal reserve	Statutory reserve	Unrealized profit	Reserve of earned income				Accrued profits
On January 1, 2009	1,000,000	2,286,374	133,753	100,000	38,809	619,121	-	228.390	666	4.407.113
Capital increase (Note 23 (a))	63,049	(26,429)	-	-	-	-	-	-	-	36.620
Realization of reserve of unrealized profit	-	-	-	-	(2,276)	-	2,276	-	-	-
Payment of dividends	-	-	-	-	-	-	-	(228.390)	-	(228.390)
Interest on prescribed shareholders' equity	-	-	-	-	-	-	283	-	-	283
Prescribed dividends	-	-	-	-	-	-	307	-	-	307
Net income of the year	-	-	-	-	-	-	861,975	-	-	861.975
Allocation of profit:										
Constitution of legal reserve	-	-	41,401	-	-	-	(41,401)	-	-	-
Constitution of statutory reserve	-	-	-	6,305	-	-	(6,305)	-	-	-
Reserve of earned income	-	-	-	-	-	33,956	(33,956)	-	-	-
Interest on shareholders' equity (R\$ 1,671031 per share)	-	-	-	-	-	-	(250,610)	-	-	(250.610)
Interim dividends (R\$ 1.094182 per share)	-	-	-	-	-	-	(164,287)	-	-	(164.287)
Proposed dividends (R\$ 2.444514 per share)	-	-	-	-	-	-	(368,282)	368.282	-	-
On December 31, 2009 (restated)	<b>1,063,049</b>	<b>2,259,945</b>	<b>175,154</b>	<b>106,305</b>	<b>36,533</b>	<b>653,077</b>	<b>-</b>	<b>368.282</b>	<b>666</b>	<b>4.663.011</b>
Capital increase (Note 23 (a))	56,862	(28,832)	-	-	-	-	-	-	-	28.030
Realization of reserve of unrealized profit	-	-	-	-	(3,240)	-	3,240	-	-	-
Payment of dividends	-	-	-	-	-	-	-	(368.282)	-	(368.282)
Interest on prescribed shareholders' equity	-	-	-	-	-	-	774	-	-	774
Prescribed dividends	-	-	-	-	-	-	1,748	-	-	1.748
Net income of the year	-	-	-	-	-	-	812,171	-	-	812.171
Allocation of profit:										
Constitution of legal reserve	-	-	40,609	-	-	-	(40,609)	-	-	-
Constitution of statutory reserve	-	-	-	5,686	-	-	(5,686)	-	-	-
Interest on shareholders' equity (R\$ 1,660255 per share)	-	-	-	-	-	-	(251,593)	-	-	(251.593)
Interim dividends (R\$ 2,120969 per share)	-	-	-	-	-	-	(322,024)	-	-	(322.024)
Proposed dividends (R\$ 1,304237 per share)	-	-	-	-	-	-	(198,021)	198.021	-	-
On December 31, 2010	<b>1,119,911</b>	<b>2,231,113</b>	<b>215,763</b>	<b>111,991</b>	<b>33,293</b>	<b>653,077</b>	<b>-</b>	<b>198.021</b>	<b>666</b>	<b>4.563.835</b>

The Company did not determine other items that are characterized as "comprehensive income" under CPC 26, in the periods presented and therefore is not presenting the statement of comprehensive income.

The notes are part of the financial statements.



## CTEEP - Companhia de Transmissão de Energia Elétrica Paulista

### Statements of Cash Flows

Years ended on December 31, 2010 and 2009

(In thousands of reais)

	Parent company		Subsidiary	
	2010	2009 (Restated)	2010	2009 (Restated)
Cash flow from operating activities				
Net income of the year	<b>812,171</b>	861,975	<b>812,171</b>	861,975
Adjustments to reconcile net income to cash from operating activities				
PIS and COFINS deferred	<b>7,534</b>	16,896	<b>60,023</b>	50,521
Depreciation and amortization	<b>6,021</b>	4,702	<b>6,047</b>	4,713
Deferred income tax and social contribution	<b>372</b>	(1,294)	<b>6,746</b>	1,131
Allowance for contingencies	<b>1,042</b>	3,087	<b>1,042</b>	3,087
Residual value of written off permanent assets	<b>1,535</b>	175	<b>1,563</b>	175
Tax benefit – incorporated premium	<b>28,832</b>	28,832	<b>28,832</b>	28,832
Interest and exchange and monetary variation on assets and liabilities	<b>127,062</b>	63,009	<b>127,062</b>	65,523
Loss on change of interest in joint subsidiary	<b>160</b>	-	<b>160</b>	-
Equity in the earnings	<b>(12,553)</b>	(4,445)	-	-
(increase) decrease of assets				
Accounts receivable	<b>(16,036)</b>	(116,439)	<b>(582,470)</b>	(470,589)
Inventories	<b>(58,873)</b>	(67,673)	<b>(58,873)</b>	(67,673)
Values receivable - Treasury secretary	<b>(122,256)</b>	(102,199)	<b>(122,256)</b>	(102,199)
Taxes and contributions payable	<b>202,935</b>	(209,570)	<b>202,055</b>	(210,077)
Escrows and related deposits	<b>1,698</b>	7,948	<b>1,704</b>	7,942
Others	<b>(71,599)</b>	10,119	<b>(76,114)</b>	8,578
Increase (decrease) of liabilities				
Suppliers	<b>1,359</b>	14,608	<b>22,746</b>	34,513
Taxes and social charges payable	<b>292</b>	68,268	<b>396</b>	69,030
Taxes paid in installments - Law no. 11.941	-	147,738	-	147,738
Regulatory charges payable	<b>8,407</b>	3,678	<b>8,445</b>	3,955
Allowances	<b>(12,546)</b>	(19,525)	<b>(12,307)</b>	(19,425)
Values payable CESP foundation	<b>(414)</b>	704	<b>(414)</b>	704
Others	<b>(9,295)</b>	19,933	<b>47,730</b>	19,997
Net cash from operating activities	<b>895,848</b>	<b>730,527</b>	<b>474,288</b>	<b>438,451</b>

## CTEEP - Companhia de Transmissão de Energia Elétrica Paulista

Statements of Cash Flows - Continued  
 Years ended on December 31, 2010 and 2009  
 (In thousands of reais)

	Parent company		Subsidiary	
	2010	2009 (Restated)	2010	2009 (Restated)
Cash flow from investing activities				
Fixed assets	(3,575)	(5,053)	(3,605)	(5,238)
Intangible assets	-	(4,342)	-	(4,342)
Investments	(222,184)	(240,723)	-	-
Net cash applied in investing activities	(225,759)	(250,118)	(3,605)	(9,580)
Cash flow from financing activities				
Loans additions	709,017	464,347	993,458	576,959
Payment of loans (includes interest)	(633,691)	(425,586)	(728,747)	(480,785)
Dividends paid	(751,675)	(641,455)	(751,675)	(641,455)
Payment of capital	28,030	36,620	28,030	36,620
Net cash used in financing activities	(648,319)	(566,074)	(458,934)	(508,661)
Net increase (decrease) in cash and cash equivalent	21,770	(85,665)	11,749	(79,790)
Cash and cash equivalent at the end of the year	40,334	18,564	54,983	43,234
Cash and cash equivalent at the beginning of the year	18,564	104,229	43,234	123,024
Change in cash and cash equivalent	21,770	(85,665)	11,749	(79,790)

The total interest paid during the period was R\$ 135,548 (12.31.2009 - R\$ 63,994) relating to loans and financing described in Note 15.

The notes are part of the financial statements.

## CTEEP - Companhia de Transmissão de Energia Elétrica Paulista

Statement of value added  
Years ended on December 31, 2010 and 2009  
(In thousands of reais)

	Parent company		Subsidiary	
	2010	2009 (Restated)	2010	2009 (Restated)
Revenue				
Operating	<b>1,977,057</b>	2,087,453	<b>2,551,543</b>	2,455,811
Others operating	<b>6,028</b>	282	<b>6,030</b>	282
	<b>1,983,085</b>	2,087,735	<b>2,557,573</b>	2,456,093
Inputs acquired from third parties				
Costs of services provided	<b>(11,876)</b>	(11,476)	<b>(484,786)</b>	(281,079)
Materials, power, services of third parties and others	<b>(381,944)</b>	(433,700)	<b>(392,804)</b>	(483,974)
	<b>(393,820)</b>	(445,176)	<b>(877,590)</b>	(765,053)
Gross value added	<b>1,589,265</b>	1,642,559	<b>1,679,983</b>	1,691,040
Withholding				
Depreciation and amortization	<b>(6,021)</b>	(4,701)	<b>(6,047)</b>	(4,712)
Net value added produced by the entity	<b>1,583,244</b>	1,637,858	<b>1,673,936</b>	1,686,328
Received in transfer				
Equity in the earnings	<b>12,553</b>	4,445	-	-
Financial revenue	<b>43,553</b>	153,744	<b>47,557</b>	156,027
Total value added to be distributed	<b>1,639,350</b>	1,796,047	<b>1,721,493</b>	1,842,355
Distribution of value added				
Staff				
Direct compensation	<b>(118,649)</b>	(120,128)	<b>(121,546)</b>	(121,752)
Benefits	<b>(31,673)</b>	(28,521)	<b>(32,074)</b>	(28,683)
DISMISSAL COMPENSATION FUND	<b>(10,176)</b>	(7,914)	<b>(10,306)</b>	(8,390)
	<b>(160,498)</b>	(156,563)	<b>(163,926)</b>	(158,825)
Taxes, fees and contributions				
Federal	<b>(509,895)</b>	(588,308)	<b>(570,070)</b>	(625,204)
State	<b>(596)</b>	(753)	<b>(595)</b>	(753)
Local	<b>(12,576)</b>	(10,532)	<b>(12,576)</b>	(10,532)
	<b>(523,067)</b>	(599,593)	<b>(583,241)</b>	(636,489)
Compensation of capital from third parties				
Rents	<b>(10,661)</b>	(8,977)	<b>(10,661)</b>	(8,977)
Interest and monetary and exchange variation	<b>(132,953)</b>	(168,939)	<b>(151,494)</b>	(176,089)
	<b>(143,614)</b>	(177,916)	<b>(162,155)</b>	(185,066)
Compensation of shareholders' equity				
Interest on shareholders' equity and dividends	<b>(771,638)</b>	(783,179)	<b>(771,638)</b>	(783,179)
Earned income	<b>40,533</b>	78,796	<b>40,533</b>	78,796

The notes are part of the financial statements.

# **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Notes to the financial statements  
December 31, 2010 and 2009  
(In thousand of reais, except as otherwise indicated)

## **1. Operating context**

### **1.1 Corporate purpose**

CTEEP - Companhia de Transmissão de Energia Elétrica Paulista (“CTEEP” or “Company”) is a publicly held corporation, authorized to operate as a public utility of electric power, having as main activities the planning, construction and operation of power transmission systems, as well as research and development programs with respect to power transportation and other activities related to the available technology, and its activities are regulated and supervised by the National Electric Power Agency - ANEEL.

The Company arising from a partial spin-off of Companhia Energética de São Paulo (“CESP”) and started its business operations on April 1, 1999. On November 10, 2001, acquired EPTE - Empresa Paulista de Transmissão de Energia Elétrica S.A. (“EPTE”), a company arising from the partial spin-off of Eletropaulo - Eletricidade de São Paulo S.A.

In a privatization auction held on June 28, 2006, the Stock Exchange of São Paulo - BOVESPA, under Call for Tender SF/001/2006 the state government of São Paulo, until then majority shareholder, disposed of 31,341,890,064 common shares held by it, corresponding to 50.10% of the common shares issued by CTEEP. The company that won the auction was Interconexión Eléctrica S.A. E.S.P.

The financial settlement was carried out on July 26, 2006 with the consequent transfer of ownership of said shares to ISA Capital do Brasil S.A. (“ISA Capital”), a Brazilian company controlled by Interconexión Eléctrica S.A. E.S.P. (“ISA”), incorporated to operate in Brazil, which thereby became the parent company of CTEEP. Such operation was approved by ANEEL, on July 25, 2006, according to Authorizing Resolution 642/06, published at the Official Gazette of July 26, 2006.

The Company's shares are traded on BOVESPA. Additionally, CTEEP has an “American Depositary Receipts” program - ADRs - Rule 144 in the United States. The ADRs depository is The Bank of New York, and Banco Itaú S.A. is the custodian.

In September 2002, the Company adhered to the different practices of Corporate Governance - Level 1 of BOVESPA. The commitments assumed arising from said adhesion ensure greater transparency of the Company with the market, investors and shareholders, facilitating the follow-up of the Management's acts.

## CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to the financial statements -- Continued  
December 31, 2010 and 2009  
(In thousand of reais, except as otherwise indicated)

### 1. Operating Context - Continued

#### 1.1 Corporate purpose - Continued

The Company has preferred shares included in BOVESPA Index - IBOVESPA and is also part of the Corporate Governance Index - IGC and Electric Power Index - IEE.

#### 1.2 Concessions

The Company has the right to explore, whether directly or indirectly, the following concession contracts of Public Utilities of Power Transmission:

Concessionaire	Contract	Interest (%)	Term (years)	Maturity	Annual revenue allowed - RAP	
					R\$	Base Month
CTEEP	059/2001		20	07.07.15	1,746,374	06/10
CTEEP	143/2001		30	12.20.31	14,384	06/10
IEMG (Note 12)	004/2007	60	30	04.23.37	12,873	06/10
IENNE (Note 12)	001/2008	25	30	03.16.38	33,327	06/10
Pinheiros (Note 12)	012/2008	100	30	10.15.38	6,756	06/10
Pinheiros (Note 12)	015/2008	100	30	10.15.38	11,383	06/10
Pinheiros (Note 12)	018/2008	100	30	10.15.38	2,903	06/10
IESul (Note 12)	013/2008	50	30	10.15.38	4,068	06/10
IESul (Note 12)	016/2008	50	30	10.15.38	7,323	06/10
IEMadeira (Note 12)	013/2009	51	30	02.25.39	176,249	11/08
IEMadeira (Note 12)	015/2009	51	30	02.25.39	151,788	11/08
Serra do Japi (Note 12)	026/2009	100	30	11.18.39	21,804	05/09

Due to the acquisition of the controlling interest of CTEEP by ISA Capital, on June 28, 2006, an Addendum to concession contract 059/2001 was executed - ANEEL of CTEEP on January 29, 2007, in order to reflect such reality of the new controlling shareholder. In such addendum, the conditions initially agreed were maintained and added a clause defining that the premium paid in the auction, as well as the special liabilities and values arising from State Law 4,819/58 set forth in Call for Tender SF/001/2006 will not be considered by ANEEL for evaluation purposes of the financial and economic concession. Also as a result of such addendum, ISA Capital do Brasil S.A. and Interconexión Eléctrica S.A. E.S.P. (Colombia) undertake to make capital contributions to CTEEP.

On May 8, 2009, through auction ANEEL #. 001/2009, held at the Stock Exchange of Rio de Janeiro, in a public session performed by BM&FBOVESPA CTEEP participated in consortia that took lots C, D and E. Below the details of the taken lots:

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Notes to the financial statements -- Continued  
December 31, 2010 and 2009  
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### **1. Operating Context - Continued**

#### **1.2 Concessions - Continued**

##### *Lot C - TL Porto Velho - Jauru*

Lot C refers to the third circuit of transmission line - TL in 230 kV between Jauru (Mato Grosso) and Porto Velho (Rondônia), totaling 987 km. To exploit this TL was constituted on July 2, 2009, Linha Verde Transmissora de Energia S.A. On May 19, 2010, Linha Verde filed, with ANEEL, an application for prior consent for the transfer of the shares held by CTEEP to Abengoa Concessões Brasil Holding S.A.

This project has an estimated investment of R\$ 380 million and annual revenue allowed (RAP) of R\$ 42.7 million, base May 2009. The Company's shareholding in the undertaking is 25.5%. The beginning of operation is scheduled for November 2011.

##### *Lot D - TL Porto Velho - Rio Branco*

This lot refers to the second circuit of the TL in 230 kV between Porto Velho (Rondônia), Abunã and Rio Branco (Acre), totaling 487 km. To exploit this TL was constituted on July 2, 2009, Rio Branco Transmissora de Energia S.A. On October 29, 2010, Rio Branco filed, with ANEEL, an application for prior consent for the transfer of the shares held by for Centrais Elétricas do Norte do Brasil S.A. - Eletronorte.

On February 15, 2011 ANEEL decided through Authorizing Resolution # 2774, the request for transfer of shares held by CTEEP to Centrais Elétricas do Norte do Brasil S.A. - Eletronorte.

##### *Lot E - TL Jauru - Cuiabá and substation and Jauru*

This lot refers to TL in 500 kV between Jauru and Cuiabá (Mato Grosso), totaling 348 km, and substation Jauru of 500/230 kV. To exploit these facilities were constituted on July 2, 2009, Transmissora Matogrossense de Energia S.A. On May 14, 2010, CTEEP transferred the Matogrossense's shares owned by it to Mavi Engenharia e Construções Ltda.

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Notes to the financial statements -- Continued  
December 31, 2010 and 2009  
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### **2. Presentation of the financial statements**

#### **2.1 Basis of preparation and presentation**

The individual financial statements, identified as "Parent Company" and "BR-GAAP" have been prepared and are being presented in compliance with accounting practices adopted in Brazil, which cover the provisions contained in the Corporate Act, pronouncements, interpretations and guidelines issued by the Accounting Pronouncement Committee ("CPC") and approved by the Brazilian Securities and Exchange Commission ("CVM"). In accordance with Brazilian laws, these individual financial statements present the evaluation of the investments in subsidiaries and joint ventures on the equity method. Therefore, these financial statements are not considered as meeting the International Financial Reporting Standards (IFRS), which require the evaluation of investments at fair value or its cost value.

In the preparation of the individual financial statements, the Company adopted the changes in accounting practices adopted in Brazil introduced by technical pronouncements CPC 15 to 40. The effects of the adoption of IFRS and new pronouncements issued by the CPC are shown in note 5.

The consolidated financial statements, identified as "Subsidiary", "BR GAAP" and "IFRS" have been prepared and are being presented in compliance with accounting practices adopted in Brazil, which cover the provisions contained in the Corporate Act, pronouncements, interpretations and guidelines issued by CPC and approved by CVM, which are in compliance with the IFRS issued by the Accounting Standards Board – IASB.

The consolidated financial statements are the first prepared in accordance with the IFRS.

Since there is no difference between subsidiary net equity and subsidiary income attributable to shareholders of the parent company, included in the consolidated financial statements prepared in accordance with the IFRS and the accounting practices adopted in Brazil, and the net equity of the parent company and the income of the parent company, included in the individual financial statements prepared in accordance with the accounting practices adopted in Brazil, the Company chose to present these individual and consolidated financial statements together, side by side.

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Notes to the financial statements -- Continued  
December 31, 2010 and 2009  
(In thousand of reais, except as otherwise indicated)

### **2. Presentation of the financial statements - Continued**

#### **2.1 Basis of preparation and presentation - Continued**

The individual and consolidated financial statements were based on the historical cost, except where otherwise stated, as described in the accounting practices below. Historical cost is usually based on the fair value of the considerations paid for the assets.

#### **2.2 Functional and presentation currency**

The financial statements of the parent company and each of its subsidiaries included in the consolidated financial statements are presented in reais, the currency of the primary economic environment in which companies operate ("functional currency").

#### **2.3 Judgment, significant accounting estimates and assumptions**

The preparation of individual and consolidated financial statements requires that the Management makes judgments, using estimates and assumptions based on objective and subjective factors, to determine the appropriate values to record certain transactions affecting assets, liabilities, revenue and expenses. Actual income from these transactions may differ from such estimates.

These judgments, estimates and assumptions are reviewed at least annually and any adjustments are recognized in the period when estimates are reviewed.

Critical judgments, estimates and assumptions are related to the following aspects: record of concession contracts, time of recognition of financial assets, determination of the revenue from construction and operation and maintenance, definition of the actual interest rate of the financial assets, credit risk analysis and other risks to determine the need for allowance, including allowances for tax, civil and labor contingencies.



## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Notes to the financial statements -- Continued  
December 31, 2010 and 2009  
(In thousand of reais, except as otherwise indicated)

### **2. Presentation of the financial statements - Continued**

#### **2.3 Judgment, significant accounting estimates and assumptions - Continued**

- *Record of concession contracts*

In recording concession contracts the Company makes analysis involving the judgment of the Management substantially in relation to: applicability of the interpretation of concession contracts, determination and classification of expenditures for construction, expansion and reinforcements as financial assets. The accounting treatment for each concession contract of the Company and its characteristics are described in notes 5.2 (a) and 7.

- *Time of recognition of the financial assets*

The Company's management evaluates the time of recognition of the financial assets based on the economic characteristics of each concession contract. The recording of additions subsequent to the financial assets only occur when the provision of construction service related to expansion/improvement/reinforcement of the infrastructure that represents potential to generate additional revenue. For these cases, the obligation of construction is not recognized upon execution of the contract, but it will at the time of construction, in consideration of financial assets. The financial assets for indemnity is recognized when the construction is completed, and included as remuneration of the construction services.

- *Determination of the actual interest rate of the financial assets*

The actual interest rate is the rate that exactly discounts the payments or receipts of the estimated future cash through the expected life of the instrument. If the entity reviews its estimates of payments or revenue, the book value of financial assets is adjusted to reflect actual and reviewed cash flows estimates, and the adjustment is recognized as revenue or expense in the income.

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Notes to the financial statements -- Continued  
December 31, 2010 and 2009  
(In thousand of reais, except as otherwise indicated)

### **2. Presentation of the financial statements - Continued**

#### **2.3 Judgment, significant accounting estimates and assumptions - Continued**

- *Determination of revenue from construction*

When the concessionaire provides construction services, construction revenue is recognized at fair value and related costs transformed into expenses related to the construction service provided and, thus, determine the profit margin. In recording of construction revenue the Company Management evaluates issues related to the primary responsibility for providing construction services, even in cases of outsourcing of services, management costs and/or monitoring of work, considering that the projects include sufficient margin to cover the construction costs plus certain expenses of the construction period. All premises described are used for purposes of determining the fair value of the construction activities.

- *Value of indemnified assets*

As defined in the contracts, the termination of the concession will lawfully determine the reversal of the property related to the service to the grantor, proceeding to surveys and assessments, as well as determining the amount of compensation payable to the concessionaire, meeting the values and dates of its incorporation to the electrical system. The Company believes that the compensation value to which it is entitled shall correspond to the New Value of Replacement adjusted for accumulated depreciation for each item. Considering the existing uncertainties today in the power market, the Company estimated the compensation value of its assets based on its respective book values, and this is the amount that the Management believes to be the minimum guaranteed by the rules in force. Whereas the Management constantly monitors electricity regulation in case of changes in these laws which may change the estimate of the compensation value of the assets, the accounting effects of these changes will be addressed prospectively in the Financial Statements. However, the Management reiterates its commitment to continue to defend the interests of the Company's shareholders in realizing these assets in order to maximize the return on the capital invested in the concession, within the legal limits.

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Notes to the financial statements -- Continued  
December 31, 2010 and 2009  
(In thousand of reais, except as otherwise indicated)

### **2. Presentation of the financial statements - Continued**

#### **2.3 Judgment, significant accounting estimates and assumptions - Continued**

- *Determination of operation and maintenance revenue*

When the concessionaire provides services for operation and maintenance, the revenue is recognized at fair value and respective costs, according to the completion stage of the contract.

- *Value and useful life of the fixed assets*

The Company did not consider the balance of the fixed assets important and therefore chose not to adopt the deemed cost practice as provided for in ICPC 10 - Interpretation on the Initial Application to Fixed Assets and Property for Investment.

Additionally, the depreciation effects resulting from the first regular analysis of the remaining useful and economic life of the fixed assets as determined by ICPC 10 were not considered relevant by the Company's management.

#### **2.4 Consolidation procedures**

The consolidated financial statements include the financial statements of CTEEP, its subsidiaries and its joint ventures.

Control is obtained when the Company has the power to control financial and operating policies of an entity to obtain benefits from its activities.

The subsidiaries and joint ventures are fully and proportionally consolidated, respectively, from the date on which control, shared control, begins to the date on which control, shared control, ceases to exist.

## CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to the financial statements -- Continued  
December 31, 2010 and 2009  
(In thousand of reais, except as otherwise indicated)

### 2. Presentation of the financial statements - Continued

#### 2.4 Consolidation procedures - Continued

On December 31, 2010 the interests in subsidiaries were as follows:

	Base date of the financial statements	Interest %	
		2010	2009
<b>Subsidiaries</b>			
Interligação Elétrica Pinheiros S.A. (Pinheiros)	12.31.2010	100	100
Interligação Elétrica Serra do Japi S.A. (Serra do Japi)	12.31.2010	100	100
<b>Joint ventures</b>			
Interligação Elétrica de Minas Gerais S.A. (IEMG)	12.31.2010	60	60
Interligação Elétrica Norte e Nordeste S.A. (IENNE)	12.31.2010	25	25
Interligação Elétrica do Sul S.A. (IESUL)	12.31.2010	50	100
Interligação Elétrica do Madeira S.A. (IEMADEIRA)	12.31.2010	51	51

Linha Verde Transmissora de Energia S.A., Rio Branco Transmissora de Energia S.A. and Transmissora Matogrossense de Energia S.A, are not included in the consolidation, as the Company has not paid in its interest in the capital of these companies.

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

- elimination of the net equity of subsidiaries;
- elimination of equity in the earnings; and
- elimination of the balances of assets and liabilities, revenue and expenses among consolidated companies.

Accounting practices were applied uniformly in all consolidated companies. All the consolidated companies had their financial statements audited by our independent auditors for the purposes of consolidation.

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Notes to the financial statements -- Continued  
December 31, 2010 and 2009  
(In thousand of reais, except as otherwise indicated)

### **3. Significant accounting practices**

#### **3.1 Determination of the income**

The income of the operations is determined in accordance with the accrual basis.

#### **3.2 Revenue recognition**

The revenue is recognized in accordance with the provisions of ICPC 01. The concessionaires should register and measure the revenue of the services provided in compliance with technical pronouncements CPC 17 - Construction Contracts and CPC 30 - Revenue (operation and maintenance services), even when provided under a single concession contract. The revenue of the Company is:

a) Construction revenue

Refers to the services of construction, expansion and reinforcement of the electric power transmission facilities. They are recognized according to the stage of completion of the works and calculated adding PIS and COFINS rates to the investment value, since the projects include sufficient margin to cover the construction costs plus certain expenses of the construction period, whereas much of its facilities is constructed through outsourced contracts with unrelated parties.

b) Financial income

Refers to interest recognized by the straight line method based on the actual interest rate on the amount receivable from construction revenue. The actual interest rate is determined by discounting the estimated future cash flows over the expected life of the financial assets on the initial book value of these financial assets.

c) Operation and maintenance revenue

Refers to the operation and maintenance services of the electric power transmission facilities in order not to interrupt the availability of these facilities.

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Notes to the financial statements -- Continued

December 31, 2010 and 2009

(In thousand of reais, except as otherwise indicated)

### **3. Significant accounting practices - Continued**

#### **3.3 Current and deferred income tax and social contribution**

They are determined by meeting the provisions of the applicable law, based on the net income, adjusted by the inclusion of non-deductible expenses, excluding non-taxable revenue and inclusion and/or exclusion of temporary differences. From 2009, the Company chose the Quarterly Taxable Income basis. By 2008, the option was the Annual Taxable Income basis.

Current and deferred income tax and social contribution of the year are calculated based on rates of 15%, plus an additional fee of 10% on taxable income in excess of R\$ 240 for income tax and 9% on taxable income for social contribution on the net income and consider the loss carry forwards and negative basis of social contribution, limited to 30% of the taxable income. Except for Interligação Elétrica de Minas Gerais S.A. (IEMG), Interligação Elétrica Pinheiros S.A. ("Pinheiros") and Interligação Elétrica do Sul S.A. ("IESUL"), which chose the Taxable Income basis, the other subsidiary are considered, for tax purposes, in pre-operating phase.

Tax deferred assets arising from temporary differences were recorded in accordance with CVM Instruction no. 371 of June 27, 2002 and CPC 32 - Income Taxes, and consider the history of profitability and the expectation of generating future taxable income based on a technical feasibility study approved by the management.

The recovery of the balance of deferred tax assets is reviewed at the end of each year, and when it is not probable that future taxable income will be available to allow recovery of any assets or part thereof, the balance of assets is adjusted by the amount expected to recover.

Deferred tax assets and liabilities are measured at the rates applicable for the period in which it is expected that the liabilities are settled or the assets are realized, based on the tax rates provided for in the tax laws in force at the end of each year, or when a new law has been substantially approved.

The deferred tax assets and liabilities are offset only when there is a legal right to offset the current tax assets with the current tax liabilities and when they are related to taxes administered by the same tax authority and the Company intends to liquidate the net value of its current tax assets and liabilities.

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Notes to the financial statements -- Continued  
December 31, 2010 and 2009  
(In thousand of reais, except as otherwise indicated)

### **3. Significant accounting practices - Continued**

#### **3.4 Financial instruments**

##### a) Financial assets

###### *(I) Classification and measurement*

Financial assets are classified into the following specific categories: financial assets at fair value through profit or loss, held to maturity investments, financial assets available for sale and loans and receivables. When an equity instrument is not quoted in an active market and its fair value can not be measured reliably, this is measured at cost and tested for impairment.

The classification depends on the purpose of the financial assets and is determined on the date of initial recognition. All usual acquisitions or disposals of financial assets are recognized or written-off based on the trade date. Usual acquisitions or disposals correspond to acquisitions or disposals of financial assets that require delivery of assets within the term established by regulation or market practice.

The actual interest method is used to calculate the amortized cost of a debt instrument and assign its interest income over the corresponding period. The actual interest rate is the rate that exactly discounts the estimated future cash receipts during the estimated life of the debt instrument or, when appropriate, for a shorter period, for the net book value on the date of initial recognition. Revenue is recognized based on the actual interest rate for debt instruments not characterized as financial assets at fair value through profit or loss.

Financial assets and liabilities are offset and the net amount is reported on the balance sheet when there is a legally enforceable right to offset the recognized values and there is the intention to settle them on a net basis, or realize the assets and settle the liabilities simultaneously.

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Notes to the financial statements -- Continued  
December 31, 2010 and 2009  
(In thousand of reais, except as otherwise indicated)

### **3. Significant accounting practices - Continued**

#### **3.4 Financial Instruments - Continued**

##### a) Financial assets - Continued

###### *(I) Classification and measurement - Continued*

- Financial assets at fair value through profit and loss

Financial assets are classified at fair value through profit or loss when they are held for trading or designated at fair value through profit and loss. Financial assets at fair value through profit or loss are carried at fair value and any gains or losses are recognized in the income. Net gains or losses recognized in the income incorporate dividends or interest determined by the financial assets, and are included under “Others gains and losses”, “in the statement of comprehensive income.

Financial assets are classified as held for trading if (i) are acquired primarily to be sold in the short term, or (ii) on initial recognition are part of a portfolio of identified financial instruments that the Company jointly manages and have a recent actual standard to obtain short-term profits, or (iii) are derivatives that have not been designated as an actual hedge instrument.

Financial assets other than those held for trading may be designated at fair value through profit or loss on initial recognition if (i) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise, or (ii) the financial assets are part of a group of managed assets or financial liabilities or both, and their performance is assessed based on the fair value in accordance with the documented strategy of risk or investment management of the Company, and when information about the grouping is provided internally with the same basis; or (iii) they are part of a contract containing one or more embedded derivatives and CPC 38 and IAS 39 allow the combined contract is fully designated at fair value through profit or loss.



## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Notes to the financial statements -- Continued  
December 31, 2010 and 2009  
(In thousand of reais, except as otherwise indicated)

### **3. Significant accounting practices - Continued**

#### **3.4 Financial Instruments - Continued**

##### a) Financial assets - Continued

###### *(I) Classification and measurement - Continued*

- Financial assets at fair value through profit and loss - Continued

On December 31, 2010, 2009 and January 1, 2009 the financial assets in this category are related to cash and cash equivalent.

- Financial assets held to maturity

The held to maturity investments correspond to non-derivative financial assets with fixed or determinable payments and fixed maturity date that the Company has the positive intention and ability to hold to maturity. After initial recognition, held to maturity Investments are measured at amortized cost using the actual interest method, less any loss for impairment.

On December 31, 2010, 2009 and January 1, 2009 the Company had no financial assets classified as held to maturity.

- Financial assets available for sale

Financial assets available for sale correspond to non derivative financial assets designated as “available for sale” or are not classified as: (a) loans and receivables, (b) investments held to maturity, or (c) financial assets at fair value through profit or loss.

Gains or losses arising from changes in fair value of financial assets classified as available for sale, when applicable, are recorded under “Other comprehensive income” in net equity, until the settlement of financial assets, when are finally reclassified for the income of the year.

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Notes to the financial statements -- Continued

December 31, 2010 and 2009

(In thousand of reais, except as otherwise indicated)

### **3. Significant accounting practices - Continued**

#### **3.4 Financial Instruments - Continued**

##### a) Financial assets - Continued

###### *(I) Classification and measurement - Continued*

- Financial assets available for sale - Continued

On December 31, 2010, 2009 and January 1, 2009 the Company had no financial assets classified as available for sale.

- Loans and receivables

Included in this classification are non-derivative financial assets with fixed or determinable receivable, which are not quoted on an active market. Are recorded in current assets, except, where applicable, those with a maturity term of more than 12 months after the balance sheet date which are classified as non-current assets.

Loans and receivables are measured at amortized cost using the actual interest method, less any loss for impairment. Interest revenue is recognized by applying the actual interest rate, except for short-term credits when the recognition of interest would be immaterial. On December 31, 2010 and 2009 and on January 1, 2009, the Company's financial assets classified in this category included the accounts receivable and values receivable - Treasury department.

###### *ii) Impairment of the financial assets*

Financial assets, except those designated at fair value through profit or loss, are assessed by indicators of the impairment at the end of each reporting period. The losses for impairment are recognized if, and only if, there is objective evidence of the impairment of the financial assets as a result of one or more events that occurred after initial recognition, with impact on the estimated future cash flows of such assets.

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Notes to the financial statements -- Continued  
December 31, 2010 and 2009  
(In thousand of reais, except as otherwise indicated)

### **3. Significant accounting practices - Continued**

#### **3.4 Financial Instruments - Continued**

##### a) Financial assets - Continued

###### *ii) Impairment of the financial assets - Continued*

The book value of the financial assets is reduced directly by the loss for impairment for all financial assets, except for accounts receivable when the book value is reduced by using an allowance. Subsequent recoveries of amounts previously written off are credited to the allowance. Changes in the book value of the allowance are recognized in the income.

###### *iii) Written-off of the financial assets*

The Company writes off financial assets, only when the contractual rights to cash flows from such assets expire, or it transfer the assets and substantially all risks and benefits of the ownership to the other company. If the Company neither transfers nor substantially retains all risks and benefits of the ownership of the financial assets, but still control the assets transferred, the retained interest and liabilities in values that should be payable are recognized. If it substantially retains all the risks and benefits of ownership of the financial assets transferred, the Company continues to recognize such assets, in addition to a loan secured by the revenues received.

In writing off all the financial assets, the difference between the book value of assets and the sum of the consideration received and receivable and accrued gain or loss that was recognized in "Other comprehensive income and accumulated in equity is recognized in the income.

##### b) Financial assets

Financial liabilities are classified at fair value through profit or loss when they are held for trading or designated at fair value through profit and loss. The other financial liabilities (including loans) are measured at amortized cost using the actual interest method.

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Notes to the financial statements -- Continued  
December 31, 2010 and 2009  
(In thousand of reais, except as otherwise indicated)

### **3. Significant accounting practices - Continued**

#### **3.4 Financial Instruments - Continued**

##### **c) Derivative instruments and hedging activities**

The Company has no policy on the use of derivative financial instruments, as well as does not have any contracts that may be considered derivative instruments.

#### **3.5 Cash and cash equivalent**

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

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

#### **3.6 Accounts receivable**

Financial assets classified as loans and receivables, includes values receivable relating to construction services, financial income and operation and maintenance services, as well as the value of indemnified assets.

The indemnified assets, recorded at the end of construction, refers to the estimated share of investments made and not amortized until the end of the concession and to which the Company will be entitled to receive cash or other financial assets, upon termination of the concession contract. As defined in the contracts, the termination of the concession will lawfully determine the reversal of the property related to the service to the grantor, proceeding to surveys and assessments, as well as determining the amount of compensation payable to the concessionaire, meeting the values and dates of its incorporation to the electrical system. The Company believes that the value of the compensation to which it is entitled shall correspond to the New Value of Replacement adjusted for accumulated depreciation for each item. Considering the existing uncertainties today in the power market, the Company estimated the compensation value of its assets based on its respective book values, and this is the amount that the Management believes to be the minimum guaranteed by the rules in force.

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Notes to the financial statements -- Continued  
December 31, 2010 and 2009  
(In thousand of reais, except as otherwise indicated)

### **3. Significant accounting practices - Continued**

#### **3.6 Accounts receivable - Continued**

Whereas the Management constantly monitors electricity regulation in case of changes in these laws which may change the estimate of the compensation value of the assets, the accounting effects of these changes will be addressed prospectively in the Financial Statements. However, the Management reiterates its commitment to continue to defend the interests of the Company's shareholders in realizing these assets in order to maximize the return on the capital invested in the concession, within the legal limits.

Based on the assessment of impairment made by the Company, no provision was made for doubtful trade accounts.

#### **3.7 Inventories**

The inventories are stated at lower of cost value and net realizable value. The inventories costs are determined by the average cost method. Net realizable value corresponds to the estimated sales price of inventories, net of all estimated costs for completion and costs required to carry out the sale.

#### **3.8 Investments**

In the separate financial statements the Company recognizes and states the investments in subsidiaries by the equity method of accounting.

#### **3.9 Fixed assets**

Basically represented by the administrative assets. The depreciation is calculated by the straight line method considering the useful life of the property.

Other expenses are capitalized only when in case of increase of the economic benefits of the item of the fixed assets. Any other type of expense is recognized in income as an expense when incurred.

The Company did not consider the balance of the fixed assets important and therefore chose not to adopt the deemed cost practice as provided for in ICPC 10 - Interpretation on the Initial Application to Fixed Assets and Property for Investment.

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Notes to the financial statements -- Continued  
December 31, 2010 and 2009  
(In thousand of reais, except as otherwise indicated)

### **3. Significant accounting practices - Continued**

#### **3.9 Fixed assets - Continued**

Additionally, the depreciation effects resulting from the first regular analysis of the remaining useful and economic life of the fixed assets as determined by ICPC 10 were not considered relevant by the Company's management.

#### **3.10 Intangible assets**

Basically represented by the expenses incurred when implementing ERP. The amortization is calculated by the straight line method considering the useful life of said system.

Additionally, the amortization effects resulting from the first regular analysis of the remaining useful and economic life of the intangible assets as determined by ICPC 10 were not considered relevant by the Company's management.

#### **3.11 Leases**

##### a) The Company as lessee

- *Operating leases*

Payments relating to operating leases are recognized as expense by the straight line method during the effectiveness of the contract, unless when another systematic basis is more representative to reflect the time when the economic benefits from the leased assets are consumed. The contingent payments from operating leases are recognized as expense when they are incurred.

- *Finance lease*

At the beginning of the contract, finance leases are recognized as assets and liabilities on their balance sheets at amounts equal to the fair value of the leased property or, if lower, the present value of minimum lease payments.

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Notes to the financial statements -- Continued  
December 31, 2010 and 2009  
(In thousand of reais, except as otherwise indicated)

### **3. Significant accounting practices - Continued**

#### **3.11 Leases - Continued**

##### a) The Company as lessee - Continued

- *Finance leases - Continued*

The discount rate used in calculating the present value of minimum lease payments is the interest rate implicit in the lease, if it is practicable to determine, otherwise, the incremental financing rate of the lessee is used. Any initial direct costs of the lessee are added to the amount recognized as asset.

##### b) The Company as lessor

The rental revenue arising from the operating lease is recognized by the straight line method during the effectiveness of said lease. Initial direct costs incurred in negotiating and preparing an operating lease are added to the book value of leased assets and recognized also by the straight line method during the effectiveness of the lease.

#### **3.12 Other current and non-current assets**

They are presented at their net realizable value.

The allowance for doubtful accounts consists of values considered unlikely to realize on the balance sheet date.

#### **3.13 Current and non-current liabilities**

They are stated at known or estimated amounts including, when applicable, related charges, monetary or exchange variations incurred through the balance sheet date.

#### **3.14 Allowances**

Allowances are recognized for the present obligations (legal or constructive) arising from past events, where it is possible to reliably estimate the values and whose settlement is likely to occur.

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Notes to the financial statements -- Continued  
December 31, 2010 and 2009  
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### **3. Significant accounting practices - Continued**

#### **3.14 Allowances - Continued**

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

When some or all of the economic benefits required to settle an allowance are expected to be recovered from a third party, an asset is recognized if, and only if the reimbursement is virtually certain and the value can be measured reliably.

Allowances for the lawsuits are recognized when the Company and its subsidiaries whether or not have a present obligation formalized as a result of past events, and it is probable that an outflow of resources is required to settle the obligation and the value can be reliably estimated. The allowances are quantified at the present value of expected disbursement to settle the liabilities, using the appropriate discount rate according to the risks related to liability.

They are adjusted through the balance sheet dates by the estimated amount of probable losses, according to their natures and supported by the opinion of the lawyers of the Company and its subsidiaries. The grounds and the nature of the allowances for tax, civil and labor risks are described in note 20 (b).

#### **3.15 Retirement plan and other benefits to employees**

The Company sponsors retirement plans and health care to its employees, administered by CESP Foundation.

The payments to retirement plans of defined contribution are recognized as expense when the services that grant the right to such payments are provided.



## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Notes to the financial statements -- Continued  
December 31, 2010 and 2009  
(In thousand of reais, except as otherwise indicated)

### **3. Significant accounting practices - Continued**

#### **3.15 Retirement plan and other benefits to employees - Continued**

In the case of retirement plans of defined benefit, the cost for concession of the benefits is determined by the Projected Credit Unit Method based on actuarial valuation carried out annually at the end of each reporting period. Actuarial gains and losses that exceed 10% of the greatest value in the previous year, between the present value of the liabilities with the defined benefits and the fair value of the plan assets are amortized over the average expected remaining period of working lives of the participating employees. The past service cost is recognized immediately, to the extent that the benefits were granted, or amortized by the straight line method for the average period until the benefits are acquired.

The liability to retirement benefit recognized in the balance sheet represents the present value of the liability with defined benefits, adjusted for actuarial gains and losses not recognized and the past service cost not recognized, reduced by the fair value of the plan assets. Any assets resulting from this calculation are limited to the amount of unrecognized actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

#### **3.16 Dividends and interest on shareholders' equity**

The recognition of dividends policy is consistent with CPC 24 and ICPC 08, which provide for that the proposed dividends that are grounded in statutory obligations should be recorded in the current liabilities. The Company's by-laws set a minimum mandatory dividend equal to 10% of the capital.

The portion of dividends above the minimum mandatory dividend, stated by the Management after the accounting period referred to in the financial statements, but before the date of authorization for issuance of said financial statements, is recorded under "Additional proposed dividend", in the net equity, according to note 23 (b).

The Company distributes interest on shareholders' equity, which are deductible for tax purposes and considered part of the mandatory dividends and are stated as allocation of income directly in the net equity.

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Notes to the financial statements -- Continued  
December 31, 2010 and 2009  
(In thousand of reais, except as otherwise indicated)

### **3. Significant accounting practices - Continued**

#### **3.17 Business segment**

Operating segments are defined as business activities from which revenue can be obtained and incur expenses, with availability of financial information separately and whose operating income is regularly reviewed by the management in the decision-making process.

In the opinion of the Company's management, in spite of recognizing revenue for the construction, and operation and maintenance activities, since such revenue arises from a single relevant public utility concession contract of power transmission, CTEEP has only one business segment: electric power transmission.

#### **3.18 Statement of Value Added ("DVA")**

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

DVA has been prepared based on information obtained from accounting records that base the preparation of the financial statements and following the provisions contained in CPC 2009 - Statement of Value Added. The first part introduces the wealth created by the Company, represented by the revenue (gross sales revenue, including taxes levied on the same, other revenue and effects of allowance for doubtful accounts), inputs acquired from third parties (cost of sales and purchases of materials, power and services from third parties, including taxes included on the acquisition, effects of loss and recovery of assets, and depreciation and amortization) and the value added received from third parties (equity in earnings, financial income and other revenue). The second part of DVA shows the distribution of wealth among staff, taxes and contributions, compensation of capital from third parties and compensation of shareholders' equity.

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Notes to the financial statements -- Continued  
December 31, 2010 and 2009  
(In thousand of reais, except as otherwise indicated)

### **4. Standards and new and reviewed interpretations but not yet adopted - Continued**

New pronouncements, amendments in existing pronouncements and new interpretations listed below have been published and are mandatory for financial years beginning on January 1, 2011 or later.

CPC has not yet issued the respective pronouncements and amendments related to new and reviewed IFRS presented in this note. Due to the commitment of CPC and CVM of keeping updated the set of standards issued based on the updates made by IASB, it is expected that these pronouncements and amendments are issued by CPC and approved by CVM through the date of its mandatory application.

The Company and its subsidiaries did not adopt in advance such amendments to its consolidated financial statements of December 31, 2010.

a) Amendment of IFRS 1 on elimination of fixed dates for the adopters of the IFRS for the first time

On December 20, 2010, IASB issued an amendment to IFRS 1 - First-time Adoption of International Financial Reporting Standards (IFRS) which addresses the elimination of fixed dates for adopters of IFRS for the first time. The amendments replace the fixed date of prospective application from January 1, 2004 to the date of transition to IFRS, so that the adopters of IFRS for the first time are not required to apply IAS 39 application for writing off retrospectively.

It does not affect the Company and its Subsidiaries in view that they are presenting the IFRS for the first time on December 31, 2010, with date of opening balance of January 1, 2009.

The amendment is required to be adopted for years beginning on or after July 1, 2011 and earlier adoption is allowed.

b) Amendment to IFRS 7 for improvements in applications for disclosures on transfers of financial assets

On October 7, 2010, IASB issued an amendment to IFRS 7 - Financial Instruments: Disclosures containing improvements that increase the applications for disclosures on transfers of financial assets. The guidance for writing off of financial assets contained in IAS 39 - Financial Instruments was not amended: Recognition and Measurement, which was incorporated in the reviewed version of IFRS 9 - Financial Instruments.

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Notes to the financial statements -- Continued

December 31, 2010 and 2009

(In thousand of reais, except as otherwise indicated)

### **4. Standards and new and reviewed interpretations but not yet adopted - Continued**

b) Amendment to IFRS 7 for improvements in applications for disclosures on transfers of financial assets - Continued

The amendments to IFRS 7 require improvements in the current level of disclosure when assets are transferred but not written-off, and introduces new disclosures for assets that are written-off, but the entity continues to have a continuous exposure to the assets after the sale. The purpose of the amendments is to allow better understanding of the relationship between the transferred financial assets and the financial obligations and risks associated with such assets.

No material impacts are expected on the financial statements of the Company and its subsidiaries upon the adoption of the amendments of such standard. The amendments are required to be adopted for years beginning on or after July 1, 2011 and earlier adoption is allowed. Disclosures for any period presented beginning before the date of mandatory adoption of the amendments are not required.

c) IFRS 9 - Financial Instruments (reviewed in 2010)

In November 2009 IFRS 9 - Financial Instruments was issued, and October 28, 2010, IASB issued a reviewed version of this standard, keeping the requirements for classification and measurement of the financial assets according to the version published in November 2009 and including guidance on the classification and measurement of financial liabilities. As part of the restructuring of IFRS 9, IASB also incorporated in the reviewed standard guidance on written-off of financial instruments and respective implementation guidance contained in IAS 39 - Financial Instruments: Recognition and Measurement.

IFRS 9 sets forth that all financial assets recognized that are inserted in the scope of IAS 39 - Financial Instruments: Recognition and Measurement (equivalent to CPC 38) are subsequently measured at amortized cost or fair value. Specifically, the debt instruments that are maintained according to a business model whose purpose is to receive the contractual cash flows, and have contractual cash flows which exclusively refer to payments of principal and interest on the principal due are usually measured at amortized cost at the end of subsequent accounting periods. All others debt instruments and investments in equity securities are measured at fair value at the end of the subsequent accounting periods.

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Notes to the financial statements -- Continued

December 31, 2010 and 2009

(In thousand of reais, except as otherwise indicated)

### **4. Standards and new and reviewed interpretations but not yet adopted - Continued**

#### **c) IFRS 9 - Financial Instruments (reviewed in 2010) - Continued**

The most significant effect of IFRS 9 related to the classification and measurement of financial liabilities refers to accounting of changes in fair value of a financial liability (designated at fair value through profit or loss) attributable to changes in credit risk of that liability. Specifically, in accordance with IFRS 9, with respect to financial liabilities recognized at fair value through profit or loss, the value of the change in fair value of the financial liabilities attributable to changes in credit risk of that liability is recognized in “Other comprehensive income” results in or increases the mismatched income. The changes in fair value attributable to credit risk of a financial liability are not reclassified in the income. Previously, in accordance with IAS 39 and CPC 38, the total value of change in fair value of financial liabilities recognized at fair value through profit or loss was recognized in the income.

No material impacts are expected on the financial statements of the Company and its subsidiaries upon the adoption of this standard.

IFRS 9 reviewed has the same date of mandatory adoption as its previous version, January 1, 2013. The reviewed version allows early adoption, but if an entity decides to apply the guidance related to the classification and measurement of financial liabilities in advance, it must also apply any other requirement of IFRS 9 that was previously completed at that time. The reviewed standard should be applied retrospectively in accordance with IAS 8.

#### **d) Amendment to IAS 12 on deferred taxes: recovery of underlying assets**

On December 20, 2010, IASB issued an amendment to IAS 12 - Income Taxes named Deferred Tax: Recovery of Underlying Assets. IAS 12 requires an entity to measure the deferred tax relating to assets depending on whether the entity expects to recover the book value of the assets through use or sale.

No material impacts are expected on the financial statements of the Company and its subsidiaries upon the adoption of the amendments of such standard.

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Notes to the financial statements -- Continued

December 31, 2010 and 2009

(In thousand of reais, except as otherwise indicated)

### **4. Standards and new and reviewed interpretations but not yet adopted - Continued**

- d) Amendment to IAS 12 on deferred taxes: recovery of underlying assets - Continued

The amendments are required to be adopted for years beginning on or after January 1, 2012 and earlier adoption is allowed.

- e) IAS 24 - Disclosure of related party transaction (reviewed in 2009)

In 2009, IASB issued an amendment to IAS 24 - Related Party Disclosures. The reviewed standard simplifies the disclosure requirements for entities that are subsidiary, joint venture or significantly influenced by a government (referred to as government-related entities) and amends the definition of a related party. The standard requires retroactive application. Thus, in the year of initial requirement, disclosures for the comparative period must be corrected.

The Company is evaluating any impact since it has related parties linked to the government.

The amendments are required to be adopted for years beginning on or after January 1, 2011 and earlier adoption is allowed.

- f) Amendment to IAS 32 on the classification of rights, options and warrants

The amendments to IAS 32 - Financial Instruments: Disclosure and Presentation - addresses the criteria for classification of certain instruments denominated in foreign currency as an equity instrument or as a financial liability.

No material impacts are expected on the financial statements of the Company and its subsidiaries upon the adoption of the amendments of such interpretation.

The amendments are required to be adopted for years beginning on or after January 1, 2010 and earlier adoption is allowed.

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Notes to the financial statements -- Continued  
December 31, 2010 and 2009  
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### **4. Standards and new and reviewed interpretations but not yet adopted - Continued**

g) Amendment to IFRIC 14 on advanced payment of minimum funding requirement

Amendment to interpretation IFRIC 14 - Limit on a Defined Benefit Asset/Minimum Funding Requirements - was made in November 2009 to address situations in which an entity advances the payment of contributions to meet the funding requirement. These advances allow that the benefit of this advance is recognized as an asset.

No material impacts are expected on the financial statements of the Company and its subsidiaries upon the adoption of the amendments of such interpretation.

The amendments are required to be adopted for years beginning on or after January 1, 2011 and earlier adoption is allowed.

h) IFRIC 19 - Extinguishment of financial liabilities with equity instruments

Interpretation issued on November 26, 2009 addressing when the financial liability ceases to exist and in turn the entity issues an equity instrument.

No material impacts are expected on the financial statements of the Company and its subsidiaries upon the adoption of the amendments of such interpretation.

The interpretation is required to be adopted for years beginning on or after July 1, 2010 and earlier adoption is permitted.

i) Improvements to IFRS 2010

On May 6, 2010, IASB issued a document named Improvements to IFRS 2010, incorporating the amendments in seven standards. This is the third set of amendments issued through the annual process of improvement, which is designed to make the necessary but not urgent improvements in IFRS.

The Company and its subsidiaries are analyzing the possible impacts on its financial statements from the adoption of these improvements, but it is not expected that these impacts are important.

## CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to the financial statements -- Continued  
 December 31, 2010 and 2009  
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### 4. Standards and new and reviewed interpretations but not yet adopted - Continued

#### i) Improvements to IFRS 2010--Continued

The following table summarizes all the improvements made to existing standards and interpretations:

<u>Standard</u>	<u>Amendment object</u>	<u>Adoption and transition</u>
	Amendments to accounting policies in the year of adoption	Mandatory adoption for years beginning on or after January 1, 2011 and earlier adoption is permitted.
IFRS 1 – First-time Adoption of International Financial Reporting Standards	Revaluation as deemed cost	Mandatory adoption for years beginning on or after January 1, 2011 and earlier adoption is permitted.
	Use of the deemed cost for transactions subject to regulated prices	Mandatory adoption for years beginning on or after January 1, 2011 and earlier adoption is permitted.
	Measurement of noncontrolling interest	Mandatory adoption for years beginning on or after July 1, 2010. It should be applied prospectively from the date when the entity adopts IFRS 3 (2008). Earlier adoption is allowed.
IFRS 3 - Business Combinations (2008)	Payment of share-based premiums not replaced or voluntarily replaced	Mandatory adoption for years beginning on or after July 1, 2010. It should be applied prospectively from the date when the entity adopts IFRS 3 (2008). Earlier adoption is allowed.
	Requirements of transition for contingent considerations of a business combinations that occurred before the date of mandatory adoption of IFRS 3 (2008)	Mandatory adoption for years beginning on or after June 1, 2010 and earlier adoption is permitted.
IFRS 7 - Financial Instruments: Disclosures	Clarifications on disclosures	Mandatory adoption for years beginning on or after January 1, 2011 and earlier adoption is permitted.
IAS 1 - Presentation of Financial Statements	Clarification on the statement of equity	Mandatory adoption for years beginning on or after January 1, 2011 and earlier adoption is permitted.
IAS 27 - Consolidated and Separate Financial Statements (2008)	Requirements of transition arising from amendments introduced by IAS 27 (2008)	Mandatory adoption for years beginning on or after July 1, 2010 and earlier adoption is permitted.
IAS 34 – Interim Financial Reporting	Significant events and transactions	Mandatory adoption for years beginning on or after July 1, 2011 and earlier adoption is permitted.
IFRIC 13 – Customer Loyalty Programs	Fair value of premium credits	Mandatory adoption for years beginning on or after January 1, 2011 and earlier adoption is permitted.



## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Notes to the financial statements -- Continued  
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### **5. Effects of adoption of IFRS and new pronouncements issued by CPC**

#### **5.1 Effect on the financial statements**

##### a) Parent company

In preparing its individual financial statements (Parent company), the Company adopted all the pronouncements and respective technical interpretations and technical guidelines issued by CPC and approved by CVM, which together with the accounting practices included in the Brazilian corporate law are known as accounting practices adopted in Brazil (BR GAAP).

The Company applied the accounting policies set forth in note 3 in all periods presented, which includes the opening balance sheet on January 1, 2009. In the measurement of the adjustments and preparation of the opening balance sheet, the Company applied the requirements of CPC 43(R1) - First-time adoption of the Technical Pronouncements CPC 15 to 40, adjusting its individual financial statements so that they produced when consolidated the same value of net equity attributable to the owners of the parent company and income in relation to the consolidation prepared according to IFRS through application of IFRS 1 and CPC 37(R1) - First-time adoption of the International Accounting Standards. For such purpose, the Company made in the two individual financial statements the adjustments made for adoption of IFRSs in the consolidated financial statements according to note 3 above. This procedure was adopted to obtain the same income and net equity attributable to the owners of the parent company in the individual and consolidated financial statements.

## CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to the financial statements -- Continued

December 31, 2010 and 2009

(In thousand of reais, except as otherwise indicated)

### 5. Effects of adoption of IFRS and new pronouncements issued by CPC - Continued

#### 5.1 Effect on the financial statements - Continued

##### a) Parent company - Continued

##### i) *Balance Sheet*

	Item 5.2	December 31, 2009			January 1, 2009		
		BR GAAP	Effect of transition to IFRS	IFRS	BR GAAP	Effect of transition to IFRS	IFRS
<b>Assets</b>							
<b>Current</b>							
Cash and cash equivalent		18,564	-	18,564	104,229	-	104,229
Accounts receivable	(a)	288,683	1,133,988	1,422,671	299,329	1,038,539	1,337,868
Inventories		43,328	-	43,328	31,952	-	31,952
Values receivable – Treasury department		19,439	-	19,439	19,786	-	19,786
Taxes and contributions payable		212,715	-	212,715	3,145	-	3,145
Tax benefit – incorporated premium	(b)	28,832	(28,832)	-	28,832	(28,832)	-
Deferred taxes	(c)	31,472	(31,472)	-	11,315	(11,315)	-
Advanced expenses		2,508	-	2,508	2,884	-	2,884
Others		18,863	-	18,863	27,545	-	27,545
		<u>664,404</u>	<u>1,073,684</u>	<u>1,738,088</u>	<u>529,017</u>	<u>998,392</u>	<u>1,527,409</u>
<b>Non-current</b>							
<b>Long term receivable</b>							
Accounts receivable	(a)	62,074	3,143,550	3,205,624	45,088	3,098,893	3,143,981
Values receivable Treasury department		557,027	-	557,027	454,639	-	454,639
Tax benefit – incorporated premium	(b)	147,911	28,832	176,743	176,743	28,832	205,575
Deferred income tax and social contribution	(c)	67,078	(38,658)	28,420	76,648	(49,523)	27,125
Escrows and related deposits		43,946	-	43,946	51,860	-	51,860
Inventories	(a)	-	126,854	126,854	-	70,557	70,557
Others		2,405	-	2,405	2,405	-	2,405
		<u>880,441</u>	<u>3,260,578</u>	<u>4,141,019</u>	<u>807,383</u>	<u>3,148,759</u>	<u>3,956,142</u>
<b>Investments</b>							
Fixed assets	(a)	4,272,259	(4,262,173)	10,086	4,158,514	(4,150,540)	7,974
Intangible assets	(a)	70,331	(57,449)	12,882	67,942	(57,449)	10,493
		<u>4,633,383</u>	<u>(4,313,678)</u>	<u>319,705</u>	<u>4,276,788</u>	<u>(4,206,752)</u>	<u>70,036</u>
		<u>5,513,824</u>	<u>(1,053,100)</u>	<u>4,460,724</u>	<u>5,084,171</u>	<u>(1,057,993)</u>	<u>4,026,178</u>
<b>Total assets</b>		<b><u>6,178,228</u></b>	<b><u>20,584</u></b>	<b><u>6,198,812</u></b>	<b><u>5,613,188</u></b>	<b><u>(59,601)</u></b>	<b><u>5,553,587</u></b>

## CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to the financial statements -- Continued

December 31, 2010 and 2009

(In thousand of reais, except as otherwise indicated)

### 5. Effects of adoption of IFRS and new pronouncements issued by CPC - Continued

#### 5.1 Effect on the financial statements - Continued

##### a) Parent company - Continued

##### i) *Balance Sheet* - Continued

	Item 5.2	December 31, 2009			January 1, 2009		
		BR GAAP	Effect of transition to IFRS	IFRS	BR GAAP	Effect of transition to IFRS	IFRS
Liabilities and shareholders' equity							
Current							
Loans and financing		518,690	-	518,690	294,492	-	294,492
Suppliers		47,497	-	47,497	32,889	-	32,889
Taxes and social charges payable		87,439	-	87,439	19,171	-	19,171
Taxes paid in installments - Law no. 11.941		9,853	-	9,853	-	-	-
Regulatory charges payable		39,742	-	39,742	36,528	-	36,528
Interests on shareholders' equity and dividends payable	(e)	374,398	(368,282)	6,116	233,272	(228,390)	4,882
Allowances		27,523	-	27,523	34,895	-	34,895
Values payable – CESP foundation		6,917	-	6,917	6,210	-	6,210
Adjustment installment	(a)	21,277	(21,277)	-	-	-	-
Others		22,182	-	22,182	5,111	-	5,111
		<u>1,155,518</u>	<u>(389,559)</u>	<u>765,959</u>	<u>662,568</u>	<u>(228,390)</u>	<u>434,178</u>
Non-current							
Long term payable							
Loans and financing		419,786	-	419,786	511,286	-	511,286
Taxes paid in installments - Law no. 11.941		137,885	-	137,885	-	-	-
Deferred PIS and COFINS	(a)	-	16,896	16,896	-	-	-
Regulatory charges payable		3,269	-	3,269	2,805	-	2,805
Allowances		167,953	-	167,953	174,152	-	174,152
Values payable - CESP foundation	(f)	13,601	(13,601)	-	68,503	(68,503)	-
Special liabilities reversal/ amortization		24,053	-	24,053	24,053	-	24,053
Adjustment installment	(a)	21,277	(21,277)	-	-	-	-
Discount	(g)	49,540	(49,540)	-	66,525	(66,525)	-
		<u>837,364</u>	<u>(67,522)</u>	<u>769,842</u>	<u>847,324</u>	<u>(135,028)</u>	<u>712,296</u>
Net equity							
Capital		1,063,049	-	1,063,049	1,000,000	-	1,000,000
Capital reserve		2,259,945	-	2,259,945	2,286,374	-	2,286,374
Profit reserve	(a)	861,686	109,383	971,069	816,256	75,427	891,683
Distribution proposal of additional dividend	(e)	-	368,282	368,282	-	228,390	228,390
Advance for future capital increase		666	-	666	666	-	666
		<u>4,185,346</u>	<u>477,665</u>	<u>4,663,011</u>	<u>4,103,296</u>	<u>303,817</u>	<u>4,407,113</u>
Total liabilities and shareholders' equity		<u>6,178,228</u>	<u>20,584</u>	<u>6,198,812</u>	<u>5,613,188</u>	<u>(59,601)</u>	<u>5,553,587</u>

## CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to the financial statements -- Continued

December 31, 2010 and 2009

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### 5. Effects of adoption of IFRS and new pronouncements issued by CPC - Continued

#### 5.1 Effect on the financial statements - Continued

##### a) Parent company - Continued

##### ii) *Net equity*

	Item 5.2	12.31.2009	01.01.2009
Net equity BRGAAP		4,185,346	4,103,296
Concession contracts	(a)	110,428	-
Deferred income tax and social contribution	(c)	(70,131)	(60,838)
Investments	(d)	5,944	1,237
Accounting of proposal of payment of dividends	(e)	368,282	228,390
Benefit to employees	(f)	13,601	68,503
Discount	(g)	49,541	66,525
		<u>4,663,011</u>	<u>4,407,113</u>

##### iii) *Income statement of the year ended on December 31, 2009*

	Item 5.2	BR GAAP	Effect of transition to IFRS	IFRS
Net operating revenue	(a)	1,649,237	165,763	1,815,000
Cost of operation services	(a) (f)	(347,794)	(94,971)	(442,765)
Gross income		<u>1,301,443</u>	<u>70,792</u>	<u>1,372,235</u>
Operating (expenses) revenue				
General and administrative	(f)	(149,701)	(15,266)	(164,967)
Management fees		(7,989)	-	(7,989)
Financial expenses		(420,597)	-	(420,597)
Financial income		153,744	-	153,744
Other expenses, net	(g)	(31,162)	(16,984)	(48,146)
Equity in the earnings	(d)	(262)	4,707	4,445
Operating profit		845,476	43,249	888,725
Income tax and social contribution				
Current		(278,654)	-	(278,654)
Deferred	(c)	10,587	(9,293)	1,294
Profit before reversal of interest on shareholders' equity		577,409	33,956	611,365
Reversal of interest on shareholders' equity		250,610	-	250,610
Net income of the year		<u>828,019</u>	<u>33,956</u>	<u>861,975</u>

## CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to the financial statements -- Continued  
December 31, 2010 and 2009  
(In thousand of reais, except as otherwise indicated)

### 5. Effects of adoption of IFRS and new pronouncements issued by CPC - Continued

#### 5.1 Effect on the financial statements - Continued

##### a) Parent company - Continued

*iv) Cash flow for the year ended on December 31, 2009*

	<u>Item 5.2</u>	<u>BR GAAP</u>	<u>Effect of transition to IFRS</u>	<u>IFRS</u>
Cash flow from operating activities	(a)(c)			
	(d)(f)(g)	1,075,319	(344,792)	730,527
Cash flow from investing activities	(a)	(594,910)	344,792	(250,118)
Cash flow from financing activities		(566,074)	-	(566,074)

##### b) Subsidiary

The consolidated financial statements for the year ended on December 31, 2010, are the first presented in accordance with the IFRS. The Company applied the accounting policies set forth in note 3 in all periods presented, which includes the balance sheet at transition date, defined as January 1, 2009. In the measurement of adjustments to opening balances and preparation of the balance sheet on the transition date, the Company applied the mandatory exceptions and certain optional exemptions from retrospective application provided for in IFRS 1 and CPC 37 (R1) - First-time Adoption of International Accounting Standards, as described in the notes below.

## CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to the financial statements -- Continued  
 December 31, 2010 and 2009  
 (In thousand of reais, except as otherwise indicated)

### 5. Effects of adoption of IFRS and new pronouncements issued by CPC - Continued

#### 5.1 Effect on the financial statements - Continued

##### b) Subsidiary - Continued

The reconciliations for the previous accounting practices are demonstrated as follows:

##### i) *Balance Sheet*

	Item 5.2	December 31, 2009			January 1, 2009		
		BR GAAP	Effect of transition to IFRS	IFRS	BR GAAP	Effect of transition to IFRS	IFRS
<b>Assets</b>							
<b>Current</b>							
Cash and cash equivalent		43,234	-	43,234	123,024	-	123,024
Accounts receivable	(a)	289,536	1,141,070	1,430,606	299,329	1,044,342	1,343,671
Inventories		43,328	-	43,328	31,952	-	31,952
Values receivable – Treasury department		19,439	-	19,439	19,786	-	19,786
Taxes and contributions payable		213,317	-	213,317	3,240	-	3,240
Tax benefit – incorporated premium	(b)	28,832	(28,832)	-	28,832	(28,832)	-
Deferred taxes	(c)	31,472	(31,472)	-	11,315	(11,315)	-
Advanced expenses	(a)	2,661	1,107	3,768	2,917	-	2,917
Others		17,290	(100)	17,190	31,942	(9,849)	22,093
		<u>689,109</u>	<u>1,081,773</u>	<u>1,770,882</u>	<u>552,337</u>	<u>994,346</u>	<u>1,546,683</u>
<b>Non-current</b>							
<b>Long term receivable</b>							
Accounts receivable	(a)	62,074	3,594,605	3,656,679	45,088	3,197,934	3,243,022
Values receivable Treasury department		557,027	-	557,027	454,639	-	454,639
Tax benefit – incorporated premium	(b)	147,911	28,832	176,743	176,743	28,832	205,575
Deferred income tax and social contribution	(c)	67,078	(38,658)	28,420	76,648	(49,523)	27,125
Escrows and related deposits		43,946	-	43,946	51,860	-	51,860
Inventories	(a)	-	126,854	126,854	-	70,557	70,557
Others		4,382	-	4,382	2,407	-	2,407
		<u>882,418</u>	<u>3,711,633</u>	<u>4,594,051</u>	<u>807,385</u>	<u>3,247,800</u>	<u>4,055,185</u>
<b>Fixed assets</b>							
Intangible assets	(a)	4,676,574	(4,666,314)	10,260	4,234,614	(4,226,640)	7,974
		73,004	(60,122)	12,882	75,267	(64,774)	10,493
		<u>4,749,578</u>	<u>(4,726,436)</u>	<u>23,142</u>	<u>4,309,881</u>	<u>(4,291,414)</u>	<u>18,467</u>
		<u>5,631,996</u>	<u>(1,014,803)</u>	<u>4,617,193</u>	<u>5,117,266</u>	<u>(1,043,614)</u>	<u>4,073,652</u>
<b>Total assets</b>		<u>6,321,105</u>	<u>66,970</u>	<u>6,388,075</u>	<u>5,669,603</u>	<u>(49,268)</u>	<u>5,620,335</u>

## CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to the financial statements -- Continued  
December 31, 2010 and 2009  
(In thousand of reais, except as otherwise indicated)

### 5. Effects of adoption of IFRS and new pronouncements issued by CPC - Continued

#### 5.1 Effect on the financial statements - Continued

##### b) Subsidiary - Continued

##### i) *Balance sheet - Continued*

	December 31, 2009			January 1, 2009			
	Item 5.2	BR GAAP	Effect of transition to IFRS	IFRS	BR GAAP	Effect of transition to IFRS	IFRS
Liabilities and shareholders' equity							
Current							
Loans and financing		592,129	-	592,129	345,502	-	345,502
Suppliers		70,806	-	70,806	36,293	-	36,293
Taxes and social charges payable		88,505	-	88,505	19,476	-	19,476
Taxes paid in installments - Law no. 11.941		9,853	-	9,853	-	-	-
Regulatory charges payable		40,018	-	40,018	36,528	-	36,528
Interests on shareholders' equity and dividends payable	(e)	374,398	(368,282)	6,116	233,272	(228,390)	4,882
Allowances	(a)	27,688	-	27,688	34,921	(26)	34,895
Values payable – CESP foundation		6,917	-	6,917	6,210	-	6,210
Adjustment installment	(a)	21,277	(21,277)	-	-	-	-
Others	(a)	29,309	4	29,313	6,781	25	6,806
		<u>1,260,900</u>	<u>(389,555)</u>	<u>871,345</u>	<u>718,983</u>	<u>(228,391)</u>	<u>490,592</u>
Non-current							
Long term payable							
Loans and financing		457,281	-	457,281	511,286	-	511,286
Taxes paid in installments - Law no. 11.941		137,885	-	137,885	-	-	-
Deferred PIS and COFINS	(a)	-	60,218	60,218	-	9,697	9,697
Income tax and social contribution deferred	(c)	-	3,060	3,060	-	637	637
Regulatory charges payable		3,269	-	3,269	2,805	-	2,805
Allowances		167,953	-	167,953	174,152	-	174,152
Values payable - CESP foundation	(f)	13,601	(13,601)	-	68,503	(68,503)	-
Special liabilities reversal/ amortization		24,053	-	24,053	24,053	-	24,053
Adjustment installment	(a)	21,277	(21,277)	-	-	-	-
Discount	(g)	49,540	(49,540)	-	66,525	(66,525)	-
		<u>874,859</u>	<u>(21,140)</u>	<u>853,719</u>	<u>847,324</u>	<u>(124,694)</u>	<u>722,630</u>
Net equity							
Capital		1,063,049	-	1,063,049	1,000,000	-	1,000,000
Capital reserve		2,259,945	-	2,259,945	2,286,374	-	2,286,374
Profit reserve	(a)	861,686	109,383	971,069	816,256	75,427	891,683
Proposal of distribution of additional dividends	(e)	-	368,282	368,282	-	228,390	228,390
Advance for future capital increase		666	-	666	666	-	666
		<u>4,185,346</u>	<u>477,665</u>	<u>4,663,011</u>	<u>4,103,296</u>	<u>303,817</u>	<u>4,407,113</u>
Total liabilities and shareholders' equity		<u>6,321,105</u>	<u>66,970</u>	<u>6,388,075</u>	<u>5,669,603</u>	<u>(49,268)</u>	<u>5,620,335</u>

## CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to the financial statements -- Continued

December 31, 2010 and 2009

(In thousand of reais, except as otherwise indicated)

### 5. Effects of adoption of IFRS and new pronouncements issued by CPC - Continued

#### 5.1 Effect on the financial statements - Continued

##### b) Subsidiary - Continued

##### ii) *Net equity*

	<u>Item 5.2</u>	<u>12.31.2009</u>	<u>01.01.2009</u>
Net equity BRGAAP		4,185,346	4,103,296
Concession contracts	(a)	112,959	-
Deferred income tax and social contribution	(c)	(66,718)	(59,601)
Accounting of proposal of payment of dividends	(e)	368,282	228,390
Benefit to employees	(f)	13,601	68,503
Discount	(g)	49,541	66,525
		<u>4,663,011</u>	<u>4,407,113</u>

##### iii) *Income statement of the year ended on December 31, 2009*

	<u>Item 5.2</u>	<u>BR GAAP</u>	<u>Effect of transition to IFRS</u>	<u>IFRS</u>
Net operating revenue	(a)	1,656,478	492,534	2,149,012
Cost of operation services	(a) (f)	(350,991)	(364,001)	(714,992)
Gross income		<u>1,305,487</u>	<u>128,533</u>	<u>1,434,020</u>
operating (expenses) revenue				
General and administrative	(f)	(149,999)	(63,642)	(213,641)
Management fees	(a)	(8,105)	(1,257)	(9,362)
Financial expenses	(a)	(424,895)	(2,853)	(427,748)
Financial income	(a)	154,150	1,877	156,027
Other expenses, net	(g)	(31,162)	(16,984)	(48,146)
Operating profit		845,476	45,674	891,150
Income tax and social contribution				
Current		(278,654)	-	(278,654)
Deferred	(c)	10,587	(11,718)	(1,131)
Profit before reversal of interest on shareholders' equity		577,409	33,956	611,365
Reversal of interest on shareholders' equity		250,610	-	250,610
Net income of the year		<u>828,019</u>	<u>33,956</u>	<u>861,975</u>



## CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to the financial statements -- Continued  
December 31, 2010 and 2009  
(In thousand of reais, except as otherwise indicated)

### 5. Effects of adoption of IFRS and new pronouncements issued by CPC - Continued

#### 5.1 Effect on the financial statements - Continued

##### b) Subsidiary - Continued

##### iv) *Cash flow for the year ended on December 31, 2009*

	<u>Item 5.2</u>	<u>BR GAAP</u>	<u>Effect of transition to IFRS</u>	<u>IFRS</u>
Cash flow from operating activities	(a)(c) (d)(f)(g)	1,099,402	(660,951)	438,451
Cash flow from investing activities	(a)	(670,531)	660,951	(9,580)
Cash flow from financing activities		(508,661)	-	(508,661)

#### 5.2 Description of adjustments

The following is a description of the main adjustments arising from new accounting pronouncements affecting the Company's financial statements:

##### a) Concession contracts (ICPC 01 and OCPC 05)

From January 1, 2010 (opening effects January 1, 2009 for comparison purposes) the Company has adopted and used for purposes of classification and measurement of concession activities the provisions of interpretation of ICPC 2001 issued by CPC ("equivalent to IFRIC12 of the international accounting standards as issued by IASB"). This interpretation directs the concessionaires on the accounting method of public utility concessions to private entities when:

- the grantor controls or regulates which services should be provided, to whom the services should be provided and the price to be charged; and,
- the grantor controls - through ownership, enjoyment or otherwise - any significant residual interest in the infrastructure at the end of the concession.

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Notes to the financial statements -- Continued  
December 31, 2010 and 2009  
(In thousand of reais, except as otherwise indicated)

### **5. Effects of adoption of IFRS and new pronouncements issued by CPC - Continued**

#### **5.2 Description of adjustments - Continued**

##### **a) Concession contracts (ICPC 01 and OCPC 05) - Continued**

For qualified concession contracts for application of ICPC 2001, the infrastructure built, expanded, reinforced or improved by the operator is not recorded as fixed assets of the operator because the concession contract does not transfer to the concessionaire the right of control (nor the ownership) of the infrastructure of public utilities. Only the assignment of ownership of such property for performance of public utilities is provided, and they (fixed assets) are reversed to the grantor after the termination of the respective contract. The operator has the right to operate the infrastructure for the provision of public utilities on behalf of the grantor, in accordance with the contract.

Thus, under the concession contracts within the scope of ICPC 01, the concessionaire acts as service provider. The concessionaire constructs, expands, reinforces or improves the infrastructure (construction services) used to provide a public utility and operate and maintain such infrastructure (operation and maintenance services) during a given term. The concessionaire must measure and record revenue for services provided in accordance with the Technical Pronouncements CPC 17 - Construction contracts (equivalent to IAS 11 as issued by IASB) and CCP 30 - Revenue (equivalent to IAS 18 as issued by IASB). If the concessionaire performs more than one service (e.g., construction or improvement services and operation services) governed by a single contract, the remuneration received or receivable shall be allocated based on relative fair values related of services if the values are separately identified. Thus, the consideration for the construction services or improvements made in the assets of the concession will be classified as financial assets, intangible assets, or both.

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Notes to the financial statements -- Continued  
December 31, 2010 and 2009  
(In thousand of reais, except as otherwise indicated)

### **5. Effects of adoption of IFRS and new pronouncements issued by CPC - Continued**

#### **5.2 Description of adjustments - Continued**

##### **a) Concession contracts (ICPC 01 and OCPC 05) - Continued**

The financial assets arises to the extent that the operator has the unconditional contractual right to receive cash or another financial assets of the grantor for the construction services, the grantor has little or no option to avoid payment, usually because the contract is enforceable by law. The concessionaire has an unconditional right to receive cash if the grantor guarantees payment in a contract (a) of the predetermined or determinable values or (b) failure, if any, of amounts received from users of public utilities in relation to predetermined or determinable values, even if payment is conditioned to guarantee by the concessionaire that the infrastructure meets the specific quality or efficiency requirements. The intangible assets arises to the extent that the operator receives a right (permission) to charge users of public utilities. This right is not an unconditional right to receive cash because the values are conditioned to use of the utilities by the public. If the construction services of the concessionaire are partially paid in financial assets and partially in intangible assets, it is necessary to record each component of the compensation of the concessionaire separately. The compensation received or receivable for both components should be initially recorded at fair value received or receivable.

The criteria used for adopting the interpretation of the concessions held by the Company and the impact of its first-time adoption are described below:

ICPC 01 interpretation was considered applicable to all contracts of public-private service to which the Company is a party.

All grants were classified within the model of financial assets, and revenue recognition and cost of works related to the formation of financial assets by the method of percentage of evolution. The financial assets of compensation are recognized when construction is completed and included as remuneration of construction services.

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Notes to the financial statements -- Continued

December 31, 2010 and 2009

(In thousand of reais, except as otherwise indicated)

### **5. Effects of adoption of IFRS and new pronouncements issued by CPC - Continued**

#### **5.2 Description of adjustments - Continued**

##### **a) Concession contracts (ICPC 01 and OCPC 05) - Continued**

The provisions of ICPC 01 were applied retroactively to the concessions of the subsidiaries IEMADEIRA, IESUL, IENNE, IEMG, Serra do Japi and Pinheiros, and the effects of the adoption on January 1, 2009 (beginning of the oldest period used for comparative purposes) were recalculated and the cumulative effects attributed to the components of the net equity. Given the impossibility of reliably reconstructing the historical data, the prospective application was adopted for the concession contracts entered into by CTEEP.

As defined in the contracts, the termination of the concession will lawfully determine the reversal of the property related to the service to the grantor, proceeding to surveys and assessments, as well as determining the amount of compensation payable to the concessionaire, meeting the values and dates of its incorporation to the electrical system. The Company believes that the value of the compensation to which it is entitled shall correspond to the New Value of Replacement adjusted for accumulated depreciation for each item. Considering the uncertainties existing in the power market, the Company estimated the compensation value of its assets based on their respective book values, which is the amount that the Management believes to be the minimum guaranteed by the rules in force. Whereas the Management constantly monitors electricity regulation in case of changes in these laws which may change the estimate of the compensation value of the assets, the accounting effects of these changes will be addressed prospectively in the Financial Statements. However, the Management reiterates its commitment to continue to defend the interests of the Company's shareholders in realizing these assets in order to maximize the return on the capital invested in the concession, within the legal limits. This compensation is part of the remuneration of construction services and is recognized at the time the work is finished.

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Notes to the financial statements -- Continued  
December 31, 2010 and 2009  
(In thousand of reais, except as otherwise indicated)

### **5. Effects of adoption of IFRS and new pronouncements issued by CPC - Continued**

#### **5.2 Description of adjustments - Continued**

##### a) Concession contracts (ICPC 01 and OCPC 05) - Continued

The Company determined the fair value of the construction services considering that the projects have enough margin to cover the construction costs certain expenses of the construction period. The actual interest rate that compensates the financial assets arising from construction services was determined by considering the return expected by shareholders on assets with such characteristics.

Financial assets are classified as loans and receivables and the financial income monthly determined is recorded directly in the income.

The construction revenue and financial income calculated on the financial assets of construction are subject to the approval of the Social Integration Program - PIS and Turnover Tax on Gross Profit - cumulative COFINS recorded in "deferred taxes" account on non-current liabilities.

##### b) Tax benefit - incorporated premium of the parent company (CPC 04)

The tax benefit - incorporated premium of the parent company previously presented in the current assets was reclassified for non-current assets.

##### c) Deferred income tax and social contribution (CPC 32)

Recognized on temporary differences at the end of each year between the balances of assets and liabilities recognized in the financial statements and the corresponding tax bases used in calculating the taxable income. Deferred tax assets and liabilities are measured at the rates applicable for the period in which it is expected that the liabilities are settled or the assets are realized, based on the tax rates provided for in the tax laws in force.

Additionally, as established by CPC 26, the deferred taxes originally presented in the current assets were reclassified for non-current assets.

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Notes to the financial statements -- Continued  
December 31, 2010 and 2009  
(In thousand of reais, except as otherwise indicated)

### **5. Effects of adoption of IFRS and new pronouncements issued by CPC - Continued**

#### **5.2 Description of adjustments - Continued**

##### **d) Investments**

Equity adjustments arising from recognition of the concession contracts according to ICPC 01 and OCPC 05, as well as deferred income tax and social contribution by the Company's subsidiaries.

##### **e) Accounting of proposal of payment of dividends (ICPC 2008)**

This interpretation clarifies that the statement of dividends, exceeding the minimum required, after the accounting period referred to the financial statements should not be recognized as a liability, because it does not meet the criteria of this obligation at the date of the financial statements as defined in CPC 25 - Allowances, Contingent Liabilities and Contingent Assets.

The dividends stated after the accounting period referred to the financial statements and not paid over the minimum required, for the years 2008 and 2009 were recognized as an adjustment in the statement of equity and were reversed in the "dividends payable" in the balance sheets and were reversed in the account of "dividends payable" in the balance sheet, where they were originally presented.

##### **f) Benefits to employee - CESP Foundation (CPC 33)**

This pronouncement provides guidance on recognition, measurement and disclosure of the benefits to employees.

The actuarial calculations of the pension and retirement plans sponsored by the Company have, since the year 2008, surplus that, since they use the corridor method, generate not recognized gains. However, the gain does not exceed the asset ceiling established by CPC 33 (IAS 19).

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Notes to the financial statements -- Continued

December 31, 2010 and 2009

(In thousand of reais, except as otherwise indicated)

### **5. Effects of adoption of IFRS and new pronouncements issued by CPC - Continued**

#### **5.2 Description of adjustments - Continued**

##### **g) Discount (ICPC 09)**

Represented by the discount determined on the acquisition of 49% of the common shares of EPTE - Empresa Paulista de Transmissão de Energia Elétrica S.A. These shares are owned to the Treasury State Office in São Paulo and Companhia Paulista de Administração de Ativos - CPA and were acquired on March 26, 1999, by CESP - Companhia Energética de São Paulo. In the partial spin-off of CESP, said determined shares and discount were transferred to CTEEP. EPTE was acquired by the Company on November 10, 2001. According to ICPC 09, the discount was recorded in accrued profits as a bargain purchase.

#### **5.3 Mandatory exceptions and optional exemptions on adoption of new accounting pronouncements (individual and consolidated)**

Based on CPC 37 (IFRS 1) in the first-time adoption of new pronouncements the application of voluntary procedures is permitted, in case of divergences as to the accounting practices previously adopted, but the rule also prohibits the adjustment of certain transactions retrospectively.

The Management's judgment as to optional and mandatory exemptions in the first-time adoption of new pronouncements is described as follows:

##### **a) Optional exemptions**

- Measurement of fixed assets at fair value: the Company by not considering the balance relevant, chose not to remeasure its fixed assets at fair value ("deemed cost") on the date of transition by keeping the assets based on historical cost of acquisition, as previously allowed.
- Additionally, the effects of depreciation resulting from the first regular review of the remaining useful and economic life of the fixed assets as determined by ICPC 10 were not considered relevant by the Company's management.
- Measurement of the concession contracts: due to inability to reliably reconstruct the historical data, the Company adopted the pronouncement prospectively from the date of the opening balance for concession contracts no. 059 and no. 143 of CTEEP.

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Notes to the financial statements -- Continued  
December 31, 2010 and 2009  
(In thousand of reais, except as otherwise indicated)

### **5. Effects of adoption of IFRS and new pronouncements issued by CPC - Continued**

#### **5.3 Mandatory exceptions and optional exemptions on adoption of new accounting pronouncements (individual and consolidated) - Continued**

##### b) Mandatory exemptions

The estimates used in accounting practices applied after the opening balance sheet should not be adjusted on the transition date, except if they represent change in accounting policy or there is evidence of error. The Company kept the estimates used prior to the opening balance sheet.

#### **5.4 Effects on Quarterly Information - ITR for the periods ended on March 31, June 30 and September 30, 2010 and 2009**

On January 25, 2011, CVM issued Resolution no. 656, changing CVM Resolution no. 603/09. Thus, CVM Resolution no. 656/11, grants to publicly held companies the option to resubmit Quarterly Information - ITR of 2010 that did not include changes made by the accounting practices that entered into force in 2010, until the delivery of the Quarterly Information - ITR for the quarter ending on March 31, 2011.

The Company's management decided to use this extension of term and in compliance with the requirement set forth in CVM Resolution no. 656/11, is disclosing in a note to the individual and consolidated financial statements for the year ended on December 31, 2010, the reconciliation of net equity and the income for each quarter of 2010 and 2009, based on the values originally presented, adjustments determined and balances adjusted by the application of new CPCs.



## CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to the financial statements -- Continued

December 31, 2010 and 2009

(In thousand of reais, except as otherwise indicated)

### 5. Effects of adoption of IFRS and new pronouncements issued by CPC - Continued

#### 5.4 Effects on Quarterly Information - ITR for the periods ended on March 31, June 30 and September 30, 2010 and 2009--Continued

Financial information relating to the period of each quarter of 2010 and 2009 were subject to review by independent auditors under Audit Procedure Standard 06 - Special Review of Quarterly Information of Publicly Held Companies (“NPA 06”) of Ibracon. The review of interim financial information consists mainly of (i) inquiries and discussions with managers responsible for accounting, financial and operating areas of the Company as to the criteria adopted in the preparation of Quarterly Information - ITR and (ii) review of information and subsequent events that had or may have relevant effects on the financial position and the operations of the Company. The scope is substantially inferior to that of an audit performed in accordance with auditing standards generally accepted in Brazil, whose purpose is to express an opinion on the financial statements as a whole. Consequently, the independent auditors did not express an opinion on said interim financial information.

The following is a reconciliation of net equity of the Company for each quarter of 2010 and 2009:

Quarter ended on	Parent company					
	2009			2010		
	03.31.2009	06.30.2009	09.30.2009	03.31.2010	06.30.2010	09.30.2010
Net equity published	4,268,333	4,363,539	4,453,375	4,323,585	4,421,862	4,415,775
Recognition of the concession contracts						
– 5.2 (a)	37,678	42,340	108,037	124,900	111,927	171,496
Equity method – 5.2 (d)	1,483	1,289	4,589	7,384	13,791	18,667
Benefits to employees						
– 5.2 (f)	55,223	41,943	28,663	10,201	6,800	3,400
Discount – 5.2 (g)	62,279	58,033	53,787	45,295	41,049	36,803
Deferred taxes – 5.2 (c)	(66,737)	(61,411)	(76,836)	(71,499)	(63,536)	(80,237)
Payment of proposed additional dividends	(122,500)	(105,890)	-	(290,980)	(77,302)	-
Loss on change of interest in joint subsidiary	-	-	-	(160)	(160)	(160)
	<u>4,235,759</u>	<u>4,339,843</u>	<u>4,571,615</u>	<u>4,148,726</u>	<u>4,454,431</u>	<u>4,565,744</u>

## CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to the financial statements -- Continued

December 31, 2010 and 2009

(In thousand of reais, except as otherwise indicated)

### 5. Effects of adoption of IFRS and new pronouncements issued by CPC - Continued

#### 5.4 Effects on Quarterly Information - ITR for the periods ended on March 31, June 30 and September 30, 2010 and 2009--Continued

Quarter ended on	Subsidiary					
	2009			2010		
	03.31.2009	06.30.2009	09.30.2009	03.31.2010	06.30.2010	09.30.2010
Net equity published	4,268,333	4,363,539	4,453,375	4,323,585	4,421,862	4,415,775
Recognition of the concession contracts – 5.2 (a)	38,051	42,426	113,119	130,015	126,749	175,562
Benefits to employees – 5.2 (f)	55,223	41,943	28,663	10,201	6,800	3,400
Discount – 5.2 (g)	62,279	58,033	53,787	45,295	41,049	36,803
Deferred taxes – 5.2 (c)	(65,627)	(60,208)	(77,329)	(69,230)	(64,567)	(65,636)
Payment of proposed additional dividends	(122,500)	(105,890)	-	(290,980)	(77,302)	-
Loss on change of interest in joint subsidiary	-	-	-	(160)	(160)	(160)
	<u>4,235,759</u>	<u>4,339,843</u>	<u>4,571,615</u>	<u>4,148,726</u>	<u>4,454,431</u>	<u>4,565,744</u>

Below is presented a reconciliation of the Company's income for each quarter of 2010 and 2009:

Income of quarter ended on	Parent company					
	2009			2010		
	03.31.2009	06.30.2009	09.30.2009	03.31.2010	06.30.2010	09.30.2010
Income published	227,990	219,678	218,716	200,074	196,844	203,913
Recognition of the concession contracts – 5.2 (a)	37,678	4,662	65,697	14,473	(12,973)	59,569
Equity method – 5.2 (d)	246	(194)	3,300	1,439	6,407	4,877
Benefits to employees – 5.2 (f)	(13,280)	(13,280)	(13,280)	(3,400)	(3,401)	(3,400)
Discount – 5.2 (g)	(4,246)	(4,246)	(4,246)	(4,246)	(4,246)	(4,246)
Deferred taxes – 5.2 (c)	(5,899)	5,326	(15,425)	(1,368)	7,963	(16,702)
Loss on change of interest in joint subsidiary	-	-	-	(160)	-	-
	<u>242,489</u>	<u>211,946</u>	<u>254,762</u>	<u>206,812</u>	<u>190,594</u>	<u>244,011</u>

## CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to the financial statements -- Continued  
December 31, 2010 and 2009  
(In thousand of reais, except as otherwise indicated)

### 5. Effects of adoption of IFRS and new pronouncements issued by CPC - Continued

#### 5.4 Effects on Quarterly Information - ITR for the periods ended on March 31, June 30 and September 30, 2010 and 2009--Continued

Income of quarter ended on	Subsidiary					
	2009			2010		
	03.31.2009	06.30.2009	09.30.2009	03.31.2010	06.30.2010	09.30.2010
Income published	227,990	219,678	218,716	200,074	196,844	203,913
Recognition of the concession contracts – 5.2 (a)	37,794	4,101	71,064	17,890	(401)	70,345
Benefits to employees – 5.2 (f)	(13,280)	(13,280)	(13,280)	(3,400)	(3,401)	(3,400)
Discount – 5.2 (g)	(4,246)	(4,246)	(4,246)	(4,246)	(4,246)	(4,246)
Deferred taxes – 5.2 (c)	(6,026)	5,420	(17,121)	(2,191)	4,665	(1,068)
Financial income – 5.2 (a)	257	274	(371)	(1,155)	(2,866)	(21,532)
Loss on change of interest in joint subsidiary	-	-	-	(160)	-	-
	<u>242,489</u>	<u>211,947</u>	<u>254,762</u>	<u>206,812</u>	<u>190,595</u>	<u>244,012</u>

### 6. Cash and cash equivalents

	Parent company			Subsidiary		
	2010	2009	01.01.2009	2010	2009	01.01.2009
Cash and banks	599	396	7,166	628	410	6,958
Investments	39,735	18,168	97,063	54,355	42,824	116,066
	<u>40,334</u>	<u>18,564</u>	<u>104,229</u>	<u>54,983</u>	<u>43,234</u>	<u>123,024</u>

The investments are measured at fair value through profit and loss and correspond to Bank Deposit Certificates with a return linked to the variation of the Interbank Deposit Certificate - CDI and offer daily liquidity.

The Company's exposure to interest rate risk and a sensitivity analysis of these assets are disclosed in note 30 (c).

## CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to the financial statements -- Continued  
 December 31, 2010 and 2009  
 (In thousand of reais, except as otherwise indicated)

### 7. Accounts receivable

The accounts receivable are as follows:

	Parent company			Subsidiary		
	2010	2009	01.01.2009	2010	2009	01.01.2009
Accounts receivable construction services (a)	<b>4,401,528</b>	4,320,086	4,137,432	<b>5,405,440</b>	4,778,963	4,242,276
Accounts receivable O&M services (b)	<b>175,510</b>	184,095	207,397	<b>175,912</b>	184,208	207,397
Acknowledgment of indebtedness and payment agreement (c)	<b>68,347</b>	124,114	137,020	<b>68,347</b>	124,114	137,020
	<b>4,645,385</b>	4,628,295	4,481,849	<b>5,649,699</b>	5,087,285	4,586,693
Current	<b>1,413,681</b>	1,422,671	1,337,868	<b>1,424,390</b>	1,430,606	1,343,671
Non-current	<b>3,231,704</b>	3,205,624	3,143,981	<b>4,225,309</b>	3,656,679	3,243,022

- (a) Refers to the amount receivable regarding the construction services, expansion and reinforcement of electric power transmission facilities and includes the estimated amount of investments made and not amortized until the end of the concession and to which the Company will be entitled to receive cash or other financial assets, on the termination of the concession contract. They are remunerated by the actual interest rate calculated for each concession contract.
- (b) It refers to the portion of monthly sales reported by ONS allocated for remuneration of operation and maintenance services, with average receipt term of less than 60 days.
- (c) On January 13, 2009, the Company signed an "acknowledgment of indebtedness and payment agreement" with dealers who presented accounts receivable due. This agreement provides for the receipt of the balance in 36 installments. By December 2010, all installments have been received as provided for.

These financial assets are classified as loans and receivables.

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

## CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to the financial statements -- Continued

December 31, 2010 and 2009

(In thousand of reais, except as otherwise indicated)

### 7. Accounts receivable - Continued

The accounts receivable are distributed as follows by maturity:

	Parent company			Subsidiary		
	2010	2009	01.01.2009	2010	2009	01.01.2009
To be due	<b>4,628,894</b>	4,623,245	4,420,973	<b>5,633,208</b>	5,082,235	4,525,817
Due						
up to 30 days	<b>1,498</b>	1,084	3,315	<b>1,498</b>	1,084	3,315
from 31 to 60 days	<b>846</b>	859	3,191	<b>846</b>	859	3,191
more than 61 days	<b>14,147</b>	3,107	54,370	<b>14,147</b>	3,107	54,370
	<b>16,491</b>	5,050	60,876	<b>16,491</b>	5,050	60,876
	<b>4,645,385</b>	4,628,295	4,481,849	<b>5,649,699</b>	5,087,285	4,586,693

The main characteristics of the concession contracts of the parent company and its subsidiaries are summarized below:

Concessionaire	Contract	RAP in step	Adjustment index	Regular fee review		Construction revenue - R\$ mil	
				Term	Next	2010	2009
CTEEP	059 SE(*)	No	IGPM	n/a	n/a	-	-
CTEEP	059 NI(*)	No	IGPM	4 years	2013	<b>147,659</b>	210,954
CTEEP	143	Yes	IGPM	n/a	n/a	-	-
IEMG	004	Yes	IPCA	5 years	2012	-	9,433
IENNE	001	No	IPCA	5 years	2013	<b>196,149</b>	357,916
Pinheiros	012	No	IPCA	5 years	2014	<b>39,007</b>	25,973
Pinheiros	015	No	IPCA	5 years	2014	<b>114,881</b>	90,330
Pinheiros	018	No	IPCA	5 years	2014	<b>7,434</b>	33,401
IESul	013	No	IPCA	5 years	2014	<b>32,452</b>	17,762
IESul	016	No	IPCA	5 years	2014	<b>39,123</b>	37,244
IEMadeira	013	No	IPCA	5 years	2014	<b>213,188</b>	71,639
IEMadeira	015	No	IPCA	5 years	2014	<b>332,738</b>	26,500
Serra do Japi	026	No	IPCA	5 years	2015	<b>21,575</b>	4,615

(\*) Concession contract no. 059 of CTEEP is subdivided into: SE (Existing Service) for facilities constructed until December 31, 1999, and NI (New Investments) for facilities constructed from January 1, 2000.

All concession contracts above provide for the right to indemnity at the end of effectiveness.

## CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to the financial statements -- Continued

December 31, 2010 and 2009

(In thousand of reais, except as otherwise indicated)

### 8. Values receivable - Treasury department - parent company and subsidiary

	2010			2009	01.01.2009
	Current	Non-current	Total	Total	Total
Contract of acknowledgment and recognition of liabilities (a)	18,991	11,078	30,069	41,576	55,353
Disposal of real estate (b)	3,947	2,303	6,250	8,642	11,506
Processing of payroll– Lei 4.819/58 (c)		533,866	533,866	410,127	309,811
Labor lawsuits– Lei 4.819/58 (d)		133,882	133,882	116,121	97,755
Family allowance – Lei 4.819/58 (e)		2,218	2,218	2,218	2,218
Allowance for doubtful accounts		(2,218)	(2,218)	(2,218)	(2,218)
	<u>22,938</u>	<u>681,129</u>	<u>704,067</u>	<u>576,466</u>	<u>474,425</u>

- (a) On May 2, 2002, an Instrument of Recognition and Consolidation of Obligations was executed with the Treasury State Office, on which the State recognizes and admits that it owes to the Company the values corresponding to the disbursements originally made by CESP from 1990 to 1999, for supplementary retirement remuneration, arising from benefits under State Law 4819/58, and the amount then acknowledged updated until January 2002, according to the variation of the Fiscal Unit of the State of São Paulo - UFESP, and from February 2002, according to the monthly variation of IGP-M plus 6% per year. The compensation will be made in 120 monthly installments, beginning on August 1, 2002 and termination expected for July 1, 2012.
- (b) On July 31, 2002, a Private Transaction Instrument was executed, with a promise of disposal of the real estate, recognition of obligations and commitment of payment, with the Treasury State Office, in which the State recognizes and admits that it owes to the Company an amount corresponding to the market value of the whole area of the real estate occupied by the state, partly used for the construction of prisons. The state is committed, therefore, to reimburse the Company said total in 120 monthly installments, beginning on August 1, 2002 and termination expected for July 1, 2012, updated according to the monthly variation of IGP-M plus 6% interest per year.
- (c) The amount of R\$ 533,866 refers to the remaining balance of processing the payroll of the supplementary retirement remuneration plan governed by State Law 4819/58, of which R\$ 1,426 through individual preliminary injunction from January to August 2005 and R\$ 532,440 from September 2005 to December 2010 under a court order of the 49th Labor Court of the State of São Paulo, whose payments are made by CESP Foundation, through part of the funds received from the State Government and onlent by the Company (Note 34 (c)). The adjustment for inflation is not applied to this balance and no income is recorded until they are approved by the State Government for the actual payment to the Company.
- (d) Refer to certain labor claims settled by the Company, relating to retired employees under the protection of State Law 4819/58, which are the responsibility of the State Government. The adjustment for inflation is not applied to this balance and no income is recorded until they are approved by the State Government for the actual payment to the Company.

## CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to the financial statements -- Continued

December 31, 2010 and 2009

(In thousand of reais, except as otherwise indicated)

### 8. Values receivable - Treasury department - Subsidiary and parent company - Continued

- (e) CESP made advances for payment monthly expenses relating to family allowances, arising from benefits of State Law 4819/58, being transferred to the Company on partial split-off of CESP.

Considering the expected loss, the Management made an allowance for doubtful accounts in non-current assets, amounting to R\$ 2,218.

### 9. Taxes and contributions payable

	Parent company			Subsidiary		
	2010	2009	01.01.2009	2010	2009	01.01.2009
COFINS	3,211	156,709	798	3,273	156,718	798
PIS	790	50,014	249	803	50,016	249
Tax income	4,279	2,989	760	5,619	3,564	760
Social contribution	741	847	486	776	863	486
Others	759	2,156	852	759	2,156	947
	<b>9,780</b>	<b>212,715</b>	<b>3,145</b>	<b>11,230</b>	<b>213,317</b>	<b>3,240</b>

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

The changes for the year ended on December 31, 2010 are as follows:

	Parent company and subsidiary	
	2010	2009
Initial balance	204,113	-
Original value of the recognized credit	-	193,139
Adjustment for inflation of the credit	3,199	99,403
Offset value of October and December	(207,312)	(88,429)
	<b>-</b>	<b>204,113</b>

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Notes to the financial statements -- Continued

December 31, 2010 and 2009

(In thousand of reais, except as otherwise indicated)

### **10. Tax benefit - incorporated premium of the parent company – parent company and subsidiary**

The premium paid by ISA Capital in the acquisition of share control of CTEEP has as economic basis the perspective of earnings during the term of operation of concession and originates from the acquisition of the concession right given by the Government, under letter b, of paragraph 2, of article 14 of CVM Instruction 247 of March 27, 1996, with the amendment introduced by CVM Instruction 285 of July 31, 1998.

Aiming to prevent the amortization of the premium negatively affects the flow of dividends to the shareholders, an Allowance for Maintenance the Integrity of the Net Equity of its merging company (PMIPL) was made in accordance with CVM Instruction No. 349, of March 06, 2001.

The amortization of the premium, net of reversal of allowance and corresponding tax credit, results in null effect in the income of the year and consequently on the calculation basis of the dividends.

The premium, which on December 31, 2007 totaled R\$ 689,435 is being amortized over the remaining period of operation of the concession in monthly installments according to the projection of future profitability and, as authorized by ANEEL Resolution no. 1164 of December 18, 2007 and is composed as follows:

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

For a better presentation of the financial and equity position of the Company in the financial statements, the net amount of R\$ 147,911, which, in essence, represents the incorporated tax credit, was classified in the balance in long term receivable non-current assets as an incorporated premium tax benefit, based on the expectation of its realization.



## CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to the financial statements -- Continued

December 31, 2010 and 2009

(In thousand of reais, except as otherwise indicated)

### 10. Tax benefit - incorporated premium of the parent company – parent company and subsidiary - Continued

The changes for the year ended on December 31, 2010 are as follows:

	<u>Premium</u>	<u>Allowance</u>	<u>Net</u>
Balance on 12.31.2008	604,634	(399,059)	205,575
Realization in the period	<u>(84,800)</u>	<u>55,968</u>	<u>(28,832)</u>
Balance on 12.31.2009	<u><b>519,834</b></u>	<u><b>(343,091)</b></u>	<u><b>176,743</b></u>
Balance on 12.31.2009	519,834	(343,091)	176,743
Realization in the period	<u>(84,800)</u>	<u>55,968</u>	<u>(28,832)</u>
Balance on 12.31.2010	<u><b>435,034</b></u>	<u><b>(287,123)</b></u>	<u><b>147,911</b></u>

### 11. Escrows and related deposits – parent company and subsidiary

In the long term receivable assets, in view of the uncertainties regarding the outcome of the actions object of deposits, the Company's procedure is to keep them at face value, not recording any kind of adjustment for inflation or income. The balance is composed as follows:

	<u>2010</u>	<u>2009</u>	<u>01.01.2009</u>
Court deposits (Note 20 (b))			
Labor (Note 20 (b) (i))	27,914	23,520	19,728
Tax – COFINS (b)	5,668	5,668	17,348
Social security – INSS (Note 20 (b) (iii))	2,745	8,243	8,243
Notice assessments – ANEEL (a)	5,723	6,317	6,317
Others	198	198	224
	<u><b>42,248</b></u>	<u><b>43,946</b></u>	<u><b>51,860</b></u>

a) Refer to deposits with the purpose of annulling ANEEL assessments:

- (i) Deposit made on January 17, 2000, amounting to R\$ 3,040, was requested in an annulment action filed by the Company against ANEEL due to tax assessment notice 001/1999-SFE that applied a fine to the Company under alleged violations for hindering the inspection work related to disturbances resulting from the interruption of transmission and distribution of electric power in Southeast, South and Midwest Regions; not meeting the stipulations of the "inspection report" and not meeting the legal duty to provide adequate service.

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Notes to the financial statements -- Continued  
December 31, 2010 and 2009  
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### **11. Escrows and related deposits - parent company and subsidiary - Continued**

a) Refer to deposits with the purpose of annulling ANEEL assessments: - Continued

- (ii) Deposit made on June 17, 2003, at the amount of R\$ 3,277, resulting from the issuance of the tax assessment notice 005/2002-SFE on May 7, 2002, as a result of the punitive administrative proceeding filed by ANEEL for the rupture, on January 21, 2002, of a sub conductor of transmission line of 440 kV between substations of the Company at Power Plant of Ilha Solteira and Araraquara. In July 2010, the survey of deposit made duly adjusted for inflation was granted in view of the granting of the action.
- (iii) Deposit made on August 29, 2008 at the amount of R\$ 2,139, aiming to annul the assessment notice no. 062/2007 related to the failure to meet the date for installation of 3rd 345/88 kV transformer bank of SE Baixada Santista, authorized by ANEEL Resolution no. 197 of 05/04/2004.
- (iv) Deposit made on September 17, 2008, at the amount of R\$ 544, aiming to annul the assessment notice no. 001/2008 related to the failure to meet the date for entry into operation of the transmission line, in 345 kV, Guarulhos - Anhanguera, authorized by ANEEL Resolution no. 064/2005 of 01/31/2005.

b) Judicial deposits - COFINS

The Company is challenging in court the constitutionality of the increase in the rate and increase of the calculation base of COFINS, at the amounts of R\$ 27,392 and R\$ 11,132 respectively, obtaining a favorable outcome with regard to the increase the calculation base and less favorable with respect to the increase of the rate. In October 2009, the Company made a survey of the amount originally deposited, filing a process for removal of the portion related to the update.

## CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to the financial statements -- Continued  
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### 12. Investments

#### a) Information on investments in subsidiaries

	<b>Base date</b>	<b>Amount of common shares held</b>	<b>Interest in paid-in capital - %</b>	<b>Paid-in capital</b>	<b>Net equity</b>	<b>Income</b>
Pinheiros	12.31.2010	198.199.000	100.0	198,200	202,142	3,236
	12.31.2009	127.170.999	100.0	127,171	127,877	703
	01.01.2009	6.650.999	100.0	6,651	6,654	
Serra do Japi	12.31.2010	19.348.000	100.0	19,348	19,869	520
	12.31.2009	10.202.199	100.0	10,203	10,204	2
	01.01.2009	-	--	-	-	-

#### *Interligação Elétrica Pinheiros S.A. (Pinheiros)*

Pinheiros was incorporated on July 22, 2008 with the aim of exploring the concession of electric power transmission public utility, particularly the transmission lines and substations auctioned in Lots E, H and K of ANEEL Auction no. 004/2008.

<b>Lot</b>	<b>Composition</b>	<b>Voltage (kV)</b>
E	Transmission line Interlagos – Piratininga II (SP)	345
	Substation Piratininga II (SP)	345/138/88
H	Substations Mirassol II, Getulina and Araras (SP)	440/138
K	Substation Atibaia II (SP)	345/138

This project has an estimated investment of R\$ 344.0 million and annual revenue allowed (RAP) of R\$ 21.0 million. Araras substation entered into operation on September 5, 2010. The others are expected to enter into operation from the 1st quarter of 2011.

#### *Interligação Elétrica Serra do Japi S.A. (Serra do Japi)*

Serra do Japi was incorporated on July 01, 2009 with the aim of exploring the concession of electric power transmission public utility, particularly substations of Jandira and Salto auctioned in Lot I of ANEEL Auction no. 001/2009.

This project has an estimated investment of R\$ 167.5 million and annual revenue allowed (RAP) of R\$ 21.8 million, base May 2009. It is expected to enter into operation in November 2011.

## CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to the financial statements -- Continued  
 December 31, 2010 and 2009  
 (In thousand of reais, except as otherwise indicated)

### 12. Investments - Continued

#### a) Information on investments in joint ventures - Continued

##### *Interligação Elétrica Serra do Japi S.A. (Serra do Japi)--Continued*

	<u>Base date</u>	<u>Amount of common shares held</u>	<u>Interest in paid-in capital - %</u>	<u>Paid-in capital</u>	<u>Net equity</u>	<u>Income</u>
IENNE	12.31.2010	81,079,000	25.0	324,314	338,188	9,305
	12.31.2009	46,901,000	25.0	187,604	192,173	4,370
	01.01.2009	15,251,000	25.0	61,004	61,203	-
IEMG	12.31.2010	47,313,175	60.0	78,855	85,689	2,166
	12.31.2009	47,313,175	60.0	78,855	83,523	2,696
	01.01.2009	26,779,000	60.0	44,631	46,603	-
IESUL	12.31.2010	44,135,999	50.0	88,272	90,339	1,744
	12.31.2009	6,835,999	100.0	6,836	7,157	320
	01.01.2009	1,650,999	100.0	1,651	1,653	-
IEMadeira	12.31.2010	123,164,000	51.0	241,499	251,321	8,430
	12.31.2009	52,631,286	51.0	103,199	104,591	1,392
	01.01.2009	-	-	-	-	-

By the date of preparation of the financial statements, the Company had not paid-in its interest in the capital of Linha Verde Transmissora de Energia S.A. and Rio Branco Transmissora de Energia S.A.

##### *Interligação Elétrica Norte e Nordeste S.A. (IENNE)*

IENNE was incorporated on December 3, 2007 with the aim of exploring the concession of electric power transmission public utility, particularly the transmission lines Colinas (Tocantins) - Ribeiro Gonçalves (Piauí) and Ribeiro Gonçalves - São João do Piauí (Piauí), both in 500 kV, totaling 720 km.

This project has an estimated investment of R\$ 565.4 million and annual revenue allowed (RAP) of R\$ 33.3 million. It is expected to enter into operation in the 1st quarter of 2011.

##### *Interligação Elétrica de Minas Gerais S.A. (IEMG)*

IEMG was incorporated on December 3, 2007 with the aim of exploring the concession of electric power transmission public utility, particularly the transmission line in 500 kV Neves 1 - Mesquita (Minas Gerais), totaling 172 km.

## CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to the financial statements -- Continued  
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### 12. Investments - Continued

#### a) Information on investments in joint ventures - Continued

##### *Interligação Elétrica de Minas Gerais S.A. (IEMG) - Continued*

In 2009, IEMG was allowed to operate commercially.

In a meeting of the Board of Directors held on September 6, 2010, the right of first refusal to purchase 40% of the shares of IEMG capital held by Cymi Holding S.A. was approved. The transaction was approved by the Council for Economic Defense (CADE) on December 7, 2010, by BNDES on December 16, 2010 and ANEEL on December 21, 2010, through Authorizing Resolution No. 2714. CTEEP paid for acquisition of interest in IEMG the amount of R\$ 15.2 million in February 2011.

##### *Interligação Elétrica Sul S.A. (IESUL)*

IESUL was incorporated on July 23, 2008 with the aim of exploring the concession of electric power transmission public utility, particularly the transmission lines and substations auctioned in Lots F and I of ANEEL Auction #. 004/2008.

Lot	Composition	Voltage (kV)
F	Transmission line Nova Santa Rita – Scharlau (RS) Substation Scharlau (RS)	230 230/138
I	Transmission line Joinville Norte (SC) – Curitiba C2 (PR) Transmission line Jorge Lacerda B – Siderópolis C3 (SC) Substation Forquilha (SC)	230 230 230/69

This project has an estimated investment of R\$ 168.0 million and annual revenue allowed (RAP) of R\$ 11.4 million. The Transmission line Nova Santa Rita - Scharlau and Scharlau substation entered into operation on December 09, 2010. The others are expected to enter into operation from the 1st quarter of 2011.

##### *Interligação Elétrica do Madeira S.A. (IEMadeira)*

IESUL was incorporated on December 18, 2008 with the aim of exploring the concession of electric power transmission public utility, particularly the transmission lines and substations auctioned in Lots D and F of ANEEL Auction # 007/2008.

## CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to the financial statements -- Continued

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(In thousand of reais, except as otherwise indicated)

### 12. Investments - Continued

#### a) Information on investments in joint ventures - Continued

##### *Interligação Elétrica do Madeira S.A. (IEMadeira) - Continued*

<u>Lot</u>	<u>Description</u>	<u>Term (months)</u>
D	Transmission line Coletora Porto Velho – Araraquara 2, nº 01, In CC, 2375 Km	36
F	Rectifying station no. 02 CA/CC, 3150 MW; Inverter station nº 02 CC/CA, 2950 MW	50

This project has an estimated investment of R\$ 3,138.5 million and annual revenue allowed (RAP) of R\$ 328.0 million, base November 2008. The respective facilities are expected to enter into operation in mid-2012 (Lot D) and 2013 (Lot F).

#### b) Changes in investments

	<u>Balance on 01.01.2009</u>	<u>Payment of capital</u>	<u>Equity method</u>	<u>Balance on 12.31.2009</u>	
Pinheiros	6,654	120,520	703	127,877	
Serra do					
Japi	-	10,203	1	10,204	
IENNE	15,301	31,650	1,093	48,044	
IEMG	27,962	20,534	1,618	50,114	
IESUL	1,652	5,185	320	7,157	
IEMadeira	-	52,631	710	53,341	
	<u>51,569</u>	<u>240,723</u>	<u>4,445</u>	<u>296,737</u>	
	<u>Balance on 12.31.2009</u>	<u>Payment of capital</u>	<u>Equity method</u>	<u>Loss in variation of interest</u>	<u>Balance on 12.31.2010</u>
Pinheiros	127,877	71,029	3,236	-	202,142
Serra do					
Japi	10,204	9,145	520	-	19,869
IENNE	48,044	34,177	2,326	-	84,547
IEMG	50,114	-	1,300	-	51,414
IESUL	7,157	37,300	872	(160)	45,169
IEMadeira	53,341	70,533	4,299	-	128,173
	<u>296,737</u>	<u>222,184</u>	<u>12,553</u>	<u>(160)</u>	<u>531,314</u>

## CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

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### 13. Fixed assets

Substantially refers to the personal property used by the Company and not bound to the concession contract.

	<b>Parent company</b>				
			<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Net</b>		
Machinery and equipment	8,166	(3,481)	<b>4,685</b>	5,144	2,292
Improvements to third parties' real estates	3,149	(2,331)	<b>818</b>	1,530	2,278
Furniture and fixtures	2,457	(749)	<b>1,708</b>	2,168	2,194
Vehicles	1,466	(523)	<b>943</b>	304	220
Others	1,108	(218)	<b>890</b>	940	990
	<u>16,346</u>	<u>(7,302)</u>	<u><b>9,044</b></u>	<u>10,086</u>	<u>7,974</u>
	<b>Subsidiary</b>				
			<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Net</b>		
Machinery and equipment	8,166	(3,481)	<b>4,685</b>	5,144	2,292
Improvements to third parties' real estates	3,149	(2,331)	<b>818</b>	1,530	2,278
Furniture and fixtures	2,462	(750)	<b>1,712</b>	2,173	2,194
Vehicles	1,466	(523)	<b>943</b>	336	220
Others	1,287	(251)	<b>1,036</b>	1,077	990
	<u>16,530</u>	<u>(7,336)</u>	<u><b>9,194</b></u>	<u>10,260</u>	<u>7,974</u>

The Company did not consider the balance of the fixed assets important and therefore chose not to adopt the deemed cost practice as provided for in ICPC 10 - Interpretation on the Initial Application to Fixed Assets and Property for Investment.

Additionally, the effects of depreciation resulting from the first regular review of the remaining useful and economic life of the fixed assets as determined by ICPC 10 were not considered relevant by the Company's management.

## CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

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### 14. Intangible assets

Substantially refers to the expenses incurred in the implementation /structuring project of ERP-SAP, except for training expenses that were recorded in the income. The project started in April 2008 and completed in February 2009, is being linearly amortized within 5 years.

### 15. Loans and financing

The composition of the balances of loans and financing is as follows:

Local currency	Charges	Maturity	Parent company		
			2010	2009	01.01.2009
BNDES (a) (i)	2.3% p.a. above TJLP	15.06.2015	421,146	514,117	606,169
BNDES (a) (ii)	1.8% p.a. above TJLP	15.06.2015	160,605	-	-
Notes (d)					
1st issuance		17.06.2009	-	-	199,068
2nd issuance	119.5% p.a. CDI	19.04.2010	-	213,696	-
3rd issuance	106.5% p.a. CDI	13.01.2010	-	208,029	-
Eletrobras		15.11.2021	441	491	541
Finance leases			1,702	2,143	-
			<b>583,894</b>	<b>938,476</b>	<b>805,778</b>
Current			<b>133,317</b>	<b>518,690</b>	<b>294,492</b>
Non-current			<b>450,577</b>	<b>419,786</b>	<b>511,286</b>



## CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to the financial statements -- Continued

December 31, 2010 and 2009

(In thousand of reais, except as otherwise indicated)

### 15. Loans and financing--Continued

Local currency	Charges	Maturity	Subsidiary		
			2010	2009	01.01.2009
BNDES (a) (i)	2.3% p.a. above TJLP	15.06.2015	<b>421,146</b>	514,117	606,169
BNDES (a) (ii)	1.8% p.a. above TJLP	15.06.2015	<b>160,605</b>	-	-
BNDES (b)	2.4% p.a. above TJLP	15.04.2023	<b>37,630</b>	40,680	-
BNDES (c)	2.8% p.a. above TJLP	15.04.2011	<b>185,134</b>	-	-
Notes (d)					
1st issuance		17.06.2009	-	-	199,068
2nd issuance	119.5% p.a. CDI	19.04.2010	-	213,696	-
3rd issuance	106.5% p.a. CDI	13.01.2010	-	208,029	-
Banco Bradesco (e)	CDI + 2.0% p.a.		<b>1,396</b>	45,717	51,010
Citibank (f)	CDI + 1.5% p.a.	11.03.2011	<b>8,297</b>	24,537	-
Banco do Nordeste (g)	10% p.a.	19.05.2030	<b>56,094</b>	-	-
Elektrobras		15.11.2021	<b>441</b>	491	541
Finance leases			<b>1,702</b>	2,143	-
			<b>872,445</b>	1,049,410	856,788
Current			<b>332,413</b>	592,129	345,502
Non-current			<b>540,032</b>	457,281	511,286

- (a) (i) On September 17, 2007, CTEEP signed a loan contract with Banco Nacional de Desenvolvimento Economico e Social - BNDES of R \$ 764.2 million, reduced to R \$ 602.2 million in December 2008. The amount corresponds to 70.0% of total investment, which includes works of systemic improvements, reinforcements, upgrades of existing transmission system and new projects, and is part of the Multi-year Investment Plan 2006/2008. The amortization is in 78 monthly installments beginning in January 2009. As guarantee, the Company offered bank guarantees contracted in effect until December 15, 2015, with banks Bradesco, Santander and Banco do Brasil, at the cost of 0.7% p.a., with quarterly maturity.

(ii) On November 18, 2008, CTEEP signed a loan contract with BNDES at the amount of R \$ 329.1 million. On January 27, 2010 R\$ 160.0 million were released, and other releases are planned for the coming quarters. The value is intended to cover the investments on reinforcements, upgrades of the existing system and new connections to be made between Jan/09 and Dec/10. The amortization will be in 54 monthly installments beginning in January 2011, and until the start of amortization, the charges will be paid on a quarterly basis. As guarantee, the Company offered bank guarantee contracted in effect until June 15, 2015 with bank Bradesco, at the cost of 1.2% per year, with quarterly maturity.

- (b) On January 14, 2009 the subsidiary IEMG signed a loan contract with BNDES at the amount of R \$ 70.6 million, whose amount was released on March 27, 2009. The fund is intended to finance approximately 50.0% of the Transmission line (TL) between substations Neves 1 and Mesquita. The amortization is made in 168 monthly installments from May 15, 2009. As guarantee a contracted bank guarantee was offered in effect until March 18, 2010, with HSBC bank. On February 18, 2010, an addendum to the bank guarantee contract was signed extending its effectiveness to March 15, 2011.

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Notes to the financial statements -- Continued

December 31, 2010 and 2009

(In thousand of reais, except as otherwise indicated)

### **15. Loans and financing - Continued**

- (c) On August 11, 2010 subsidiary IEMADEIRA signed a loan contract with BNDES, at the amount of R\$ 292.6 and R\$ 108.7 million. On August 30, 2010 R\$ 163.0 million were released, and other releases are planned for the coming quarters. The fund is intended to finance the construction of the Transmission Lines and Substations provided for in the concession contracts. The amortization will be in a lump sum along with the charges. As guarantee a contracted bank guarantee was offered in effect until June 15, 2011, with banks Bradesco, Banco Espirito Santo - BES and Santander.
- (d) 2nd Issuance – issued on April 24, 2009, at the amount of R\$ 200.0 million and settled on April 19, 2010. The nominal charges correspond to 119.5% of the CDI. The issuance costs of these notes totaled R\$ 1,692 and, in accordance with CPC 08, the issuance costs of notes were recorded by deducting the value of funding and appropriate to the outcome in the transaction term.  
  
3rd Issuance – issued on July 17, 2009, at the amount of R\$ 200.0 million, its maturity was advanced for January 2010 according to the issuance of debentures (Note 16). The nominal charges correspond to 106.5% of the CDI. The issuance costs of these notes totaled R\$ 1,295.
- (e) Bank credit notes of subsidiary IENNE with Banco Bradesco:
  - (i) issued on July 13, 2009, with a limit of R\$ 180.0 million. The charges levied on this transaction were monthly paid, with settlement occurring on July 30, 2010. As guarantee a Standby Letter of Credit (SBLC) was offered.
  - (ii) issued on July 15, 2009, with a limit of R\$ 58.0 million. The charges levied on this transaction were monthly paid, with settlement occurring on July 30, 2010. As guarantee a bank guarantee contracted with HSBC was offered.
  - (iii) Secured account with a limit of R\$ 20.0 million. The nominal charges correspond to 100.0% of the CDI.
- (f) Bank credit notes of subsidiary IESUL with Banco Citibank S.A.:
  - (i) On July 27, 2009, subsidiary IESUL signed a bank credit note contract with Citibank S.A., with a limit of R\$ 40.0 million. The charges levied on this transaction were monthly paid, with settlement occurring on October 13, 2010. As guarantee a comfort letter issued by CTEEP was offered.
  - (ii) On August 04, 2010, subsidiary IESUL signed a bank credit note contract with Citibank S.A., with a limit of R\$ 17.0 million. The charges levied on this transaction are monthly paid. The fund is intended to finance the construction of the Transmission Lines and Substations provided for in the concession contracts. As guarantee a Note was offered.
- (g) On May 19, 2010, subsidiary IENNE signed a financing contract with Banco do Nordeste do Brasil S.A., at the amount of R\$ 220.0 million, whose value was released on July 20 and 30, 2003 in September 03 and October 11, 2010. The fund is intended to finance approximately 40% of the Transmission Line between substations Colinas do Tocantins a São João do Piauí. The amortization will be in 216 monthly installments beginning in June 2012, and until the start of the amortization, the charges will be paid on a quarterly basis. As guarantee a contracted bank guarantee was offered in effect until July 15, 2011, with bank Bradesco.

## CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

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### 15. Loans and financing--Continued

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

	Parent company			Subsidiary		
	2010	2009	01.01.2009	2010	2009	01.01.2009
2011	-	93,951	92,940	-	96,989	92,940
2012	128,771	93,046	92,940	132,449	96,084	92,940
2013	128,671	93,033	92,940	132,963	96,071	92,940
2014	128,626	93,033	92,940	133,201	96,074	92,940
2015	64,316	46,533	92,940	69,183	49,571	92,940
After 2015	193	190	46,586	72,236	22,492	46,586
	<b>450,577</b>	<b>419,786</b>	<b>511,286</b>	<b>540,032</b>	<b>457,281</b>	<b>511,286</b>

### 16. Debentures – parent company and subsidiary

	Maturity	Quantity	Charges	2010	2009	01.01.2009
1st series	15.12.2014	49,100	CDI + 1.3% p.a.	490,405	-	-
2nd series	15.12.2017	5,760	IPCA + 8.1% p.a.	65,388	-	-
				<b>555,793</b>	-	-
Current				2,154	-	-
Non-current				<b>553,639</b>	-	-

In December 2009, CTEEP issued 54,860 debentures totaling R\$ 548.6 million, with financial settlement in January 2010. The 1st series will be amortized on the following dates: December 15, 2012, 2013 and 2014, and the remuneration will be paid semiannually on June and December 15 every year, the first occurred on June 15, 2010.

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

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

	2010	2009	01.01.2009
2011	-	-	-
2012	168,092	-	-
2013	163,206	-	-
2014	176,878	-	-
2015	15,153	-	-
After 2015	30,310	-	-
	<b>553,639</b>	-	-

## CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

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### 17. Taxes and social charges payable

	Parent company			Subsidiary		
	2010	2009	01.01.2009	2010	2009	01.01.2009
Income tax	45,952	52,289	722	45,952	52,289	760
Social contribution	16,633	15,923	270	16,633	15,923	338
COFINS	7,141	3,578	6,121	7,210	3,609	6,127
PIS	1,549	775	1,328	1,564	782	1,329
Scholarship program (i)	1,542	2,195	2,786	1,542	2,195	2,786
INSS	6,014	4,462	2,385	6,206	4,539	2,496
ISS	3,630	3,847	-	3,936	3,847	-
Others	5,270	4,370	5,559	5,702	5,321	5,640
	<b>87,731</b>	<b>87,439</b>	<b>19,171</b>	<b>88,745</b>	<b>88,505</b>	<b>19,476</b>

- (i) Refers to the obligations assumed by the Company, in an agreement executed with the unions, in order to reimburse its employees for costs for completing their studies at primary, secondary and higher education.

### 18. Taxes paid in installments - Law no. 11,941 - parent company and subsidiary

Due to issues related to the filling in method, the Company rectified the Federal Tax Debts and Credits statements (DCTFs) from 2004 to 2007 determining debits substantially related to the contributions to PIS and COFINS. For settlement of debt the company joined the program of installments of tax debts provided for by Law no. 11941 of May 27, 2009, paying R\$ 141,162 on November 30, 2009, with the benefit of reducing penalties and interest amounting to R\$ 42,257. The remainder will be paid in 180 months from November 2009. Upon approval of the installments by the Internal Revenue Service of Brazil, the Company will recognize revenue arising from reduction of penalty and interest on the debt in installments at the amount of R\$ 19,677 approximately.

The changes for the year ended on December 31, 2010 were as follows:

	Parent company and subsidiary	
	2010	2009
Initial balance	147,738	212,097
Penalties and interest on the debit	-	119,054
Reduction of penalties and interest (Law benefit)	-	(42,257)
Adjustment for inflation on the debit	7,580	-
Payment on sight	-	(141,156)
Payments made (*)	(1)	-
	<b>155,317</b>	<b>147,738</b>
Current	<b>10,353</b>	<b>9,853</b>
Non-current	<b>144,964</b>	<b>137,885</b>

- (\*) Until the approval of the installments by the Internal Revenue Service of Brazil, the monthly payment is the amount of R\$ 100.00 (one hundred reais).

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### 19. Regulatory charges payable

	Parent company			Subsidiary		
	2010	2009	1.2009	2010	2009	01.01.2009
Research and development - R&D	39,033	30,672	20,363	39,114	30,709	20,363
Power Development Account - CDE	2,179	2,561	3,041	2,179	2,561	3,041
Fuel Consumption Account – CCC	3,620	2,167	2,804	3,620	2,167	2,804
Global Reversal Reserve – RGR	5,443	6,431	10,732	5,629	6,630	10,732
Incentive Program for Alternative Sources of Electric Power - PROINFA	1,143	1,180	1,774	1,143	1,180	1,774
Inspection Fee – ANEEL	-	-	619	48	40	619
	<u>51,418</u>	<u>43,011</u>	<u>39,333</u>	<u>51,733</u>	<u>43,287</u>	<u>39,333</u>
Current	<u>49,244</u>	<u>39,742</u>	<u>36,528</u>	<u>49,559</u>	<u>40,018</u>	<u>36,528</u>
Non-current	<u>2,174</u>	<u>3,269</u>	<u>2,805</u>	<u>2,174</u>	<u>3,269</u>	<u>2,805</u>

### 20. Allowances

	Parent company			Subsidiary		
	2010	2009	01.01.2009	2010	2009	01.01.2009
Vacation and social charges	16,417	15,641	12,040	16,795	15,806	12,040
Interest on Profit and Income – PLR	5,786	8,035	7,991	5,786	8,035	7,991
Voluntary Resignation Program – PDV (a)	87	3,649	18,304	87	3,649	18,304
Various indemnities	-	309	313	-	309	313
Contingencies (b)	<u>161,682</u>	<u>167,842</u>	<u>170,399</u>	<u>161,682</u>	<u>167,842</u>	<u>170,399</u>
	<u>183,972</u>	<u>195,476</u>	<u>209,047</u>	<u>184,350</u>	<u>195,641</u>	<u>209,047</u>
Current	<u>22,284</u>	<u>27,523</u>	<u>34,895</u>	<u>22,662</u>	<u>27,688</u>	<u>34,895</u>
Non-current	<u>161,688</u>	<u>167,953</u>	<u>174,152</u>	<u>161,688</u>	<u>167,953</u>	<u>174,152</u>

#### a) Voluntary Resignation Program - PDV

The Company, which had 2,737 employees on October 31, 2006, approved Voluntary Resignation Program - PDV with a period of membership from November 21 to 30, 2006, obtaining 1,534 members.

On December 31, 2010, the remaining balance refers to the allowance for health and dental care to which the employees are entitled for 36 months after their resignation.

## CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to the financial statements -- Continued

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### 20. Allowances - Continued

#### b) Allowance for contingencies - parent company and subsidiary

On a quarterly basis, the contingencies are evaluated and classified according to probability of loss for the Company, as shown below:

	Parent company			Subsidiary		
	2010	2009	01.01.2009	2010	2009	01.01.2009
Labor (i)	<b>145,993</b>	147,344	139,917	<b>145,993</b>	147,344	139,917
Civil	<b>3,844</b>	3,219	2,741	<b>3,844</b>	3,219	2,741
Tax – IPTU (ii)	<b>7,527</b>	8,239	16,677	<b>7,527</b>	8,239	16,677
Social security – INSS (iii)	<b>3,635</b>	5,398	8,197	<b>3,635</b>	5,398	8,197
ANEEL (iv)	<b>683</b>	3,642	2,867	<b>683</b>	3,642	2,867
	<b>161,682</b>	<b>167,842</b>	<b>170,399</b>	<b>161,682</b>	<b>167,842</b>	<b>170,399</b>

The court deposits are recorded in non-current assets under “escrows and related deposits”.

The Company has tax, labor and civil proceedings involving risk of loss that the Management, based on an assessment of its legal counsels, classified more likely to win, at the estimated amount of R\$ 101,252 (31/12/2009 - R\$ 89,385), concentrated mainly on labor actions, for which no allowance was made.

#### (i) *Labor*

The Company assumed responsibility for certain proceedings filed with different courts, arising mainly from the partial spin-off of CESP and EPTE.

#### (ii) *Tax - IPTU*

The Company makes allowance to meet the debts with the local government of several municipalities of the State of São Paulo, related to regularization proceedings of areas, amounting to R\$ 7,527.

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Notes to the financial statements -- Continued

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### **20. Allowances - Continued**

#### b) Allowance for contingencies – parent company and subsidiary - Continued

##### *(iii) Social security - INSS*

On August 10, 2001, the Company was notified by the National Institute of Social Security - INSS for not collecting contributions on remunerations paid to employees as meal vouchers, morning snack, basket of food staples and transportation ticket, related to the period from April 1999 to July 2001. The Management began defense procedure by making a court deposit at the amount of R\$ 8,243, recorded in non-current assets, under "Escrows and related deposits". In January 2010, the decision unfavorable to the Company in the proceedings related to meal vouchers, morning snack and part of the basket of food staples became unappealable. Consequently, the installment corresponding to the amounts deposited in court, amounting to R\$ 5,498, were reversed to the Federal Government and written-off against the income, considering that no allowance was made for such contingency.

##### *(iv) ANEEL*

The Company was notified by ANEEL for failure to meet the date set for installation of 3rd 345/88 kV transformer bank of SE Baixada Santista, authorized by ANEEL Resolution no. 197 of 05/04/2004 with penalty at the amount of R\$ 1,981, and for failure to meet the date set for entry into operation of the transmission line, in 345 kV, Guarulhos - Anhanguera, authorized by Authorizing Resolution no. 064/2005 of 01/31/2005 with penalty at the amount of R\$ 886, totaling R\$ 2,687. On June 30, 2010, an allowance was reversed against the income.

Additionally, the Company maintains allowance relating to the fees for loss of lawsuit of ANEEL tax assessment notice 001/1999-SFE which imposed a penalty, related to interruption of transmission and distribution of electric power in Southeast, South and Midwest, alleging Regions by alleging the following violations: a) hindering the inspection work; b) failure to meet the stipulations of the "inspection report"; and (c) failure to meet the legal duty to provide adequate service.

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

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### **21. Values payable - CESP Foundation**

The Company sponsors supplementary retirement remuneration and pension plans and health care and maintained with CESP Foundation.

a) Plan "A" - supplementary retirement remunerations

Governed by State Law 4819/58, which applies to employees hired before May 13, 1974, provides for supplementary retirement remuneration benefits, leave and the family allowance. The resources needed to face the charges taken on therein are sole responsibility of the competent bodies of the state government of São Paulo, with no additional risk and cost to the Company (Note 34).

b) Plan "B" and "B1" - retirement supplementation

Plans "B" and "B1", regulated by Law 6435/77 and managed by CESP Foundation, are sponsored by the Company, providing retirement supplementation and pension benefits, whose reserves are determined by the capitalization system.

The so-called Plan "B" refers to Proportional Supplementary Benefit Settled - BSPS, calculated on December 31, 1997 (CTEEP) and March 31, 1998 (EPTE), according to rules in force, and its actuarial financial and economic balance equated on that time. The annual actuarial technical result of this plan (deficit or surplus) is sole responsibility of the Company.

On January 1, 1998 (CTEEP) and April 1, 1998 (EPTE), the Company, respectively, implemented Plan "B1", which defines parity responsibilities and contributions between the Company and participants in order to maintain the actuarial financial and economic balance of the plan. This plan provides retirement and pension benefits to its employees, former employees and respective beneficiaries, in order to supplement the benefits provided by the official Social Security system. The plan has as its main feature the mixed model, composed of 70% as Defined Benefit - BD and 30% as Defined Contribution - CD. On the date of retirement the Defined Contribution Benefit Plan - CD becomes Defined Benefit - BD.



## CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

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### 21. Values payable – CESP foundation - Continued

#### c) PSAP Plan - Transmissão Paulista

On January 1, 2004, the plans sponsored by the Company, as well as the extinct EPTe were merged financially, maintaining the individual characteristics of the respective plans, thus becoming the PSAP Plan - Transmissão Paulista.

#### *Actuarial evaluation*

In the actuarial evaluation, prepared by independent actuaries, the social security plans PSAP sponsored by the Company was adopted using the projected unit credit method. The main economic and financial information, in compliance with CPC no. 33 and CVM Instruction no. 600, based on actuarial opinions is the following:

#### (i) Reconciliation of assets and liabilities

	<u>2010</u>	<u>2009</u>	<u>01.01.2009</u>
Fair value of the assets	2,515,067	2,001,707	1,790,191
Present value of the defined benefit liability	(1,800,653)	(1,628,613)	(1,517,603)
Restriction of the recognition of assets	(714,414)	(373,094)	(272,588)
Net liabilities	<u>-</u>	<u>-</u>	<u>-</u>

#### (ii) Changes in the plan assets

	<u>2010</u>	<u>2009</u>	<u>01.01.2009</u>
Fair value of the assets at the beginning of the year	2,001,707	1,790,191	1,774,274
Employer contributions	2,128	1,782	1,697
Employee contributions	2,707	2,658	2,651
Return from investments	612,858	304,884	113,516
Benefits paid	(104,333)	(97,808)	(101,947)
Fair value of the assets at the end of the year	<u>2,515,067</u>	<u>2,001,707</u>	<u>1,790,191</u>

#### (iii) Changes in actuarial liabilities

	<u>2010</u>	<u>2009</u>	<u>01.01.2009</u>
Present value of the net actuarial liability at the beginning of the year	1,628,613	1,517,603	1,506,892
Costs of current services	(200)	(397)	4,880
Costs of interest	178,110	162,154	154,306
Contribution of the participants	2,707	2,658	2,651
Actuarial gain/loss	95,756	44,403	(49,179)
Benefits paid	(104,333)	(97,808)	(101,947)
Present value of the net actuarial liability at the end of the year	<u>1,800,653</u>	<u>1,628,613</u>	<u>1,517,603</u>

## CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to the financial statements -- Continued  
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### 21. Values payable – CESP foundation--Continued

#### c) PSAP Plan - Transmissão Paulista - Continued

*Actuarial evaluation - Continued*

#### (iv) Participants of the plan

	<u>2010</u>	<u>2009</u>	<u>01.01.2009</u>
Active	<u>1,446</u>	<u>1,458</u>	<u>1,403</u>
Inactive			
Retirees	1,852	1,774	1,719
Retirees for disability	40	34	31
Pensioners	85	79	74
	<u>1,977</u>	<u>1,887</u>	<u>1,824</u>
	<u>3,423</u>	<u>3,345</u>	<u>3,227</u>

#### (v) *Actuarial assumptions used*

	<u>2010</u>	<u>2009</u>	<u>01.01.2009</u>
Discount rate of the present value of actuarial liabilities	10.75%	11.25%	11.00%
Expected return rate on the plan assets	12.00%	11.50%	11.50%
Future salary increase rate	7.64%	7.64%	7.12%
Adjustment index of continued provision granted benefits	4.50%	4.50%	4.00%
Overall mortality	AT-83	AT-83	AT-83
Overall disability	Light-Average	Light-Average	Light-Average
Mortality of disabled people	AT-49	AT-49	AT-49

### 22. Special liabilities – Reversal/Amortization

Refer to resources from the reserve of reversal, amortization and installment withheld in the Company, from the monthly shares of Global Reversal Reserve - RGR, related to applications of resources in investments for expansion of public utility of electric power and amortization of loans obtained for the same purpose, occurred until December 31, 1971. It is not defined by Grantor how these liabilities will be settled.

## CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

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### 23. Net equity

#### a) Capital

The authorized capital of the Company on December 31, 2010 and 2009 is R\$ 1,469,090, of which R\$ 615,696 in common shares and R\$ 853,394 in preferred shares, all nominative, book-entry shares with no par value.

Subscribed and paid-in capital on December 31, 2010 totaled R\$ 1,119,911 (12.31.09 - R\$ 1,063,049) divided into 151,828,980 (12/31/2009 - 150,656,559) shares, of which 63,860,513 (12.31.09) common shares and 87,968,467 (12.31.09 - 87,457,309) preferred shares.

At a meeting of the Board of Directors held on March 8, 2010, the capital increase at the amount up to R\$ 76,881 was approved, through privately issuance of new shares at unit price of R\$ 48.50 per share. Of the total increase, R\$ 28,832, equivalent to 594,477 shares, will be hold by the controlling shareholder and will be paid in by capitalizing on the capital reserve (special reserve of premium in the merger) corresponding to the tax benefit - incorporated premium of the parent company (Note 10) arising from the corporate restructure concluded in February, 2008.

Under Article 171 of Law no. 6404/76 shareholders were granted a 30 days period to exercise the right of first refusal. Once this period is ended on April 7, 2010, the following capital increase was determined:

	<u>Quantity</u>	<u>R\$ mil</u>
ON	661,263	32,071
PN	511,158	24,791
	<u>1,172,421</u>	<u>56,862</u>

At a meeting of the Board of Directors held on April 23, 2010, was:

- (i) unanimously approved the ratification of the capital increase of CTEEP approved at a meeting of the Board of Directors held on March 8, 2010, in quantities and values shown in the table above.
- (ii) Unanimously approved the cancellation of 3,709 common shares and 409,053 preferred shares, all issued by CTEEP and not subscribed by shareholders within the term indicated in a meeting of the Board of Directors held on March 8, 2010.

## CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to the financial statements -- Continued  
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### 23. Net equity - Continued

#### a) Capital - Continued

Ordinary shares give to the holder the right to one vote in the resolutions of the general meetings.

The preferred shares have no voting rights but have priority in the reimbursement of capital and receipt of dividends of 10% a year, non-cumulative, calculated on the paid-in capital corresponding to this kind of shares.

#### b) Dividends and interest on shareholders' equity

At special meetings held on January 11, March 30 and June 28, the Board of Directors decided on the payment on January 22, April 20 and July 23, 2010, of dividends for the profit of 2009 at the amount of R\$ 161,000, R\$ 129,980 and R\$ 77,302, corresponding to R\$ 1.068656, R\$ 0.862756 and R\$ 0.509143 per share respectively.

The Board decided on the distribution of interest on shareholders' equity and interim dividends as follows:

Date	Interest on shareholders' equity		Interim dividends		Payments
	Total	Per share	Total	Per share	
30.03.2010	61.920	0.411002	-	-	20.04.2010
28.06.2010	62.926	0.414452	63,671	0.419364	23.07.2010
09.30.2010	63.720	0.419682	146,280	0.963453	25.10.2010
17.12.2010	63.027	0.415119	112,073	0.738152	28.01.2011
	<u>251.593</u>	<u>1.660255</u>	<u>322,024</u>	<u>2.120969</u>	

The Company's Bylaws provides for minimum mandatory dividends corresponding to 10% of the capital, corresponding to R\$ 106.3 million, whenever there are profit balance after the constitution of legal reserve.

	<u>2010</u>
Net income of the year	812,171
Constitution of legal reserve	(40,609)
Realization of reserve of unrealized profit	3,240
Dividends and interest on prescribed shareholders' equity	2,522
Calculation basis of dividends	777,324
Interest on shareholders' equity	(251,593)
Interim dividends	(322,024)
Constitution of statutory reserve	(5,686)
Allocation of dividends	<u>198,021</u>

## CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

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### 23. Net equity--Continued

#### c) Capital reserve

	<u>2010</u>	<u>2009</u>	<u>01.01.2009</u>
Grants for investments– CRC (i)	1,264,084	1,264,084	1,264,084
Remuneration of fixed assets in use (ii)	633,053	633,053	633,053
Gifts and grants for the investments	150,489	150,489	150,489
Tax incentives - FINAM	6,743	6,743	6,743
Special Reserve of Premium on Acquisition (Note 10)	176,744	205,576	232,005
	<u>2,231,113</u>	<u>2,259,945</u>	<u>2,286,374</u>

#### (i) *Grants for Investments - CRC*

The Income Accounting Payable (CRC) was established by Decree No. 41019/1957 and Law No. 5655/1971 to remunerate the concessionaires of electric power for certain investments made by it. Law # 8631/1993 extinguished CRC and, later, Law # 8.724/1993 established that the credits of CRC, were recorded in net equity as subsidy for investment on account of "Capital Reserve".

As allowed by CPC 13, the Company chose to maintain the existing balance on December 31, 2007 regarding CRC, as well as other gifts and grants for the investments recorded as capital reserve in the net equity, until its total use as provided for in the Corporate Law.

#### (ii) *Remuneration of fixed assets in use*

These are credits resulting from the capitalization of remuneration calculated on the resources of shareholders' equity used during the construction of fixed assets applied to works in progress and that can only be used for capital increase. From 1999, the Company abandoned this practice, as allowed by the Accounting Manual of Electric Power Public Utility.

#### d) Profit reserve

	<u>2010</u>	<u>2009</u>	<u>01.01.2009</u>
Legal reserve (i)	215,763	175,154	133,753
Statutory reserve (ii)	111,991	106,305	100,000
Reserve of unrealized profit (iii)	33,293	36,533	38,809
Reserve of earned income (iv)	653,077	653,077	619,121
	<u>1,014,124</u>	<u>971,069</u>	<u>891,683</u>

## CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

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### 23. Net equity--Continued

#### d) Profit reserve--Continued

##### (i) *Legal reserve*

Made in 5% of net income of the year, before any allocation, up to 20% of the capital.

##### (ii) *Statutory reserve*

The Company's Bylaws provides for the establishment of reserves for investment in expansion of activities at a rate of 20% of net income of the year, net of legal reserve and the minimum mandatory dividends, up to 10% of the capital.

##### (iii) *Reserve of unrealized profit*

Unrealized profits result from positive balance of adjustment for inflation net of balance by 1995.

This reserve is made in proportion to the depreciation of fixed assets. The amounts realized are transferred to the account "Accrued profits" monthly.

##### (iv) *Reserve of earned income*

In accordance with the Corporate Law, the remaining installment of net income of distributions and other statutory allocations were allocated to this reserve to meet the capital budget, as well as for the working capital of the Company.

#### e) Earnings per share

	2010	2009
<b>Basic and diluted earnings per share</b>		
Net income – R\$ mil	<u>812,171</u>	<u>861,975</u>
Weighted average quantity of shares		
Common shares	63,655,793	62,785,062
Preferred shares	<u>87,810,218</u>	<u>86,984,703</u>
	<u>151,466,011</u>	<u>149,769,765</u>
Total basic and diluted earnings per share	<u>5,36207</u>	<u>5,75533</u>

## CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to the financial statements -- Continued

December 31, 2010 and 2009

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### 24. Net operating revenue

#### 24.1 Composition of net operating revenue

	Parent company		Subsidiary	
	2010	2009	2010	2009
Gross revenue				
Construction (a)	<b>147,659</b>	210,954	<b>693,803</b>	565,468
Operation and maintenance (a)	<b>440,789</b>	498,673	<b>442,469</b>	500,001
Financial (b)	<b>1,371,585</b>	1,358,553	<b>1,398,245</b>	1,371,068
Rents	<b>12,797</b>	12,340	<b>12,797</b>	12,340
Service provision	<b>4,228</b>	6,934	<b>4,229</b>	6,934
Total gross revenue	<b>1,977,058</b>	2,087,454	<b>2,551,543</b>	2,455,811
Taxes on revenue				
COFINS	<b>(85,236)</b>	(90,871)	<b>(128,896)</b>	(118,866)
PIS	<b>(18,487)</b>	(19,709)	<b>(27,967)</b>	(25,787)
ISS	<b>(212)</b>	(368)	<b>(212)</b>	(368)
	<b>(103,935)</b>	(110,948)	<b>(157,075)</b>	(145,021)
Regulatory charges				
Fuel Consumption Account– CCC	<b>(32,524)</b>	(31,578)	<b>(32,524)</b>	(31,578)
Power Development Account – CDE	<b>(27,197)</b>	(35,396)	<b>(27,197)</b>	(35,396)
Global Reversal Reserve – RGR	<b>(46,808)</b>	(48,113)	<b>(46,972)</b>	(48,312)
Research and development – R&D	<b>(16,117)</b>	(27,647)	<b>(16,202)</b>	(27,720)
Incentive Program for Alternative Sources of Electric Power – PROINFA	<b>(15,287)</b>	(18,772)	<b>(15,287)</b>	(18,772)
	<b>(137,933)</b>	(161,506)	<b>(138,182)</b>	(161,778)
	<b>1,735,190</b>	1,815,000	<b>2,256,286</b>	2,149,012

#### a) Construction and operation and maintenance services

Revenue related to construction or improvement services under the service concession contract is recognized based on stage of completion of the work. The revenue of the operation and maintenance services are recognized in the period in which services are provided by the Company. When the Company provides more than one service in a service concession contract, the remuneration received is allocated by reference to the relative fair values of the services delivered.

#### b) Financial income

Financial income is recognized when it is probable that future economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest revenue is recognized by the straight line method based on time and the actual interest rate on the outstanding principal amount, and the actual interest rate is the one that exactly discounts the estimated future cash receipts during the estimated life of the financial assets in relation to the initial net book value of such assets.

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

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### **24. Net operating revenue - Continued**

#### **24.2 Annual revenue allowed - RAP of substation Miguel Reale**

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

In September 2004, ANEEL has performed surveillance in order to validate the values of investments made in said work, concluding that the values of these investments should be reduced, for purposes of fixing a new RAP installment, retroactive to July 2004 at the amount of R\$ 232,164.

Due to the reduction of the investments of said project, the corresponding annual installment of RAP from July 2005, was then reduced by R\$ 32,251. The Company believes this reduction is unfounded and pleaded with ANEEL, through Official Letter OF/F/2828 of July 08, 2005, its replacement.

On March 2, 2006, through Official Letter 321/2006 - SFF / ANEEL, the Office of Economic and Financial Supervision of ANEEL sent the Monitoring Supervision Report - RAF which examined the CTEEP claim and maintained the initial positioning of said Superintendence.

On March 23, 2006, through Official Letter OF/F/1372/2006, CTEEP filed with ANEEL an Administrative Appeal seeking review of the positioning of said Superintendency.

Through Technical Note No. 130/2010 - SRE / ANEEL of April 23, 2010 ANEEL maintained constant values of the Inspection Report no 202/2004 - SFF / ANEEL, concluding that CTEEP plea should not be approved, thus, terminating the resources under the administrative scope.

#### **24.3 Regular review of the annual revenue allowed - RAP**

In accordance with concession contract No. 59, executed on June 20, 2001 with the Federal Government through ANEEL, every four years after the date of execution of this contract, ANEEL shall review on a regular basis the annual revenue allowed - RAP of power transmission related to the installation of authorized projects that entered into commercial operation after December 31, 1999, aiming to promote efficiency and fee affordability.



## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

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### **24. Net operating revenue - Continued**

#### **24.3 Regular review of the annual revenue allowed - RAP - Continued**

The review includes the repositioning of revenue by determining:

- a) regulatory remuneration base for RBNI;
- b) the efficient operating costs;
- c) the optimal capital structure and definition of remuneration of the transmitter;
- d) identification of the value to be considered as fee reducer - Other Revenue.

- *First round of regular fee review*

Through Resolution no. 488 of June 26, 2007, the outcome of the first regular fee review was approved by the Company, by reducing annual revenue allowed - RAP by 26.15%, which was applied on the Basic Grid New Facilities - RBNI and Other Installations New Investments - RCDM in force on July 1, 2005.

The result of this repositioning had effect retroactive to the date of July 1, 2005. The greatest collection in the period from July 2005 to June 30, 2007, at the amount of R\$ 66,688, was offset in 24 (twenty four) months, through contractual mechanism of adjustment installment.

- *Second round of regular fee review*

The regular review provided for in contract to be performed in July 2009 was postponed to July 2010. On December 21, 2009, ANEEL published Normative Resolution no. 386, which sets forth the general concepts, applicable methodologies and procedures for conducting the second cycle of regular fee reviews - RTP of electric power transmission public utilities concessionaires.

Article 6 of Normative Resolution no. 386/09 defines that the income of fee adjustment will apply from July 1, 2009. Considering such retroactivity and reduction of the capital cost, for this second cycle from 9.18% to 7.24%, we recognize the reduction of revenue of R\$ 82,086, in return of the adjustment installment in current liabilities, as follows:

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

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### **24. Net operating revenue - Continued**

#### **24.3 Regular review of the annual revenue allowed - RAP - Continued**

- *Second round of regular fee review - Continued*

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

The income of the second round of regular fee review was approved by Resolution no. 994 of June 8, 2010 ANEEL, having been set fee adjustment of the Company in less 20.4%, to be applied on RBNI and RCDM installment in force on June 1, 2009.

Given the retroactive effect of new revenue, the amount of R\$ 82,086 overpaid from July 1, 2009 to June 30, 2010, will be returned in 12 monthly installments, through the contractual mechanism of installment adjustment.

#### **24.4 Variable Installment - PV and Additional payment to RAP**

Normative Resolution No. 270, of July 9, 2007, regulates the Variable Installment - PV and Additional payment to RAP. The Variable Installment is the discount on RAP of the transmitters due to unavailability of operating restrictions of the facilities of the Basic Grid. The additional payment to RAP corresponds to the value to be added to the revenue of transmitters as incentive to improve the availability of transmission facilities. They are recognized as operation and maintenance revenue during the period in which they occur.

#### **24.5 Annual adjustment of revenue**

On June 29, 2010, Approving Resolution no. 1021 was published, establishing that CTEEP annual revenue allowed, for availability of transmission facilities of the Basic Grid and Other Transmission Facilities for the round of 12 months, including the period from July 1, 2010 and June 30, 2011.

According to the aforementioned resolution, CTEEP RAP, which was R\$ 1,829,752 on July 1, 2009, became to R\$ 1,760,758 on July 1, 2010, a decrease of R\$ 68,994, equivalent to 3.8%.

## CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to the financial statements -- Continued  
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### 24. Net operating revenue - Continued

#### 24.5 Annual adjustment of revenue - Continued

The Company's revenue in force from July 1, 2010 until June 30, 2011 shows the following composition:

	Concession contract		Total
	059	143	
Basic grid			
Existing assets	1.131.045	-	1.131.045
New investments	286.255	-	286.255
Bid	-	14.507	14.507
Adjustment installment	(77.165)	(123)	(77.288)
	<u>1.340.135</u>	<u>14.384</u>	<u>1.354.519</u>
Other transmission facilities			
– DIT			
Existing assets	327.375	-	327.375
New investments	77.865	-	77.865
Adjustment installment	999	-	999
	<u>406.239</u>	<u>-</u>	<u>406.239</u>
	<u>1.746.374</u>	<u>14.384</u>	<u>1.760.758</u>

### 25. Costs of construction and operation and maintenance services and general and administrative expenses

	Parent company			2009 Total
	2010 Costs	2010 Expenses	2010 Total	
Staff	(162,241)	(34,536)	(196,777)	(181,693)
Services	(167,304)	(36,687)	(203,991)	(247,471)
Depreciation	-	(6,021)	(6,021)	(4,702)
Materials	(126,283)	(2,260)	(128,543)	(119,689)
Leases and rents	(6,933)	(3,728)	(10,661)	(8,977)
Contingencies	-	(31,522)	(31,522)	(24,878)
Others	(11,895)	(9,240)	(21,135)	(28,311)
	<u>(474,656)</u>	<u>(123,994)</u>	<u>(598,650)</u>	<u>(615,721)</u>

## CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to the financial statements -- Continued

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### 25. Costs of construction and operation and maintenance services and general and administrative expenses - Continued

	Subsidiary			2009 Total
	2010 Costs	2010 Expenses	Total	
Staff	(163,564)	(38,028)	(201,592)	(185,370)
Services	(341,022)	(39,660)	(380,682)	(349,864)
Depreciation	-	(6,047)	(6,047)	(4,713)
Materials	(423,459)	(2,320)	(425,779)	(332,887)
Leases and rents	(6,933)	(3,728)	(10,661)	(8,977)
Contingencies	-	(31,522)	(31,522)	(24,878)
Others	(13,292)	(16,628)	(29,920)	(31,306)
	<b>(948,270)</b>	<b>(137,933)</b>	<b>(1,086,203)</b>	<b>(937,995)</b>

### 26. Financial income

	Parent company		Subsidiary	
	2010	2009	2010	2009
Revenue				
Investment income	24,234	13,124	28,237	15,403
Active interest	9,451	103,001	9,451	103,001
Adjustment for inflation	8,382	36,841	8,382	36,832
Others	1,486	778	1,487	791
	<b>43,553</b>	<b>153,744</b>	<b>47,557</b>	<b>156,027</b>
Expenses				
Interest on shareholders' equity	(251,593)	(250,610)	(251,593)	(250,610)
Passive interest	(65,607)	(130,437)	(81,582)	(136,274)
Charges on notes	(7,911)	(34,496)	(7,911)	(34,496)
Charges on debentures	(57,686)	-	(57,686)	-
Others	(2,508)	(5,054)	(5,074)	(6,368)
	<b>(385,305)</b>	<b>(420,597)</b>	<b>(403,846)</b>	<b>(427,748)</b>
	<b>(341,752)</b>	<b>(266,853)</b>	<b>(356,289)</b>	<b>(271,721)</b>

## CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to the financial statements -- Continued

December 31, 2010 and 2009

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### 27. Others operating revenue (expenses)

	Parent company		Subsidiary	
	2010	2009	2010	2009
Revenue				
Claim compensation	1,214	-	1,214	-
Sale of land	1,659	-	1,659	-
Others	3,155	282	3,157	282
	<u>6,028</u>	<u>282</u>	<u>6,030</u>	<u>282</u>
Expenses				
Amortization of premium	(28,832)	(28,832)	(28,832)	(28,832)
Loss on change of interest in joint subsidiary	(160)	-	(160)	-
Allowance for losses		(18,292)	-	(18,292)
Others	(878)	(1,304)	(878)	(1,304)
	<u>(29,870)</u>	<u>(48,428)</u>	<u>(29,870)</u>	<u>(48,428)</u>
	<u>(23,842)</u>	<u>(48,146)</u>	<u>(23,840)</u>	<u>(48,146)</u>

### 28. Income tax and social contribution

The Company monthly accrues the installments for the income tax and social Contribution on net income, according to the accrual basis.

Under Transition Tax Regime (RTT) only the Company and its subsidiaries IEMG, IESUL and Pinheiros are presenting income for tax purposes. Taxes are calculated according to the taxable profit regime, although subsidiaries IEMG and IESUL are determining tax losses.

## CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to the financial statements -- Continued

December 31, 2010 and 2009

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### 28. Income tax and social contribution - Continued

The expense for income tax and social Contribution for the year can be reconciled with the accounting profit as follows:

	Parent company		Subsidiary	
	2010	2009	2010	2009
Profit before income tax and social contribution	<b>783,499</b>	888,725	<b>789,954</b>	891,150
Adjustments regarding RTT				
Concession contracts - ICPC 01				
Parent company	<b>(27,675)</b>	(110,428)	<b>(27,675)</b>	(110,428)
Subsidiaries	<b>(12,213)</b>	(4,707)	<b>(12,213)</b>	(4,707)
Pension and retirement plans – CPC 33	<b>13,601</b>	54,902	<b>13,601</b>	54,902
Discount – ICPC 09	<b>16,985</b>	16,985	<b>16,985</b>	16,985
Costs of issuance of securities - CPC 08	<b>(3,649)</b>	1,174	<b>(3,649)</b>	1,174
	<b>770,548</b>	846,651	<b>777,003</b>	849,076
Rates	<b>34%</b>	34%	<b>34%</b>	34%
Expected expense of income tax and social contribution	<b>(261,986)</b>	(287,861)	<b>(264,181)</b>	(288,686)
Income tax and social contribution on permanent differences	<b>39,065</b>	10,501	<b>34,805</b>	8,901
Actual expense of income tax and social contribution	<b>(222,921)</b>	(277,360)	<b>(229,376)</b>	(279,785)
Income tax and social contribution				
Current	<b>(222,549)</b>	(278,654)	<b>(222,630)</b>	(278,654)
Deferred	<b>(372)</b>	1,294	<b>(6,746)</b>	(1,131)
	<b>(222,921)</b>	(277,360)	<b>(229,376)</b>	(279,785)

The rate used in the reconciliation of 2010 and 2009 previously shown is the rate of 34% due by legal entities in Brazil on the taxable profit as provided for by the tax laws of such jurisdiction.

## CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to the financial statements -- Continued  
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### 28. Income tax and social contribution - Continued

The composition of the balance of deferred income tax and social contribution, assets and liabilities is presented below:

Ativos / (Liabilities)	Parent company			Subsidiary		
	2010	2009	01.01.2009	2010	2009	01.01.2009
Allowance for contingencies	55,307	56,091	58,529	55,307	56,091	58,529
Concession contract	(46,955)	(37,545)	-	(56,307)	(40,605)	(637)
Pension and retirement plans	-	(4,624)	(23,291)	-	(4,624)	(23,291)
Others	19,698	14,498	(8,113)	19,698	14,498	(8,113)
Net	28,050	28,420	27,125	18,698	25,360	26,488
Assets	28,050	28,420	27,125	28,050	28,420	27,125
Liabilities	-	-	-	9,352	3,060	637

### 29. Related party transactions

Significant balances and transactions with related parties during nine months are as follows:

Type of operation	Related party	2010		2009	
		Assets	Revenue/ (Expense)	Assets	Revenue/ (Expense)
Short term benefit	Key staff from administration	-	(5,966)	-	(7,989)
Sublease	ISA Capital	39	249	15	200
	IEMG	1	15	1	17
	IENNE	8	100	9	95
	Pinheiros	3	32	3	40
	IESUL	-	-	12	12
	Serra do Japi	2	24	2	5
Service provision	ISA Capital	7	86	7	83
	IEMG	132	1,658	1,499	1,499
Financial loan	IESUL	-	1,571	-	-
	Pinheiros	52,651	1,231	-	-
	Serra do Japi	3,687	24	-	-
Reimbursement of pre-auction studies	IEMadeira	-	-	193	-

The Company's remuneration policy does not include post-employment benefits, other long-term benefits, benefits for termination of employment contract or share-based remuneration.

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Notes to the financial statements -- Continued  
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### **29. Related party transactions - Continued**

The sublease contract covers the area occupied by ISA Capital and the subsidiaries at the Company's headquarters building, and apportionment of condominium and maintenance expenses, among others.

In 2008, a service contract was signed with ISA Capital comprising, among others, services, bookkeeping and tax record services, tax assessment and processing of payroll.

In 2009, the contract in which the Company provides operation and maintenance services of IEMG facilities entered into force.

In May 2010, a financial loan contract was executed with IESUL at the maximum amount of R\$ 63,000, used in whole or in part for up to 24 months. The charges levied on this transaction will be paid on maturity and correspond to CDI rate plus 2.5%.

In July 2010, a financial loan contract was executed with Pinheiros at the maximum amount of R\$ 100,000, used in whole or in part for up to 24 months. The charges levied on this transaction will be paid on maturity and correspond to CDI rate plus 1.3%.

In December 2010, a financial loan contract was executed with Serra do Japi at the maximum amount of R\$ 55,500, used in whole or in part for up to 24 months. The charges levied on this transaction will be paid on maturity and correspond to CDI rate plus 1.3%.

These operations were performed under conditions similar to the market conditions.



## CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to the financial statements -- Continued  
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### 30. Financial instruments

#### a) Identification and valuation of financial instruments

	Parent company			Subsidiary		
	2010	2009 (Restated)	01.01.2009 (Restated)	2010	2009 (Restated)	01.01.2009 (Restated)
Financial assets						
Fair value through profit or loss						
Cash and cash equivalent	40,334	18,564	104,229	54,983	43,234	123,024
Loans and receivables						
Accounts receivable						
Current	1,413,681	1,422,671	1,337,868	1,424,390	1,430,606	1,343,671
Non-current	3,231,704	3,205,624	3,143,981	4,225,309	3,656,679	3,243,022
Values receivable – Treasury department						
Current	22,938	19,439	19,786	22,938	19,439	19,786
Non-current	681,129	557,027	454,639	681,129	557,027	454,639
Loans with subsidiaries	56,338	-	-	-	-	-
Escrows and related deposits	42,248	43,946	51,860	42,248	43,946	51,860
Financial liabilities						
Amortized cost						
Loans and financing						
Current	133,317	518,690	294,492	332,413	592,129	345,502
Non-current	450,577	419,786	511,286	540,032	457,281	511,286
Debentures						
Current	2,154	-	-	2,154	-	-
Non-current	553,639	-	-	553,639	-	-
Suppliers	48,856	47,497	32,889	93,964	70,806	36,293
Interests on shareholders' equity and dividends payable	193,822	6,116	4,882	193,822	6,116	4,882

The book values of the financial instruments, assets and liabilities, when compared to the values that could be obtained on their trade in a active market or, on its absence, with adjusted net present value based on the interest rate in force in the market, substantially approximates to their corresponding market values.

The Company has no policy on the use of derivative financial instruments, as well as did not enter into any contracts during the year that may be considered as derivative financial instruments.

## CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to the financial statements -- Continued  
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### 30. Financial Instruments - Continued

#### b) Financing

The book value of loans and financing and debentures have their rates bound to TJLP, CDI and IPCA variation and approximates to the market value.

- *Debt ratio*

The debt ratio at the end of the period is as follows:

	Parent company			Subsidiary		
	2010	2009	01.01.2009	2010	2009	01.01.2009
		(Restated)	(Restated)		(Restated)	(Restated)
Loans and financing						
Current	133,317	518,690	294,492	332,413	592,129	345,502
Non-current	450,577	419,786	511,286	540,032	457,281	511,286
Debentures						
Current	2,154	-	-	2,154	-	-
Non-current	553,639	-	-	553,639	-	-
Total debt	1,139,687	938,476	805,778	1,428,238	1,049,410	856,788
Cash and cash equivalent	40,334	18,564	104,229	54,983	43,234	123,024
Net debt	1,099,353	919,912	701,549	1,373,255	1,006,176	733,764
Net equity	4,563,835	4,663,011	4,407,113	4,563,835	4,663,011	4,407,113
Net debt ratio	24.1%	19.7%	15.9%	30.1%	21.6%	16.6%

#### c) Risk management

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

- (i) *Credit risk* - The Company has contracts with the National Electric System Operator - ONS, concessionaires and other agents, regulating the provision of its services related to the basic grid to 216 users, with a bank guarantee clause. Also, the Company has contracts regulating the provision of its services in other transmission facilities-DIT with 30 concessionaires and other agents, also with a bank guarantee clause.

## CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to the financial statements -- Continued

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(In thousand of reais, except as otherwise indicated)

### 30. Financial Instruments - Continued

c) Risk Management - Continued

- (ii) *Price Risk* - The revenue of the Company are under concession contract, adjusted annually by ANEEL, by IGP-M variation, and part of the revenue subject to regular review every four years (Note 24 (a)).
- (iii) *Interest rate risk* - The update of the financing contracts is bound to TJLP, IPCA and CDI variation (Notes 15 and 16).
- (iv) *Exchange rate risk* - The Company has no financing, accounts receivable and assets in foreign currencies. Its exposure to the effects of currency fluctuations is irrelevant, corresponding to any imports of equipment.
- (v) *Funding Risk* - The Company and its subsidiaries may in the future face difficulties in raising funds with costs and terms of reimbursements appropriate for its cash generation profile and/or its debt reimbursement obligations.
- (vi) *Insurance risk* - The Company and its subsidiaries hire operating risk and civil liability insurance for its substations. However, given the difficulties in hiring insurance companies to cover any damage to transmission lines against losses from fire, lightning, explosion, short circuits and power outages, they do not make insurance against such risks. Therefore, any damage to the transmission lines may incur significant additional costs and investments.
- (vii) *Liquidity Risk* - The main cash source of the Company is from its operations, primarily from the use of its power transmission system by other concessionaires and agents of the industry. Its annual amount represented by the RAP facilities bound to the basic grid and other transmission facilities-DIT is defined under the law in force, by ANEEL. The Company manages liquidity risk by keeping bank credit facilities and funding credit facilities to raise loans that it deems appropriate, through the continuous monitoring of expected and actual cash flows, and the combination of the maturity profiles of financial assets and liabilities.

## CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to the financial statements -- Continued  
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### 30. Financial Instruments - Continued

#### c) Risk Management - Continued

The Company's management does not consider relevant its exposure to the above mentioned risks and therefore does not present the demonstrating table of sensitivity analysis.

### 31. Commitments taken - Operating leases

The main commitments of the Company and its subsidiaries are related to the operations of operating lease of vehicles and computer equipment, whose future minimum payments, in whole for each period is presented below:

	<u>2010</u>	<u>2009</u>
Up to one year	3,133	3,876
More than one year up to five years	3,411	1,243
	<u>6,544</u>	<u>5,119</u>

The lease transactions involving the Company as lessee are sub-lease operations with its parent company and its subsidiaries, and are disclosed in Note 29 - related party transactions.

### 32. Insurance

The specification by risk modality of effectiveness of the Company's insurance are as follows:

<u>Modality</u>	<u>Effectiveness</u>	<u>Amount insured - R\$ thousand</u>	<u>Premium - R\$ thousand</u>
Equity	01/09/10 to 01/09/11	2,211,112	2,754
General Civil Liability	01/09/10 to 01/09/11	20,000	249
National transports	09/30/10 to 09/30/11	44,830	5
Collective Personal Injuries	01/05/10 to 01/05/11	17,528	1
Vehicles	03/02/10 to 03/02/11	Market value	79
			<u>3,088</u>

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Notes to the financial statements -- Continued  
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### **32. Insurance - Continued**

- a) Equity - Coverage against risks of fire and electrical damage to the main equipment installed in transmission substations, buildings and respective contents, warehouses and facilities, according to concession contract no. 059/2001, Clause Four, Sub-Clause Eight, II, Item D, where the transmitter shall maintain insurance policies to ensure adequate coverage of most important equipment of the transmission system facilities, and the Transmitter should define the property and premises to be insured.
- b) General Civil Liability - Coverage to repair unintentional damage, personal and/or property damage caused to third parties as a result of the Company's operations.
- c) National Transportation - Coverage for damage caused to property and equipment of the Company, carried on the national territory.
- d) Collective Personal Injury - Insurance against personal injury to officers and apprentices.
- e) Vehicles - Coverage against collision, fire, theft and third parties.

The assumptions adopted for hiring the insurances, given their nature, are not within the scope of an audit of financial statements. Therefore, they were not examined by our independent auditors.

### **33. Eletrobras collection action against Eletropaulo and EPTE**

In 1989, Centrais Elétricas Brasileiras S.A. - ELETROBRAS filed an ordinary collection action against Eletropaulo - Eletricidade de São Paulo S.A. (current Eletropaulo Metropolitana Eletricidade de São Paulo S.A. - "Eletropaulo"), regarding the balance of the financing contract. Eletropaulo disagreed with the criteria of adjustment for inflation of said financing contract and deposited in court the values considered as actually owed. In 1999 a decision was rendered on said action against Eletropaulo for it pay the balance determined by ELETROBRAS.

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Notes to the financial statements -- Continued

December 31, 2010 and 2009

(In thousand of reais, except as otherwise indicated)

### **33. Eletrobras collection action against Eletropaulo and EPTE - Continued**

Under the protocol of partial spin-off of Eletropaulo, performed on December 31, 1997, which implied the incorporation of EPTE and other companies, the obligations of any nature relating to acts performed through the date of spin-off are sole responsibility of Eletropaulo, except for contingencies liabilities whose allowances have been allocated to the mergers. In such case, there was at the time of the spin-off no allocation to EPTE of allowance for this purpose, being clear for CTEEP Management and its legal counsels that the responsibility for said contingency was exclusively of Eletropaulo. There was at the time of the spin-off only the version to EPTE assets of the court deposit at the historical value of R\$ 4.00 set up in 1988 by Eletropaulo, related to the value that the company understood to be due to ELETROBRAS related to the balance of said financing contract and allocation in EPTE liabilities of equal value related to this balance.

Due to the spin-off protocol of Eletropaulo, EPTE would own the assets transferred and Eletropaulo would be responsible for contingent liability related to the amount in dispute by ELETROBRAS. In October 2001, ELETROBRAS promoted execution of a decision related to said financing contract, charging R\$ 429 million from Eletropaulo and R\$ 49 million from EPTE, understanding that EPTE would pay this part with the adjusted funds of said court deposit. CTEEP acquired EPTE on November 10, 2001, succeeding it in the obligations and rights.

On September 26, 2003, an appellate decision of the Court of Justice of the State of Rio de Janeiro was published excluding Eletropaulo from the execution of said decision. Due to the facts, ELETROBRAS filed on December 16, 2003, a Special Appeal with the Superior Court of Justice and the Extraordinary Appeal with the Supreme Court, aiming to maintain the aforementioned collection against Eletropaulo. Appeals similar to those of ELETROBRAS were filed by CTEEP.

The Supreme Court granted on June 29, 2006, the CTEEP Special Appeal, to review the decision of the Court of Justice of the State of Rio de Janeiro that had excluded Eletropaulo as defendant of the execution action filed by ELETROBRAS.

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Notes to the financial statements -- Continued

December 31, 2010 and 2009

(In thousand of reais, except as otherwise indicated)

### **33. Eletrobras collection action against Eletropaulo and EPTE - Continued**

Due to said grant of the Superior Court of Justice, on December 4, 2006, Eletropaulo filed a motion for clarification, which were denied according to appellate decision published on April 16, 2007, as well as the Special and Extraordinary Appeals that maintained the decision of the Superior Court of Justice, which became unappealable on October 30, 2008. In view of such decisions understanding the Exception of Pre-Execution filed by Eletropaulo, the execution action filed by ELETROBRAS follows its normal course as originally proposed.

CTEEP aiming to enable the discovery phase to determine the actual responsibility attributed to the partial spin-off protocol filed a declaratory action against the other parties involved in connection with the execution action.

About this debt and given the formal documents relating to the partial spin-off of Eletropaulo, CTEEP, according to the opinion of its Management and its legal counsels, is the holder only of the court deposit transferred to it as assets constituted in 1988, and should continue defending such right. On the other hand, the Company has no allowance for the contingency, which it considers responsibility of Eletropaulo and thus has been charged by ELETROBRAS.

### **34. Supplementary retirement remuneration plan governed by Law 4819/58**

#### a) Relevant facts

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

"CTEEP - Companhia de Transmissão de Energia Elétrica Paulista, meeting the provisions of CVM Instruction 358/02, hereby clarify aspects related to the supplementary retirement remuneration plan governed by State Law 4819/58. This plan applies to employees hired before May 13, 1974, mentioned in Note 23.1 to the Company's financial statements of December 31, 2004.

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Notes to the financial statements -- Continued

December 31, 2010 and 2009

(In thousand of reais, except as otherwise indicated)

### **34. Supplementary retirement remuneration plan governed by Law 4819/58 - Continued**

a) Relevant facts - Continued

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

The funds needed to face the charges assumed in this plan are responsibility of the competent bodies of the State government of São Paulo, whose implementation took place under an agreement between the Treasury of the State of Sao Paulo and the Company on December 10, 1999, effective until December 31, 2003.

This procedure was performed regularly until December 2003 by CESP Foundation, with funds from the Treasury department of the State, onlent by CTEEP. From January 2004, the Treasury department started to directly process those payments, without the intervention of CTEEP and CESP Foundation.

A decision of the 49th Labor Court of the State of São Paulo was reported to CTEEP on July 11, 2005 (case 1339/2005-1), granting injunctive relief for CESP Foundation to process again the payments of benefits arising from State Law 4819/58, according to respective rules, as performed until December 2003, with funds onlent by CTEEP. The 49th Labor Court of the State of São Paulo, on July 13, 2005, granted a term of 60 days for fulfillment of said decision. It is also included at the Regional Labor Court website, in São Paulo, a summary on similar decision (case SDC - 20058200400002000) of June 30, 2005, determining that CESP Foundation, with funds onlent by CTEEP, processes again the payment of pensions and retirements of beneficiaries under State Law 4815/58.

In order to fulfill the aforementioned court decisions, CTEEP should request on a monthly basis the funds required to the Treasury department of the State of Sao Paulo, to effect the transfer to CESP Foundation, which must process the respective payments to the beneficiaries. The above decisions reached about 6,500 beneficiaries with monthly expenses around R\$ 23 million which, according to CTEEP opinion, are responsibility of the State of São Paulo, who did so until December 2003. Consequently, CTEEP should appeal against said court decisions when understanding that the responsibility for payment of said benefits is in accordance with applicable law, of the State of São Paulo”.



## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Notes to the financial statements -- Continued  
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### **34. Supplementary retirement remuneration plan governed by Law 4819/58 - Continued**

a) Relevant facts - Continued

(ii) *January 27, 2006*

"CTEEP - Companhia de Transmissão de Energia Elétrica Paulista, meeting the provisions of CVM Instruction 358/02, hereby informs the public of the change in the procedure of the State Treasury department, due to recent understanding of the State Attorney - PGE, as to the transfer of the funds to CTEEP for fulfillment of the decision of the 49th Labor Court of the State of São Paulo that determined the return of the payroll processing of State Law 4819/58 to CESP Foundation, with funds received from the State of São Paulo and onlent by CTEEP. The issue, previously to the fact herein addressed, was addressed in Note 22 Quarterly Information - ITR of CTEEP of 09/30/2005.

The State Treasury department onlent to CTEEP on 01/27/2006 a value below to that required for faithful fulfillment of said decision of the 49th Labor Court. The actual expenditure of CTEEP this month for purposes of said court decision was R\$ 19,725, transferred to CESP Foundation and received R\$ 14,976 from the Treasury department for this purpose. The Treasury department informed that this month certain portions of the expense were annulled due to recent opinion of PGE as to the limits of the State's obligation in this matter. The decision of the 49th Labor Court currently reaches 5,528 beneficiaries. 794 benefits of State Law 4819/58 continue to be paid directly by the Treasury department.

CTEEP is still committed to change said decision of the 49th Labor Court in order to allow the return of the procedure of direct payment of payroll of State Law 4819/58 by the Treasury department. CTEEP reiterates the understanding of its legal counsels that the expenses arising from State Law 4819/58 and respective regulation are full responsibility of the Treasury Department of the State of Sao Paulo and studies appropriate measures in this case to protect the Company's interests".

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Notes to the financial statements -- Continued

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### **34. Supplementary retirement remuneration plan governed by Law 4819/58 - Continued**

a) Relevant facts - Continued

*(iii) February 24, 2006*

"CTEEP - Companhia de Transmissão de Energia Elétrica Paulista, meeting the provisions of CVM Instruction 358/02, hereby informs the public, proceeding with the matter addressed in Relevant Fact of 01/27/2006, that the State Treasury department onlent to CTEEP in February 2006 the amount of R\$ 12,802 for fulfillment of the decision of the 49th Labor Court of the State of São Paulo that determined the return of the payroll processing of State Law 4819/58 to CESP Foundation, with funds received from the State of São Paulo and onlent by CTEEP. In February, the total expenditure of CTEEP for faithful fulfillment of that court decision was R\$ 19,652.

CTEEP reiterates that it is still committed to change said decision of the 49th Labor Court in order to allow the return of the procedure of direct payment of payroll of State Law 4819/58 by the Treasury department, in addition to adoption of other measures to protect the Company's lawful interests.

b) Decision of the 49th Labor Court

On May 2, 2006, the decision rendered by the 49th Labor Court of the State of São Paulo about the above-mentioned process was known, by granting, in part, the complaint in question and keeping the effects of the injunction relief previously granted (Relevant Fact of July 19, 2005), in addition to determining the payment of installments due. CTEEP filed in court on May 8, 2006, Motions for Clarification said decision aiming to clarify and change certain aspects of that decision.

On June 19, 2006, by decision of the Superior Court of Justice declaring the lack of jurisdiction of the Public State Justice to consider the matter filed in the Labor Court claiming directly from the companies the proceeds under State Law 4819/58, the decision of the 49th Labor Court was annulled and the case will be sent to one of the Tax Courts of the State. Due to the aforementioned decision of the Superior Court of Justice, the proceeds provided for by State Law 4819/58 will be paid again directly by the Treasury department of the State of Sao Paulo and not by CESP Foundation anymore through transfer from CTEEP as it used to be for fulfillment of the decision of the 49th Court Office of São Paulo, herein annulled.

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Notes to the financial statements -- Continued

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### **34. Supplementary retirement remuneration plan governed by Law 4819/58 - Continued**

#### b) Decision of the 49th Labor Court - Continued

On June 28, 2006, the Superior Court of Justice granted preliminary injunction to suspend the effects of the decision rendered by the same court in the Conflict of Jurisdiction, subject matter of the decision of June 19, 2006. According to the notice received by CTEEP on June 30, 2006, the decision of the 49th Labor Court that determined the processing of the payroll of State Law 4819/58 by CESP Foundation, with funds from the State of Sao Paulo and onlent by CTEEP will prevail again.

#### c) Current Status

As a result of the above-mentioned facts and by operation of said decision of the 49th Labor Court of the State of São Paulo, and the decision of the Superior Court of Justice, CTEEP onlent to CESP Foundation from September 2005 to December 2010, the amount of R\$ 1,585,333 for payment of benefits of State Law 4819/58, receiving from the State Treasury department the amount of R\$ 1,052,893 for that purpose. The difference between the values onlent to CESP Foundation and reimbursed by the Treasury department, at the amount of R\$ 532,440 (Note 8 (c)), was initially requested in an administrative proceeding by the Company, and in December 2010 a collection lawsuit was filed.

On the other hand, CTEEP received from the Attorney General's Office - PGE, on October 20, 2005, a copy of a statement of said body, of October 6, 2005, about consultancy of the Treasury department on the scope of such decisions. In such statement, PGE concludes that the decision of the 49th Labor Court of the State of São Paulo subjectively reaches the State Treasury Department, which is a defendant in the lawsuit. Therefore, PGE conclude that, "in the current scenario, the Treasury department is responsible for full compensation of the amounts spent by CTEEP to fulfill the court decision rendered in labor complaint No. 1145/2005-6, pending on the 49th Labor Court of the Capital". In the same statement PGE concludes that the decision rendered by the Regional Labor Court, whose effects are suspended by the injunction obtained because of Correctional Claim doe not fully reach the State Treasury, which was excluded from the proceedings at the request of the Union; in this case, the State Treasury should, according to PGE, refund CTEEP in compliance with the strict limits of State Law 4819/58, excluding any benefits imposed by the respective rules, which exceed or are deemed in conflict with the specific laws.

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Notes to the financial statements -- Continued

December 31, 2010 and 2009

(In thousand of reais, except as otherwise indicated)

### **34. Supplementary retirement remuneration plan governed by Law 4819/58 - Continued**

#### c) Current Status - Continued

In view of the foregoing, it is clear that the understanding of the Attorney General's Office - PGE on the subject matter, formalized through Office Letter PGE/SF 01/2006 of 02/10/2006, and respective Technical Note PGE / SF 01/2006 changes the understanding previously offered by PGE and was effective until December 2005 for purposes of transfer of funds to CTEEP for fulfillment of the decision of the 49th Labor Court. According to current understanding of PGE, the State Treasury should make certain annulments on transfers to CTEEP to transfer to CESP Foundation for fulfillment of said court decision.

In October 2008, the Superior Court of Justice decided again for the jurisdiction of regular courts in a public action involving the same parties and subject-matter, whose appellate decision was the subject-matter of appeals, which were denied.

CESP Foundation in October 2010, raised the conflict of jurisdiction of the matter before the STF # 7706, with the initial decision of interruption of the progress of labor and civil cases pending decision of said conflict.

In January 2009, due to the non-coverage of decision of the 49th Labor Court for a total of 583 retirees, they were transferred to direct payment by the State Treasury, generating a non-disbursement of cash to the Company of R\$ 1.9 million/month, because they are not covered by said decision.

Under Relevant Facts above, CTEEP is still committed to annul said decision of the 49th Labor Court in order to allow the return of the procedure of direct payment of payroll of State Law 4819/58 by the Treasury department. CTEEP reiterates the understanding of its legal counsels that the expenses arising from State Law 4819/58 and respective regulation are full responsibility of the Treasury Department of the State of Sao Paulo and studies appropriate measures in this case to protect the Company's interests". As a result, the Company records this annulment as values receivable from the State Treasury (Note 8).

## **CTEEP – Companhia de Transmissão de Energia Elétrica Paulista**

Notes to the financial statements -- Continued  
December 31, 2010 and 2009  
(In thousand of reais, except as otherwise indicated)

### **35. Subsequent events**

a) Acquisition of 40% of shares of IEMG capital held by Cymi Holding SA

On February 3, 2011 CTEEP made the payment of R\$ 15.2 million for the acquisition of interest of 40% of shares of capital held by IEMG by Cymi Holding S.A.

The transaction was approved by the Council for Economic Defense (CADE) on December 7, 2010, by BNDES on December 16, 2010 and ANEEL on December 21, 2010, through Authorizing Resolution No. 2714.

b) Transfer of shares on the capital of Rio Branco held by CTEEP for Centrais Elétricas do Norte do Brasil S.A. - Eletronorte

On February 15, 2011 ANEEL decided through Authorizing Resolution No. 2774, the request for transfer of shares held by CTEEP to Centrais Elétricas do Norte do Brasil S.A. - Eletronorte

### **36. Approval of the financial statements**

The financial statements were approved and authorized for publication by the Board of Directors on March 16, 2011.

These financial statements and regulatory financial statements will be available on the Company as of March 24 and April 30, 2011, respectively.

## **Opinion of the Audit Committee**

The Audit Committee of CTEEP - Companhia de Transmissão de Energia Elétrica Paulista ("Company"), by the powers vested in it, fulfills the provisions of Article 163 of Law # 6404/76, examined the Company's financial statements for the year ended on December 31, 2010, prepared according to the principles set forth in Chapter XV of said law and the Management Report on the social business and main administrative facts of the year. Based on the examination and the Independent Auditors Report, the Audit Committee believes that the financial statements and additional information are able to be submitted to examination and approval by the Shareholders.

Sao Paulo, March 16, 2011.

Manuel Domingues de Jesus e Pinho

Antonio Luiz de Campos Gurgel

Celso Clemente Giacometti

Vladimir Muskatirovik

Egídio Schoenberger

## **Statement of officers on the Independent Auditors' Report**

The Company's officers state that they have examined, discussed and reviewed all information contained in the Company's Financial Statements, and agree with the opinion of the Company's independent auditors, Ernst & Young Terco referenced in the Independent Auditors' report.

São Paulo, March 16, 2011.

César Augusto Ramírez Rojas  
CEO

Pío Adolfo Bárcena Villarreal  
Administrative Officer

Marcio Lopes Almeida  
CFO and Officer of Relationship with Investors

Celso Sebastião Cerchiari  
Operations Officer

Jorge Rodríguez Ortiz  
Undertaking Officer

## **Statement of the officers on the Financial Statements**

The Company's officers state that they have examined, discussed and reviewed all information contained in the Company's Financial Statements, and agree with the opinion of the Company's independent auditors, Ernst & Young Terco referenced in the Independent Auditors' report.

Sao Paulo, March 16, 2011.

César Augusto Ramírez Rojas  
CEO

Pío Adolfo Bárcena Villarreal  
Administrative Officer

Marcio Lopes Almeida  
CFO and Officer of Relationship with Investors

Celso Sebastião Cerchiari  
Operations Officer

Jorge Rodríguez Ortiz  
Undertaking Officer