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**2008**  
FINANCIAL  
STATEMENTS  
AT AND REPORT  
OF INDEPENDENT  
AUDITORS



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# Management report

Fiscal Year 2008

## To the Stockholders,

The Management of CTEEP – Companhia de Transmissão de Energia Elétrica Paulista, in compliance with legal requirements and its bylaws, submits for your examination the Management Report and the corresponding Financial statements with the Report of Independent Auditors and of the Statutory Audit Committee, for the year ended December 31, 2008.

## Management Comment

Notwithstanding the financial crisis that hit the world in 2008, CTEEP maintained a sound and stable financial condition and continued with these growth objectives. We had an expressive participation in the auctions held by Aneel in 2008, and won important enterprises in the course of the year.

The highlight was our performance in the auction held in November, when we bought two important batches of the Rio Madeira Project, which will allow us to increase our activities in the states of Rondônia, Mato Grosso and Goiás. Thus, we have guaranteed the growth of our activities without relinquishing the quality and security of the Company's operations.

With respect to the result for 2009, the stability of our revenues and our successful participation in the transmission auctions in 2008, as well as internal initiatives related to the control of general and administrative expenses, allow us to foresee a year of growth and, furthermore, the consolidation of CTEEP as one of the major players in the electric energy transmission segment in Brazil.

## 1. COMPANY PROFILE

CTEEP is the main private concessionaire of the electric energy transmission sector, responsible for the transmission of 30% of all the energy produced in Brazil. Since June 2006, CTEEP is controlled by ISA, the largest energy transmission group in Latin America, which acquired 89.4% of its common shares during the public auctions held by the Government of the State of São Paulo between June 2006 and January 2007, equivalent to 37.5% of the total capital of CTEEP.

With installed capacity of 43,069 MVA, CTEEP is responsible for the transmission of almost 100% of the electric energy produced in the State of São Paulo, which accounts for 30% of the Brazilian GDP. To guarantee excellent services to its customers, the Company has an infrastructure formed by a network comprising 12,140 km of transmission lines, 18,495 km of circuits, 102 substations with voltage of up to 550 kV and 1,955 km of optical fiber cables.

CTEEP's operations are based on the search for the creation of value continually focused on enhancing its services to customers, with adequate return to investors, by means of initiatives that promote the permanent improvement of processes and by adopting a socially responsible attitude. The Company invests in the modernization of systems, in the innovation of processes and in the expansion of the capacity of its transmission system. Its growth strategy includes the optimization of existing assets, participation in new transmission line auctions and the continuous evaluation of acquisition opportunities in the transmission market. As a result of this consistent growth strategy, CTEEP has expanded its operations to 12 Brazilian states with the new enterprises conquered in recent Aneel auctions.

The batches obtained in the 2008 auctions fortify the process of consolidation in the Brazilian electric sector by adding to CTEEP assets another 5 alternating current transmission lines (1,067 km), 7 Substations with 3,550 MVA of installed capacity, 1 direct current transmission line of 2,375 km and two 3150 and 2950 MW Rectifying Stations.

With shares listed in the São Paulo Stock Exchange (Bovespa), CTEEP is included, since 2002, in Level 1 of Corporate Governance and has its preferred shares listed in Ibovespa, the most important indicator of the average performance of Brazilian share market quotations. The Company also has an "American Depositary Receipts – ADRs" - Rule 144 A program in the United States. The Bank of New York is the depository bank and Banco Itaú is the custodian of the ADRs.

## 2. COMMENTS ON THE SCENARIO

### 2.1. Macroeconomic Environment

The Brazilian economy was marked by two different moments in the course of 2008. Up to September, indicators confirmed the scenario of vigorous expansion of the economic activity, with positive results of industrial production, creation of jobs, granting of credit and GDP growth. However, as from September (after the first large bank bankruptcies and the severe scarcity of credit offered by international banks), the international economic environment experienced fast deterioration, generating a crisis of confidence that reached Brazil as well. The main consequences were the sharp exchange rate devaluation, the decrease in consumer and business confidence and the drop in production and domestic sales, especially of high value-added durable goods, such as automobiles.

Although the outlook for 2009 advises caution in view of the still high uncertainties about the impacts of the financial crisis on economic activity, it is expected that this scenario will be gradually overcome. The crisis exploded at a time when the Brazilian economy was satisfactory, with high foreign exchange reserves and with the public sector's indebtedness level compatible with the adoption of an anticyclic

policy that is capable of encouraging economic growth by means of the reduction of interest rates, release of compulsory deposits, increase of public expenditures and the reduction of taxes, among other initiatives. Consequently, the deceleration of the Brazilian economy in 2009 should be lower and shorter than in developed countries.

## 2.2. Electric Energy Sector Environment

In 2008, the Brazilian electric sector continued to evolve, a result both of the consolidated regulatory environment and of technological progress. To provide electric energy to over 61 million consumers in the whole national territory, Brazil surpassed, in 2008, the mark of 100 thousand megawatts (MW) of installed power capacity (75% from hydroelectric sources and 25% from thermal sources), which represents only 30% of the Brazilian energy potential and consequently there is still an enormous space for growth.

The first auction of biomass, energy generated by the burning of sugar cane bagasse, took place in 2008, and although in a still reduced and experimental scale, incentives were created for the production of energy by the burning of urban waste and by the use of methane associated to pig waste. Both projects indicate the road to correct environmental sustainability, by combining the depollution of cities and rivers with the generation of electric energy.

The sector closed the year with the auction of the longest electric energy transmission line in the world, a connection of 2,375 km, allowing the integration of the Rio Madeira Hydroelectric Complex with the National Interconnected System (SIN), which will then have an additional generation of 7,000 MVA. The Madeira Transmissão Consortium, in which CTEEP has a 51% interest, bought the lot corresponding to the Porto Velho – Araraquara 2 Transmission Line.

## 3. OPERATING PERFORMANCE

### 3.1. Amplification and Expansion of the Transmission System

To ensure higher reliability of its systems, guarantee the quality of the services provided and thus consolidate its position as an important Brazilian electric sector player CTEEP invested, in 2008, in projects aimed at increasing the capacity of transformation, reenabling of transmission lines and other improvements, which has permitted a net increase of 1,040 MVA in the capacity of installed transformation in the system.

### 3.2. Increase in Transformation Capacity

Substation	Voltage (kV)	Increase in Transformation Capacity (MVA)
Ribeirão Preto	440-138 kV	300
Sumaré	440-138 kV	300
Santa Cabeça	230-88 kV	60
Capivara	440-138 kV	150
Bauru	440-138 kV	150
Presidente Prudente	138-88 kV	40
São Sebastião	138-34,5 kV	40
<b>Total</b>		<b>1.040</b>

### 3.3. Projects Energized in 2008

The Ministry of Mines and Energy, through the National System Operator (ONS), Empresa de Pesquisa Energética (EPE) and with the participation of Regional Groups of Transmission Studies (GET), of which CTEEP is a member in the São Paulo group, issues the Basic Network Amplification and Reinforcement Plan (PAR) and the Transmission Expansion Program (PET). These studies include the enterprises related to the transmission systems deemed necessary to guarantee the quality and reliability of the system, pursuant to each agency's vision.

In 2008, by means of resolutions issued by Aneel, the following CTEEP undertakings were authorized:

#### Basic Network

LOCATION	Commercial Operation	RES ANEEL	RAP (R\$ thousand)
LT 230 kV ITAPETI –			
MOGI – MOGI (F)	10-Aug-08	352/05	218
SE BAURU	21-Oct-08	586/06	1,394
SE CAPIVARA	25-Mar-08	586/06	4,377
SE SANTA CABEÇA	31-Mar-08	586/06	1,778
SE RIBEIRÃO PRETO	25-Mar-08	586/06	4,772
SE SUMARÉ	17-Mar-08	586/06	5,273
SE NEVES I	19-Dec-08	Auction 04/2007	1,280
SE MESQUITA	19-Dec -08	Auction 04/2007	410
LT MESQUITA-NEVES	19-Dec-08	Auction 04/2007	5,095
<b>Subtotal Basic Network</b>			<b>24,597</b>

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## Other Transmission Installations – DIT

LOCATION	Commercial Operation	RES ANEEL (R\$ thousand)	RAP
SE SÃO SEBASTIÃO	2-dec-08	981/07 and 1188/08	722
LT 138 kV ILHA SOLTEIRA – JUPIÁ	15-mar-08	584/06	54
LT 138 kV TRÊS IRMÃOS – ILHA SOLTEIRA	13-apr-08	584/06	34
LT 138 kV TRÊS IRMÃOS – ANDRADINA	16-nov-08	584/06	1,671
SE TRÊS IRMÃOS	9-jan-08	584/06	731
LT 88 kV ASSIS – P. PRUDENTE	27-jan-08	CCT 45/2005	60
SE MILTON FORNASARO	30-jul-08	CCT 10/2000	1,704
SE OESTE	14-may-08	CCT 17/2002	715
LT 138 kV MILTON FORNASARO – REMÉDIOS	30-jun-08	CCT 10/2000	1,704
SE SUMARÉ	3-sep-08	CCT 07/2000	357
SE SANTA BÁRBARA D’OESTE	28-may-08	CCT 48/2005	149
SE MOGI MIRIM II	28-may-08	CCT 48/2005	149
SE FLÓRIDA PAULISTA	1-jul-08	CCT 09/2000	31
SE PERÚIBE	10-jul-08	CCT 09/2000	51
SE TRÊS IRMÃOS	19-jul-08	CCT 09/2000	51
SE BERTIOGA II	31-jul-08	CCT 09/2000	51
SE VICENTE DE CARVALHO	26-jun-08	CCT 09/2000	51
SE MONGAGUÁ	15-jul-08	CCT 09/2000	51
SE BOM JARDIM	3-apr-08	CCT 17/2002	715
SE ARARAQUARA	30-jun-08	CCT 07/2000	357
LT 138 kV PROMISSÃO – CATANDUVA	30-jun-08	1409/08	225
Subtotal DIT			9,633
<b>Total DIT + Basic Network</b>			<b>34,231</b>

## 3.4. Energization of IEMG

In December 2008 CTEEP energized the Neves I – Mesquita transmission line of 500 kV and the TL reactor, of 91 MVAR in Substation Neves I, through its subsidiary, Interligação Elétrica de Minas Gerais (IEMG). With an extension of 172 km, the undertaking connects substation Neves I to substation Mesquita and goes through 14 municipalities of Minas Gerais, located in the cities of Contagem and Ipatinga.

The project’s objective is to increase the efficiency of the transmission system of the Eastern region of Minas Gerais and will add R\$ 7.0 million to CTEEP’s revenues, as the Company is responsible for the management of the operation and maintenance of the installations.

## 4. STRATEGIC INITIATIVES

In order to ensure the soundness of the business in three fundamental aspects – efficiency, competitiveness and financial – CTEEP’s strategy adopts a set of actions and tools to reinforce the Company’s share in the electric energy transmission market and, consequently, help reach its growth objectives.

Since 2007, CTEEP has been concentrating the remote operation of its 102 substations on the Transmission Operation Center responsible for the Basic Network (voltage equal to or above 230 kV) and on the Back Operations Center, responsible for the operation of the DIT’s (Other Transmission Facilities with voltage below 230 kV).

The Company is continually investing in training for its employees, especially the training of substation technicians and assistants, who are now part of the new work model in the Operations and Maintenance areas and, in addition to being prepared to operate the substation in an emergency, are responsible for the maintenance of the equipment.

### 4.1. Transmission System Performance Indicators

An important indicator to verify the performance of companies of the electric energy transmission sector is the ratio between the energy not supplied (ENES), which is each company’s responsibility, and the corresponding total amount of energy supplied, which indicates the level of service to the market.

The Regional Electric Integration Commission (CIER), an entity that congregates electric sector companies of Latin America, has as target a ratio of approximately 10-4 (or one tenth of a thousandth part). In Brazil this target is about 10-5 (or one hundredth of a thousandth part), an indicator ten times better than that of CIER. CTEEP’s historical values are in the range of 1x 10-5, while in the National Interconnected System (SIN) that indicator is 4 x 10-5, which shows the efficiency of the services provided by the Company.

Another efficiency indicator is based on the fact that CTEEP, being responsible for transmission of about 30% of the energy produced in Brazil, has a historical value of less than 10% of all of the energy not supplied (ENES) of SIN.

#### 4.2. Operation

■ In 2008, CTEEP made progress in the enhancement of the Quality Management System. In the year, 100% of the processes of the Operations Area received the ISO 9002:1994 certification, completing the standard of excellence of the services provided. The certification includes, in total, 38 processes related to Operating the Transmission System.

■ Implementation of the Systems Operations Training Simulator in the Transmission Operations Center that allows training system operators intensively, simulating real situations already experienced or that may happen, so that they will be prepared to face the daily tasks without risk to the Electric System.

■ Conclusion of the first reanalysis stage of the adjustments to all the protections of the CTEEP transmission lines, which is part of a major project in progress aimed at reassessing how the Electric System reacts to disturbances which occur in its elements. In 2009, both the 440kV network and the 354 to 138kV network will be continued – after adjustments in 2008.

■ Conclusion of the 1st phase of the Automatic Record Collection Integrated System (SICAR). Created in 2008, this system is an important operational tool, by quickly making available data related to a disturbance in the Electric System in the Bom Jardim Operations Center, so that operators and engineers will be able to make an analysis of what has occurred and put the affected equipment back into operation in the shortest time possible.

#### 4.3. Maintenance

■ **Modernization of the Santo Ângelo Substation Compensator**  
Modernization and technical updating of the Santo Ângelo Substation compensator of +/- 250 MVar, an equipment that is vital for the control of voltage of CTEEP's SIN, which now has a state of the art technology. A modern monitoring system of the main operating parameters that will optimize switching off for preventive maintenance was also added.

■ **Substitution of Electromechanical Protection Relays**

During the course of 2008, 46 electromechanical protection relays were replaced in 16 substations by more reliable and modern digital relays, with oscillographic resources, permitting more quality in the analysis of disturbances.

#### ■ Substation Digitalization

In December 2008, CTEEP completed the total digitalization of the Mongaguá Substation, a new project based on the IEC 61850 standard concepts.

The Mongaguá Substation received new protection, measuring, commands, controls and supervision systems, supported by a system based on IED's (Intelligent Electronic Devices) and open communications protocol based on international standards allowing a more reliable and safe operation.

The automation of a substation permits its operation without any human intervention on site and a local automaton will take the necessary measures to reestablish the supply of energy when there is an equipment fault. This ensures quick service avoiding more problems for the distributors served.

#### 4.4. Creation of the New Business Development Department

The New Business Development Department was created aligned with the business growth strategy and with the new organizational model recently adopted at CTEEP. Reporting to the Business Director, the new area will be responsible for the planning, management and identification of new business opportunities, such as acquisitions, participating in auctions, development of new companies and strategic alliances, thus providing fundamental support to the Company's decision-making process on new businesses.

### 5. ECONOMIC AND FINANCIAL PERFORMANCE

Management's comments on economic and financial performance and the results of operations should be read together with the Audited Financial Statements and Notes. The changes to the accounting practices introduced by Law 11,638/07, by Provisional Measure 449 and by the pronouncements issued by the Brazilian Securities Commission (CVM) and the Accounting Pronouncements Committee (CPC), did not cause impacts on the comparability of the results presented below.

# Management report

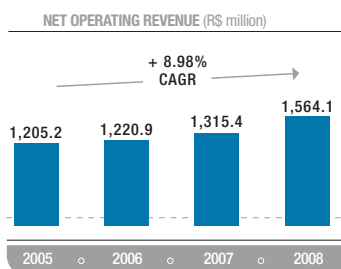
## Fiscal Year 2008

### 5.1. Annual Allowed Revenue (RAP)

In 2008, the Annual Allowed Revenue (RAP) – the Company's principal source of revenues through the use of its transmission system by other public service concessionaires, sector agents and free consumers – reached R\$ 1,802.4 million, representing a growth of 15.3% in comparison to 2007. Pursuant to Aneel's Approving Resolution No. 670, the Company had its RAP adjusted for the 2008/2009 cycle by 11.53%, corresponding to the accumulated IGP-M variation related to the period from June/2007 to May/2008. On annual bases, the expected impact of Resolution 670 on the Company's RAP will be an increase of R\$ 390.1 million in the next 12 months, or R\$ 1,869.0 million by the end of the 2008/2009 cycle, an increase of 26.4% as compared with the 2007/2008 cycle.

### 5.2. Net Operating Revenue

CTEEP's net operating revenue amounted to R\$ 1,564.1 million in 2008, a growth of 18.9% in comparison to 2007. The average annual growth rate since 2005 (CAGR – Compound Annual Growth Rate) was 8.98%.



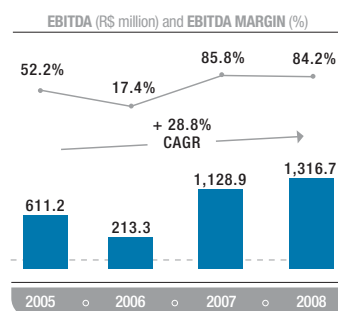
### 5.3. Cost of Services and Operating Expenses

The costs of services and general and administrative expenses increased by 19.0% in comparison to 2007, totaling R\$ 427.7 million in 2008.

The effect of the reversal of the provision for contingencies, made in 2007, that caused a positive variation of R\$ 48.1 million, was the main factor that affected the Company's costs and expenses in comparison to the current year. Contingencies are regularly evaluated and classified in accordance with the Company's chances of loss.

### 5.4. EBITDA

EBITDA totaled R\$ 1,316.7 million in 2008, a result 16.6% higher than that recorded in 2007. The average rate of growth since 2005 was 28.8%. The EBITDA margin was 84.2%, a little lower than in 2007 and subject to reclassification of the regulatory charges, such as Fuel Consumption Account (CCC), Energy Development Account (CDE), Alternative Sources of Electric Energy (PROINFA), Research and Development (R&D) and of general and administrative expenses as deductions from operating revenue.

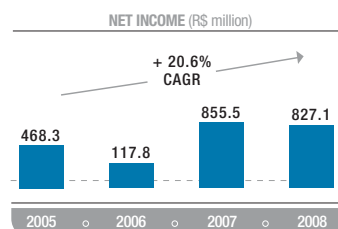


### 5.5. Financial Results

Financial results presented a negative balance of R\$ 293.4 million in 2008. In comparison with 2007, the main variations were the increase of R\$ 45.3 million in interest payable generated by loans obtained in the period and the recording of the financial expense related to goodwill amortization amounting to R\$ 26.4 million which will result in a tax benefit to the Company. The principal impact on the financial income referred to monetary and exchange variations – reduction of 88.7% in comparison to the prior year.

### 5.6. Net Income

As a result of the above-mentioned events, net income for the year was practically stable in comparison to 2007, reaching R\$ 827.1 million, a reduction of 3.3% as compared to the prior year.





## 5.7. Capital Structure

In line with its capital structure optimization strategy, CTEEP obtained funds to finance growth through competitive market sources.

The National Bank for Economic and Social Development (BNDES) approved a loan of R\$ 329.1 million for the Pluriannual Investment Plan 2008/2010, which includes investments in reinforcements, new connections and maintenance of the Company's operations. Charges correspond to the Long-term Interest Rate (TJLP) plus 1.8% per year. This loan will be repaid in 54 monthly installments starting from January 2011 and up to the beginning of repayment interest will be paid on a quarterly basis.

The Company closed 2008 with total debt of R\$ 856.8 million and net debt of R\$ 733.7 million, representing a net debt/Ebitda ratio of 0.56 times.

In December 2008, the Company issued Promissory Notes in the amount of R\$ 200.0 million, at the cost of 120% of the Interbank Deposit Certificate (CDI) maturing in June 2009.

Of the total debt, 70.4% refers to the loan obtained from BNDES; the balance refers to loans from other financial institutions.

At the end of 2008, 60.0% of the Company's total financing was long-term and subject to the TJLP, and 40.0% was short-term, 27.3% of which was subject to the TJLP.

The Company does not have a policy on and does not adopt the practice of using derivative financial instruments.

## 6. INVESTMENTS

In 2008, CTEEP's total investments in its existing assets, corporate expenditure, training of personnel and investments in the companies amounted to R\$ 327.2 million. The specific amount of each account is shown in the table below:

<b>in R\$ million</b>	<b>2008</b>
Corporate	14.7
Type 1 Reinforcement	175.1
Type 2 Reinforcement	18.2
New Connections	21.1
PMT	23.8
PMIS	18.1
Training of Personnel (labor)	5.9
Investment in Subsidiaries	50.3
<b>Total</b>	<b>327.2</b>

### Type 1 and 2 Reinforcements:

Investments in the Basic Network system. They generate additional RAP.

### New connections:

Investments directed to the exclusive service of consumers. They generate additional RAP.

### PMTs and PMIs:

Investments required to maintain system quality and minimize the impact of the variable portion.

### 6.1. New Concessions

In addition to investments in existing assets, CTEEP directs its actions to the acquisition of new transmission line batches auctioned by Aneel, as a means to increase its revenues and presence in the Brazilian market. In line with this position, batches were bought and subsidiaries created to provide electric energy transmission public services, namely:

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Subsidiary	Participation of CTEEP	State	Allowed annual revenue – R\$	Annual revenue of CTEEP (R\$)	Construction period (months)	Start of operations
IEMG – Interligação						
Elétrica de Minas Gerais S.A.	60.0%	MG	11,728,884	7,037,330	18	Dec/08
IENNE – Interligação Elétrica						
Norte e Nordeste S.A.	25.0%	TO/MA/PI	28,940,000	7,235,000	21	Dec/09
PINHEIROS –						
Interligação Elétrica Pinheiros S.A.	100.0%	SP	19,047,853	19,047,853	18	Apr/10
IESUL – Interligação Elétrica Sul S.A.	100.0%	SC/PR/RS	10,290,970	10,290,970	18	Apr/10
IEMADEIRA – Interligação Elétrica						
do Madeira S.A. – Lote D	51.0%	RO/MT/GO/SP	176,249,000	89,886,990.00	36	Feb/12
IEMADEIRA – Interligação Elétrica						
do Madeira S.A. – Lote F	51.0%	RO/SP	151,788,396	77,412,081.96	50	Apr/13
<b>Total</b>			<b>397,624,580</b>	<b>210,657,912</b>		

## 6.2. Madeira Transmissão Consortium

The Madeira Transmissão Consortium, formed by CTEEP (51%); FURNAS (24.5%) and CHESF (24.5%), was the winner of batches D (Coletora Porto Velho – Araraquara 2 transmission line) and F (Rectifying Station No. 02 AC/DC and Inverting Station No. 2 DC/AC) in transmission auction 007/2008, held on November 26, 2008 by the National Electric Power Agency (Aneel), in the Rio de Janeiro Stock Exchange and conducted by BM&F/Bovespa. The total RAP amount of the batches bought by the consortium is R\$ 328.0 million.

The Porto Velho – Araraquara 2 Transmission Line is very important for Brazil and is included in the Federal Government's Growth Acceleration Program (PAC). Its construction will allow the integration of the Rio Madeira Hydroelectric Complex with the National Interconnected System, with an additional generation capacity of 7,000 MVA.

The result is quite significant for the Company, in view of the complexity of the Rio Madeira project, which will allow for the integration between Brazilian states and neighboring countries. The total investment of the two batches is R\$ 2.9 billion and the installations should go into commercial operation in 36 months for Lot D and 50 months for Lot F, after the signature of the concession agreement.

## 6.3. Pluriannual Investment Plan 2009/2011

In a meeting held on January 20, 2009, the Board of Directors approved the Pluriannual Investment Plan for the three-year period 2009/2011, based on the Company's investment estimates.

(in R\$ million)	2009	2010	2011
Corporate	14.2	11.8	12.3
Type 1 Reinforcement	291.1	340.5	134.2
Type 2 Reinforcement	61.9	29.6	13.3
New Connections	43.3	1.3	0.2
PMT	45.4	79.6	61.2
PMIS	27.1	35	29.4
Training (labor)	7.1	7.4	7.8
Telecom	57.7	0	0
<b>Total CTEEP</b>	<b>547.8</b>	<b>505.2</b>	<b>258.4</b>
IENNE	55.8	0	0
Pinheiros	213.4	127.2	0
IEMadeira	30.2	151.8	250.8
IESul	21.3	16.5	0
<b>Total new companies</b>			
(Subsidiaries)	320.7	295.5	250.8
<b>Grand Total</b>	<b>868.5</b>	<b>800.7</b>	<b>509.2</b>

## 7. CORPORATE GOVERNANCE

Since its incorporation, CTEEP has been enhancing its management processes and the control systems adopted. The Company was the first electric energy company in the State of São Paulo to adhere to Level 1 Corporate Governance of Bovespa, in September 2002. Upon this adhesion, the Company, whose preferred shares are included in Ibovespa, was included in the Corporate Governance Index (IGC), a theoretical portfolio composed by shares of companies that present high relationship standards with all shareholders and other stakeholders.

## 7.1. Board of Directors

The Board of Directors is the central forum for decision-making and definition of the general guidelines for the Company's business, focusing on the creation of value for shareholders. It is formed by 10 members, among which 3 are independent and one is a representative of employees.

### 7.1.1 Specialized Committees

In the governance model adopted by CTEEP, which prioritizes administrative efficiency and professionalization of its managers, these committees play a fundamental role in interacting with the Board, by preparing in advance the subjects to be discussed and approved by the Board of Directors. Accordingly, in 2008, CTEEP created two committees, namely:

#### ■ Audit Committee

The Audit Committee is formed by five members, with the participation of the corporate auditor of the ISA Group, CTEEP's president (as permanent guest participant) and CTEEP's internal auditor (as technical secretary). Meetings are held at least three times a year. Its main responsibilities are: to strengthen the Company's Internal Control System, Risk Management and Corporate Governance practices to increase the effectiveness of the Internal Audit function and evaluate its performance to approve and supervise the annual Internal Audit plan as well as evaluate the performance of the Independent Auditors.

#### ■ Compensation Committee

Formed by three members, it is responsible for monitoring, analyzing and suggesting to the Board of Directors subjects related to the compensation of officers and board members, indicating members for the Executive Board, functions and salaries, salary policy, variable compensation, profit and result sharing (PLR), and collective bargaining agreement.

## 7.2. Fiscal Board

CTEEP's Fiscal Board is a permanent body formed by five regular members and five substitute members, having the participation of representatives of minority shareholders. This board is responsible, through any of its members, to inspect the acts of officers and ensure that they comply with their legal and statutory duties, among other responsibilities.

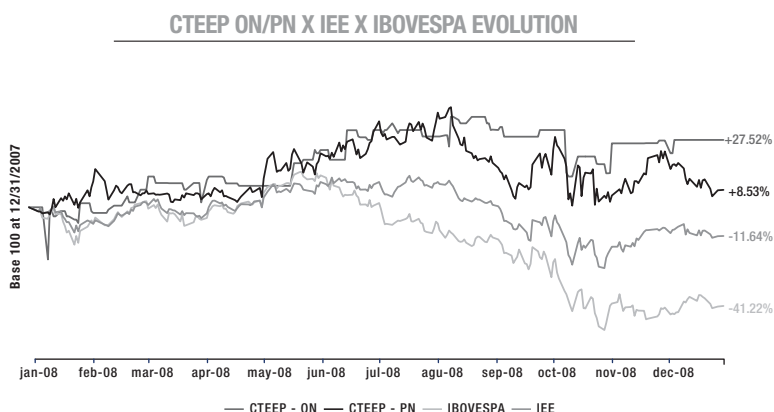
## 8. CAPITAL MARKET

### 8.1. Our Shares

In 2008, 160,858 transactions with CTEEP's preferred shares were carried out, representing an increase of 57.2% in comparison to 2007, involving financial volume of R\$ 3,164,810.74 thousand, 45.32% higher than in 2007.

During the year, common shares (TRPL3) and preferred shares (TRPL4) appreciated by 28.65% and 8.53%, respectively, in the period when Ibovespa devalued 41.22% and the Electric Energy Index (IEE) retracted by 11.64%. CTEEP's preferred share was one of the seven out of all the companies listed in the stock exchange that had positive performance in 2008.

CTEEP also participates in the Sponsored Program of American Depositary Receipts (ADR) Level 1 backed by common and preferred shares. For that purpose, Bank of New York Mellon is the depository institution of the ADRs in the United States and Itaú S.A. is the custodian bank of the underlying shares of these ADRs, at the rate of 1 Depositary Share for 1 share of both classes. Up to the closing of the year, the Company's share basis included 66,433 ADRs related to preferred shares and 23,699 ADRs related to common shares.



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### 8.2. Relations with Investors

In order to adjust the corporate governance processes to the Company's current structure, progress was made in the dialogue and interaction mechanisms between shareholders and management aimed at ensuring efficiency of communications and align expectations.

This effort was recognized through the 2008 Quality Award granted by the Association of Capital Market Analysts and Investment Professionals (APIMEC) to the company that held the best meeting with investors in the year. The criteria to define the winner considered important aspects, such as organization and content, objectivity and clarity of the material presented, corporate governance practices and explanation of the business strategy in quantitative and qualitative form.

CTEEP competed with 128 companies and, with the meeting held on November 28, 2008, it won this edition of the award. This conquest represents the market's recognition of the excellence of performance and ethical and transparent positioning.

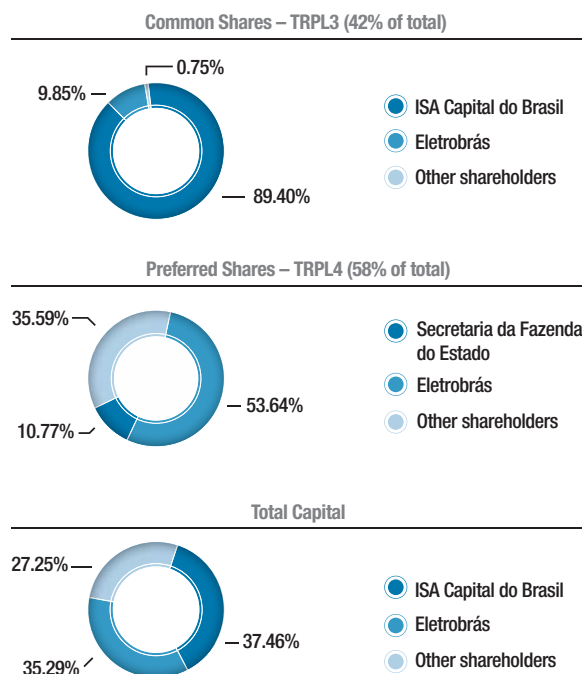
### 8.3. Shareholder Remuneration

With respect to net income for 2008, including the dividends paid in January 2009, shareholders received R\$ 629 million as remuneration, corresponding to 76.0% of net income for the period.

### 8.4. First Public Issue of Promissory Notes

In November 2008, the Board of Directors approved the issuance of the first Promissory Notes (NP) of the Company, in the total amount of R\$ 200.0 million with unit book value of R\$ 1.0 million. All securities were purchased by the banks that coordinated the issuance.

### 8.5. Ownership Structure



## 9. CORPORATE SOCIAL RESPONSIBILITY (CSR)

In 2008 CTEEP continued the evolution of CSR in its daily activities, strengthening guidelines for more strategic activity, with sustainable and long-term projects and actions, maintaining its alignment with benchmarks such as the Ethos Indicators and the Bovespa Corporate Sustainability Index (ISE).

Supported by the commitments assumed with its stakeholders, the Company has fortified its performance based on sustainable management, grounded on structured pillars and in line with corporate strategies. We present below, by stakeholders, the main actions and programs organized by the Company in 2008 that reinforce the CSR model adopted.

### 9.1. Customers

One focus of CTEEP's operations is to build sustainable relations with its customers and thus provide services with quality and competitive costs. Accordingly, the Company created the CTEEP Customer Program which, in 2008, guided its actions in accordance with the results obtained from the customer satisfaction survey, focusing on the improvement of communications, for which we have established an improvement plan developed in the course of the year.

## 9.2. Suppliers

In order to build transparent and trustworthy relations with its suppliers, CTEEP maintains the CTEEP Supplier Program, aimed at the development and management of a continuing communications process. In 2008, the Company made considerable progress with Social Responsibility issues, seeking to obtain consistency in the adoption of these criteria throughout the Company's value chain.

## 9.3. Shareholders

In 2008, two APIMEC (Association of Capital Market Analysts and Investment Professionals) meetings were held. Concomitantly, the Company continued publishing the Financial Result Information and Corporate Bulletins, information available in the web page, Level 1 Corporate Governance of Bovespa (São Paulo Stock Exchange) and application of ISE (Corporate Sustainability Index) performance indicators.

## 9.4. The State

In addition to complying with its legal obligations, CTEEP actively participated in commissions and trade associations that defend and promote the sector's interests (Abrate, ABCE, Siesp, among others), as well as in partnerships for government social actions and initiatives (Winter Charity Campaign).

## 9.5. The Community

Contributing for the sustainable development and social well-being is one of the guidelines that direct CTEEP's relationship with the community. Based on this principle, the Company kept its focus on the development of sustainable projects that reflect its corporate identity in the areas of Education, Culture, Sustainable Development, Environment and Solidarity

### Environment

Para continuar crescendo e expandindo suas operações, sem se desviar do princípio de minimizar o impacto ambiental nas áreas onde está instalada, a CTEEP desenvolveu e implementou em 2008 uma série de medidas com o objetivo de ampliar e reafirmar seu compromisso com a sustentabilidade ambiental de suas atividades. Entre elas, destacam-se:

- In order to continue its growth and expand operations without deviating from the principle of minimizing environmental impact in the areas where it is installed, CTEEP developed and implemented in 2008 a series of measures aimed at increasing and reaffirming its commitment to environmental sustainability in its activities. Among these are:
- certification of 38 substations and maintenance of 20 substations in accordance with standard ISO 14001;

- adoption of environmental indicators to monitor in the management system;
- development of environmental indicators in accordance with standard ISO 14031;
- beginning of studies to compensate for the emission of CO<sub>2</sub> by the vehicles of its fleet;
- participating, for the second time, in the Global Greenhouse Gas Register (GHG) questionnaire, on the emission of greenhouse gases;
- preparation of over thirteen studies and researches to make maintenance, repair and construction of its transmission network viable;
- reforestation of over 290 hectares and planting of 4,285 native seedlings in various areas such as parks, forest institutes and districts.

## 9.6. Employees

CTEEP's relationship with its employees is based on the Company's wish to assist in the full development of its professionals, valuing their contribution towards the growth of the business. In view of this position, the actions taken in 2008 focused on preparing employees to meet the Company's challenges by strengthening their competences and skills.

### Corporate Education

CTEEP offers to its employees, through the Corporate Education Program, training and awareness courses to develop the competences required by business strategies, and thus qualifying the talents to be found in the Company.

In 2008, training focused mainly on educating employees about SAP – with 62 groups and 3,848 people, totaling 16,744 class/hours – and qualifying substation technicians and assistants who were integrated into the new work model in the Operations and Maintenance areas, with the participation of 310 people, in 26 classes, distributed into five modules of theory classes and practical activities. All in all, 785 classes were held, totaling 107,580 class/hours, 9,223 attendances and 83 hours per year on average per employee. (The leadership training program for managers and coordinators is also worth mentioning.)

### Diversity

With the creation of the Program for the Inclusion of Disabled People, CTEEP has reiterated its commitment to build a culture of respect for differences, promoting diversity and ensuring equal opportunities irrespective of creed, race, social or physical position. In 2008, the structure of the program was developed, which involved the mapping of positions, identification of jobs, mapping of accessibility, awareness and training of the HR teams involved.

# Management report

Fiscal Year 2008

## Internship Program

In 2008, 36 young people participated in CTEEP's Internship Program and were involved in the development of an individual project, aimed at bringing knowledge to the Company or contributing to the improvement of an existing practice.

## 10. RESEARCH AND DEVELOPMENT PROGRAM

The Research and Development Program (R&D) is one of CTEEP's mechanisms for generation and management of business and setorial knowledge. Since 2001, upon the signature of the concession agreement, the Company observes Law 9991, of 2000, which establishes that companies of the energy sector use 0.4% of net operating revenue in R&D projects.

Since then, CTEEP has invested over R\$ 23 million in the development of projects already completed or in progress. The funds available for new research cycles amount to R\$ 12.76 million.

In 2008, seven pluriannual projects were performed and 13 new projects that are part of the fifth year of the program, cycle 2005/2006, with investments of R\$ 5.11 million and successful results such as the improvement of the Company's processes, in addition to partnerships with 12 research institutions and participation of 19 project managers.

## Investments in R&D Projects

Cycle	R\$ million
2001/2002	3.21
2002/2003	3.56
2003/2004	2.21
2004/2005	4.43
2005/2006	5.11
2006/2007 (Starting January 2009)	4.78
<b>Subtotal Projects (completed or in progress)</b>	<b>23.30</b>
2007/2008 (Amount available)	5.07
2008/2009 (Amount available)	7.69
<b>Total</b>	<b>12.76</b>

## 11. INDEPENDENT AUDITORS

In compliance with CVM Instruction No. 381/03, of January 14, 2003, CTEEP informs that it has no other agreements with its Independent Auditors that are not related to the audit of the Company's financial statements disclosed and delivered to the Brazilian Securities Commission (CVM).

## 12. CLOSING AND ACKNOWLEDGEMENTS

CTEEP's Management thanks its shareholders, customers, suppliers and the community for their confidence during 2008. It is especially grateful to its employees for their competence, efforts and dedication in attaining the objectives and goals established.

The Management

# Social balance sheet

Period	2008			2007		
Net Revenue (NR)	1,564,068			1,315,414		
Operating Income (OI)	842,979			804,313		
Total Payroll (TP)	161,280			211,579		
<b>Internal Social Indicators</b>	<b>Value</b>	<b>% of TP</b>	<b>% of NR</b>	<b>Value</b>	<b>% of TP</b>	<b>% of NR</b>
Meals	5,886	3.6	0.4	7,716	3.6	0.6
Compulsory Social Charges	30,687	19.0	2.0	43,754	20.7	3.3
Private Pension Plan	2,237	1.4	0.1	3,864	1.8	0.3
Health	10,217	6.3	0.7	15,689	7.4	1.2
Education	2,108	1.3	0.1	3,326	1.6	0.3
Daycare Assistance	102	0.1	-	120	0.1	-
Profit Sharing	10,722	6.6	0.7	15,721	7.4	1.2
Other	-	-	-	204	0.1	-
<b>Total</b>	<b>61,959</b>	<b>38.4</b>	<b>4.0</b>	<b>90,394</b>	<b>42.7</b>	<b>6.9</b>
<b>External Social Indicators</b>	<b>Value</b>	<b>% of TP</b>	<b>% of NR</b>	<b>Value</b>	<b>% of TP</b>	<b>% of NR</b>
Social contributions: education, culture, health and sanitation, sport, hunger relief, food security, etc.	3,267	2.0	0.2	2,868	1.4	0.2
Taxes (excluding social charges)	349,364	216.6	22.3	356,568	168.5	27.1
<b>Total</b>	<b>352,631</b>	<b>218.6</b>	<b>22.5</b>	<b>359,436</b>	<b>169.9</b>	<b>27.3</b>
<b>Environmental Indicators</b>	<b>Value</b>	<b>% of TP</b>	<b>% of NR</b>	<b>Value</b>	<b>% of TP</b>	<b>% of NR</b>
Related to operation of company	573,100	355.3	36.6	45	-	-
External programs and/or projects	168,247	104.3	10.8	311	0.1	-
<b>Total</b>	<b>741,347</b>	<b>459.7</b>	<b>47.4</b>	<b>356</b>	<b>0.2</b>	<b>-</b>
<b>Workforce Indicators</b>						
Employees at end of period	1,327			1,290		
Hirings during period	99			83		
Employees over 45 years of age	366			326		
Female employees	104			98		
% of women in management positions	18.8			18.8		
Disabled employees	1			1		
<b>Information Concerning Corporate Citizenship</b>						
Proportion of highest to lowest remuneration	43 times			42 times		
Total workplace accidents	4			14		
Social and environmental projects undertaken by the company are defined by:	Directors and departmental heads			Directors and departmental heads		
Workplace health and safety standards are defined by:	Directors and departmental heads			Directors and departmental heads		
Private pension plan covers:	all employees			all employees		
Profit sharing covers:	all employees			all employees		
In selecting suppliers, the company's own standards of ethics and social and environmental responsibility are:	suggested			suggested		
In relation to involvement of employees in voluntary work programs, the company:	is supportive			is supportive		

# Balance sheets at december 31

In thousands of reais, unless otherwise indicated  
(A free translation of the original in Portuguese)

Assets	Note	2008	Company 2007 Note (2)	Consolidated 2008
<b>Current assets</b>				
Cash and cash equivalents	4	104,229	191,647	123,024
Trade accounts receivable	5	299,329	183,055	299,329
Inventories		31,952	31,881	31,952
Amounts receivable – São Paulo State Finance Department	6	19,786	16,030	19,786
Taxes and contributions to offset	7	3,145	57,817	3,240
Tax benefit – goodwill from merger	8	28,832	-	28,832
Deferred income tax and social contribution	9	11,315	8,224	11,315
Prepaid expenses		2,884	3,813	2,917
Other		27,545	16,910	31,942
		<b>529,017</b>	<b>509,377</b>	<b>552,337</b>
<b>Non-current</b>				
Long-term receivable				
Trade accounts receivable	5	45,088	35,765	45,088
Amounts receivable – São Paulo State Finance Department	6	454,639	321,953	454,639
Tax benefit – goodwill from merger	8	176,743	-	176,743
Deferred income tax and social contribution	9	76,648	60,805	76,648
Pledges and restricted deposits	10	51,860	49,794	51,860
Prepaid expenses		-	4,844	-
Other		2,407	7,556	2,407
		<b>807,385</b>	<b>480,717</b>	<b>807,385</b>
Investments	11	50,330	1	-
Property, plant and equipment	12	4,158,514	4,082,403	4,234,614
Intangible assets	13	67,942	57,600	75,267
		<b>5,084,171</b>	<b>4,620,721</b>	<b>5,117,266</b>
<b>Total assets</b>		<b>5,613,188</b>	<b>5,130,098</b>	<b>5,669,603</b>

As notas explicativas da administração são parte integrante das demonstrações financeiras.



Liabilities and stockholders' equity	Note	2008	Company 2007 Note (2)	Consolidated 2008
<b>Current liabilities</b>				
Loans and financing	14	294,492	132,191	345,502
Suppliers		32,889	29,150	36,291
Taxes and social charges payable	15	19,171	58,706	19,476
Regulatory charges payable	16	36,528	33,122	36,528
Interest on own capital and dividends payable		233,272	42,413	233,272
Provisions	17	34,895	46,627	34,922
Amounts payable – Fundação CESP	18	6,210	13,875	6,210
Other		5,111	7,865	6,782
		662,568	363,949	718,983
<b>Non-current</b>				
Long-term liabilities				
Loan and financing	14	511,286	400,713	511,286
Provisions	17	174,152	179,632	174,152
Amounts payable – Fundação CESP	18	68,503	129,434	68,503
Special liabilities – reversal/amortization	19	24,053	24,053	24,053
Regulatory charges		2,805	-	2,805
Deferred income	3 (m)	66,525	83,510	66,525
		847,324	817,342	847,324
Stockholders' equity				
Capital	20	1,000,000	462,000	1,000,000
Capital reserves		2,286,374	2,592,369	2,286,374
Revenue reserves		816,256	893,772	816,256
Advance for future capital increase		666	666	666
		4,103,296	3,948,807	4,103,296
<b>Total liabilities and stockholders' equity</b>		<b>5,613,188</b>	<b>5,130,098</b>	<b>5,669,603</b>

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

# Statements of income

Years Ended December 31 In thousands of reais, unless otherwise indicated  
(A free translation of the original in Portuguese)

	Note	2008	Company 2007
		Note (2)	
<b>Gross operating revenues</b>			
Electricity network usage charges	21 (a)	1,785,457	1,548,248
Other revenues	21 (b)	16,982	15,046
		<b>1,802,439</b>	<b>1,563,294</b>
<b>Deductions from operating revenues</b>			
Taxes	22	(95,256)	(82,228)
Regulatory charges	22	(143,115)	(165,652)
		<b>(238,371)</b>	<b>(247,880)</b>
<b>Net operating revenues</b>		<b>1,564,068</b>	<b>1,315,414</b>
Cost of operation services	23	(311,453)	(313,158)
Gross profit		1,252,615	1,002,256
<b>Operating income (expenses)</b>			
General and administrative	23	(109,513)	(41,582)
Management fees	23	(6,710)	(4,458)
Other revenues, net		2,934	78,210
Financial expenses	24	(338,930)	(271,549)
Financial income	24	45,517	119,646
Operating profit		845,913	882,523
<b>Income tax and social contribution</b>			
Current	25	(279,328)	(90,380)
Deferred	25	20,581	(175,397)
<b>Profit before reversal of interest on own capital</b>		<b>587,166</b>	<b>616,746</b>
Reversal of interest on own capital		239,899	238,737
<b>Net income for the year</b>		<b>827,065</b>	<b>855,483</b>
Number of shares at the end of the year (in thousands)		149,285	149,285
Net income per share at the end of the year – R\$		5.54017	5.73054

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

# Statements of changes in stockholders' equity

In thousands of reais, unless otherwise indicated  
(A free translation of the original in Portuguese)

	Revenue reserves						Retained earnings	Advance for future capital increase	Total
	Capital	Capital reserves	Legal reserve	Statutory reserve	Unrealized profits	Profits retention reserve			
<b>At December 31, 2006</b>	<b>462,000</b>	<b>2,592,369</b>	<b>92,400</b>	<b>46,200</b>	<b>44,093</b>	<b>-</b>	<b>507,777</b>	<b>666</b>	<b>3,745,505</b>
Realization of profits reserve	-	-	-	-	(2,615)	-	2,615	-	-
Dividends prescribed	-	-	-	-	-	-	314	-	314
Net income for the year	-	-	-	-	-	-	855,483	-	855,483
<b>Appropriation of net income:</b>									
Dividends (R\$ 0.001609317 per thousand shares)	-	-	-	-	-	-	(240,247)	-	(240,247)
Dividends (R\$ 1.162283 per share)	-	-	-	-	-	-	(173,511)	-	(173,511)
Interest on own capital (R\$ 1.337140 per share)	-	-	-	-	-	-	(199,615)	-	(199,615)
Interest on own capital (R\$ 0.262066 per share)	-	-	-	-	-	-	(39,122)	-	(39,122)
Transfer to profits retention reserve	-	-	-	-	-	713,694	(713,694)	-	-
<b>At December 31, 2007</b>	<b>462,000</b>	<b>2,592,369</b>	<b>92,400</b>	<b>46,200</b>	<b>41,478</b>	<b>713,694</b>	<b>-</b>	<b>666</b>	<b>3,948,807</b>
Dividends (R\$ 1.138762 per share)	-	-	-	-	-	(170,000)	-	-	(170,000)
Capitalization of reserves	538,000	(538,000)	-	-	-	-	-	-	-
Realization of profits reserve	-	-	-	-	(2,669)	-	2,669	-	-
Interest on own capital prescribed	-	-	-	-	-	-	320	-	320
Special goodwill on merger reserve – merger of ISA Capital (Note 20 (d))	-	232,005	-	-	-	-	-	-	232,005
Net income for the year	-	-	-	-	-	-	827,065	-	827,065
<b>Appropriation of net income:</b>									
Legal reserve	-	-	41,353	-	-	-	(41,353)	-	-
Statutory reserve	-	-	-	53,800	-	-	(53,800)	-	-
Interim dividends (R\$ 1.785926 per share)	-	-	-	-	-	-	(266,612)	-	(266,612)
Interest on own capital (R\$ 1.606981 per share)	-	-	-	-	-	-	(239,899)	-	(239,899)
Dividends (R\$ 1.509870 per share)	-	-	-	-	-	-	(228,390)	-	(228,390)
<b>At December 31, 2008</b>	<b>1,000,000</b>	<b>2,286,374</b>	<b>133,753</b>	<b>100,000</b>	<b>38,809</b>	<b>543,694</b>	<b>-</b>	<b>666</b>	<b>4,103,296</b>

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

# Statements of cash flows

Years Ended December 31. In thousands of reais, unless otherwise indicated  
(A free translation of the original in Portuguese)

	2008	Company 2007	Consolidated 2008
<b>Cash flows from operating activities</b>			
Net income for the year	827,065	855,484	827,065
Adjustments to reconcile net income to cash generated by operating activities			
Depreciation and amortization	180,288	172,662	180,288
Provision for inventory adjustment	-	349	-
Deferred income tax and social contribution	(20,581)	175,397	(20,581)
Provision for contingencies	59,941	(121,292)	59,941
Residual value of permanent asset disposals and donations	6,590	6,211	6,590
Amortization of negative goodwill	(16,985)	(16,985)	(16,985)
Amortization of goodwill	26,430	-	26,430
Interest and monetary and exchange rate variations on assets and liabilities	68,204	15,986	68,204
(Increase) decrease in assets			
Trade accounts receivable	(125,597)	(54,820)	(125,597)
Inventories	(71)	4,762	(71)
Amounts receivable – State Finance Department	(125,605)	(116,621)	(125,605)
Deferred income tax and social contribution	1,647	(15,727)	1,647
Taxes and contributions to offset	54,672	30,279	54,577
Pledges and restricted deposits	(2,097)	19,943	(2,097)
Prepaid expenses	5,773	3,388	5,817
Other	(5,455)	(3,895)	(4,253)
Increase (decrease) in liabilities			
Suppliers	3,739	(105,817)	1,752
Taxes and social charges payable	(39,535)	36,343	(39,394)
Regulatory charges	6,211	7,084	6,211
Provisions	(84,304)	(420,095)	(84,318)
Amounts payable – Fundação CESP	(68,596)	(102,923)	(68,596)
Other	(2,754)	3,785	(2,731)
<b>Net cash generated by operating activities</b>	<b>748,980</b>	<b>373,498</b>	<b>748,294</b>
<b>Cash flows from investment activities</b>			
Property, plant and equipment	(262,989)	(439,211)	(289,611)
Intangible assets	(10,342)	(95)	(11,909)
Investments	(50,329)	(1)	(13,605)
IEMG's cash at the time of acquisition	-	-	1,364
<b>Net cash used in investing activities</b>	<b>(323,660)</b>	<b>(439,307)</b>	<b>(313,761)</b>
<b>Cash flows from financing activities</b>			
Loans and financing			
New loans	560,376	531,184	569,958
Loan payments (including interest)	(359,392)	(6,627)	(359,392)
Dividends paid	(713,722)	(781,712)	713,722
<b>Net cash used in financing activities</b>	<b>(512,738)</b>	<b>(257,155)</b>	<b>(503,156)</b>
<b>Decrease in cash and cash equivalents</b>	<b>(87,418)</b>	<b>(322,964)</b>	<b>(68,623)</b>
Cash and cash equivalents at the end of the year	104,229	191,647	123,024
Cash and cash equivalents at the beginning of the year	191,647	514,611	191,647
<b>Changes in cash and cash equivalents</b>	<b>(87,418)</b>	<b>(322,964)</b>	<b>(68,623)</b>

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

# Statements of value added

Years Ended December 31. In thousands of reais, unless otherwise indicated  
(A free translation of the original in Portuguese)

	Company	
	2008	2007
<b>Receitas</b>		
Operating	1,802,439	1,563,294
Non-operating	3,131	78,445
	<b>1,805,570</b>	<b>1,641,739</b>
<b>Inputs acquired from third parties</b>		
Costs of services rendered	(18,827)	(14,227)
Materials, energy, third party services and other	(102,216)	(46,720)
	<b>(121,043)</b>	<b>(60,947)</b>
<b>Gross value added</b>	<b>1,684,527</b>	<b>1,580,792</b>
<b>Retention</b>		
Depreciation and amortization	(180,288)	(172,662)
<b>Net value added of the entity</b>	<b>1,504,239</b>	<b>1,408,130</b>
<b>Received as transfer</b>		
Financial income	45,517	119,646
<b>Total value added to be distributed</b>	<b>1,549,756</b>	<b>1,527,776</b>
<b>Distribution of value added</b>		
Personnel		
Direct compensation	(99,426)	(130,296)
Benefits	(30,108)	(34,903)
Actuarial adjustment	68,390	96,814
F.G.T.S	(12,403)	(16,701)
	<b>(73,547)</b>	<b>(85,086)</b>
<b>Taxes, fees and contributions</b>		
Federal	(535,774)	(549,389)
State	(10,219)	(7,949)
Municipal	(1,063)	(1,431)
	<b>(547,056)</b>	<b>(558,769)</b>
<b>Remuneration of third-party capital</b>		
Rentals	(7,356)	(5,428)
Interest and monetary and exchange rate variations	(94,732)	(23,010)
	<b>(102,088)</b>	<b>(28,438)</b>
<b>Remuneration of own capital</b>		
<b>Interest on capital and dividends</b>	<b>(734,901)</b>	<b>(652,495)</b>
<b>Profits reinvested</b>	<b>92,164</b>	<b>202,988</b>

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

# Notes to the financial statements

At December 31, 2008 and 2007. In thousands of reais, unless otherwise indicated

## 1. OPERATIONS

### 1.1. Corporate objective

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista (“CTEEP” or the “Company”), a publicly-traded company, is authorized to operate as an electric power public service concessionaire, and is principally engaged in the planning, construction and operation of electric power transmission systems, as well as in research and development programs related to energy transmission and other activities related to available technology. The Company's activities are regulated and inspected by the National Electric Power Agency (ANEEL).

The Company originated from the partial spin-off of CESP – Companhia Energética de São Paulo, and started its commercial operations as of April 1, 1999. On November 10, 2001 EPTE – Empresa Paulista de Transmissão de Energia Elétrica S.A., derived from the partial spin-off of Eletropaulo – Eletricidade de São Paulo S.A., was merged into the Company.

In a privatization auction held on June 28, 2006 on the São Paulo Stock Exchange (BOVESPA), pursuant to Notice SF/001/2006, the São Paulo State Government, which was the majority shareholder up to then, sold 31,341,890,064 of its common shares, which account for 50.10% of the common shares issued by CTEEP. The winner of the auction was Interconexión Eléctrica S.A. E.S.P.

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

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

On January 9, 2007 ISA Capital do Brasil S.A. acquired, through a public offering auction for the acquisition of shares held on BOVESPA, 24,572,554,070 common shares issued by CTEEP, corresponding to 39.28% of the total of this type of shares, pursuant to the public offering notice published on December 4, 2006. As a result of this acquisition, ISA Capital do Brasil S.A. became the holder of 89.40% of the voting capital and 37.46% of the total capital of CTEEP. Thus, after the reverse stock split on July 12, 2007 (Note 20(c)), of a total of 62,558,662 common shares, 55,924,465 are held by ISA Capital do Brasil S.A.

The Company's shares are traded on BOVESPA. Additionally, CTEEP has a Rule 144 A American Depositary Receipts (ADRs) program in the United States. The depositary bank for the ADRs is the Bank of New York, and the custodian bank is Banco Itaú S.A.

In September 2002 the Company joined the Level-1 Corporate Governance Practices of BOVESPA. The commitments assumed in the adoption of these corporate governance practices ensure greater transparency of the Company for the market, investors and shareholders, thus facilitating their monitoring of management actions.

The Company's preferred shares are included in the BOVESPA Index (IBOVESPA), in the Corporate Governance Index (IGC) and the Electric Energy Index (IEE).

### 1.2. Concessions

The Company is entitled to explore, directly or indirectly, the following contracts of Concession of Public Service for the Transmission of Electric Energy:

Contract	Concessionaire	Interest	Term (years)	Maturity	Annual Revenue Allowed (RAP)	
					R\$ thousand	Base
059/2001	CTEEP	-	20	07/07/15	1,855,698	07/08
143/2001	CTEEP	-	30	20/12/31	13,436	07/08
004/2007	IEMG (Note 11)	60	30	19/04/37	11,729	06/08
001/2008	IENNE (Note 11)	100	30	16/03/38	28,940	11/07
012/2008	IEPinheiros (Note 11)	100	30	16/10/38	6,104	06/08
013/2008	IESul (Note 11)	100	30	16/10/38	3,675	06/08
015/2008	Pinheiros (Note 11)	100	30	16/10/38	10,322	06/08
016/2008	IESul (Note 11)	100	30	16/10/38	6,616	06/08
018/2008	Pinheiros (Note 11)	100	30	16/10/38	2,622	06/08

Due to the acquisition of the shareholding control of CTEEP by ISA Capital do Brasil S.A. on June 28, 2006, an Amendment to the Concession Agreement 059/2001 – ANEEL of CTEEP was signed on January 29, 2007, in order to reflect this reality of the new controlling shareholder. In this amendment, the conditions initially negotiated were maintained and a clause added defining that the goodwill paid in the auction, as well as the special liabilities and the amounts arising from the State Law 4,819/58 determined in the Sale Notice SF/001/2006, will not be considered by ANEEL for evaluation of the financial and economic balance of the concession. Also due to this addendum, ISA Capital do Brasil S.A. and Interconexión Eléctrica S.A. E.S.P. (Colombia) are committed to increase capital in CTEEP.

The Madeira Transmissão consortium, in which the Company has a 51% interest, bought the following batches of ANEEL auction 007/2008:

Batch	Description	RAP Bid	Estimated investments	Term
		(R\$ )	ANEEL (R\$)	(months)
DC	Coletora Porto Velho – Araraquara 2, No.01, DC, 2375 Km Transmission Line	176,249,000	1,735,000,000	36
FC	ERectifying station No. 02 AC/DC, 3150 MW; Inverting Station No. 02 DC/AC, 2950 MW	151,788,396	1,240,900,000	50

On December 18, 2008 Interligação Elétrica do Madeira S.A was created to explore the installations of these batches.

### 1.3. Corporate restructuring

The Board of Directors' meeting held on February 11, 2008 approved the corporate restructuring involving CTEEP, ISA Capital and ISA Participações do Brasil Ltda. ("ISA Participações"). The National Electric Power Agency (ANEEL) authorized this restructuring through ANEEL Resolution No. 1164 of December 18, 2007.

The objective of this corporate restructuring was to improve the capitalization and cash flow conditions resulting from the use of the tax benefit in CTEEP, amounting to R\$ 232,005, referring to the goodwill paid by ISA Brasil in the process of acquiring the share control of CTEEP and included the following stages:

- (a) Capital subscription of ISA Brasil in a vehicle company, ISA Participações, with the conveyance of shares held in the capital of CTEEP to the capital of ISA Participações.
- (b) Recording of a provision amounting to R\$ 450,363 in ISA Participações, corresponding to the difference between the goodwill paid of R\$ 682,368 and the tax benefit of R\$ 232,005.
- (c) CTEEP merger of ISA Participações net assets, in the amount of R\$ 232,005, represented by the tax benefit amount previously mentioned which, in accordance with the requirements of CVM Instruction 319/99 was recorded as a corresponding entry to the special goodwill on merger reserve account in shareholders' equity.

## 2. PRESENTATION OF THE FINANCIAL STATEMENTS

These financial statements have been approved by the Company's Board of Directors on March 10, 2009.

The financial statements have been prepared in accordance with the accounting practices adopted in Brazil, which comprise the provisions included in the Brazilian Corporate Law (Law No. 6,404/76, amended by Law 9457/97, Law 10303/01, Law 11,638/07 and Provisional Measure 449); standards and regulations of the Brazilian Securities Commission ("CVM"); technical pronouncements of the Accounting Pronouncements Committee ("CPC"); specific legislation standards applicable to the concessionaries of electric energy public service established by the National Electric Power Agency – ANEEL.

The preparation of the financial statements in accordance with accounting practices adopted in Brazil requires management to use estimates to account for certain transactions affecting the Company's assets and liabilities, revenues and expenses, as well as the disclosure of information about the financial statement data. The final results of these transactions and information, upon their actual realization in subsequent periods, may differ from the estimates. The principal estimates related to the financial statements refer to the allowance for doubtful accounts, the provisions for contingencies and the Voluntary Termination Program (PDV).

# Notes to the financial statements

At December 31, 2008 and 2007. In thousands of reais, unless otherwise indicated

## Change in Corporate Law

On December 28, 2007 Federal Law 11,638/07 was issued, and then amended by Provisional Measure – MP No. 449, of December 04, 2008, which altered and introduced new provisions to Corporate Law. The main purpose of this new law and the MP was to update the Brazilian corporate legislation so as to permit the harmonization of the accounting practices adopted in Brazil with those included in the international accounting standards, which are issued by the “International Accounting Standards Board – IASB”.

The application of said Law and MP is mandatory for the annual financial statements of fiscal years started on or after January 1, 2008.

The changes in corporate Law had the following main impacts on the Company’s financial statements:

- (a) Reclassification: expenses recorded in assets, under deferred charges, and related to SAP implementation were reclassified to intangible assets;
- (b) The deferred income group was reclassified and is now part of the non-current liabilities group.
- (c) Costs of the Promissory Notes issue were deducted from the funding amount and will be recorded in results over the transaction term.

In compliance with the provisions of CVM Resolution 565, of December 17, 2008, which approved CPC 13, the Company established December 31, 2007 as the transition date for the adoption of the new practices. The analysis of these financial statements at December 31, 2007 did not show any need for adjustments due to the changes introduced by said legislation, except for the amount related to leasehold improvements, which was recorded in deferred charges in the financial statements at December 31, 2007, and reclassified to property, plant and equipment. Additionally, for better comparability with the current year’s financial statements, the amounts related to the Adjustment Portion (PA), which on December 31, 2007 were presented in current and non-current liabilities in the amounts of R\$ 33,344 and R\$ 16,665, respectively, were reclassified as a deduction of the customer accounts receivable balance.

## Consolidated financial statements

The consolidated financial statements were prepared in accordance with accounting practices adopted in Brazil and in conformity with the rules issued by CVM, and include the financial statements of CTEEP and its subsidiaries:

	Base date of the financial statements	Interest %	
		2008	2007
Interligação Elétrica de Minas Gerais S.A (IEMG)	12/31/08	60	-
Interligação Elétrica Norte e Nordeste S.A (IENNE)	12/31/08	25	100
Interligação Elétrica Pinheiros S.A (IEPIN)	12/31/08	100	-
Interligação Elétrica do Sul S.A (IESUL)	12/31/08	100	-

All subsidiaries were in the pre-operating stage on the base date of the consolidated financial statements. For this reason, the consolidated statements of income and of value added are not presented.

## 3. SIGNIFICANT ACCOUNTING PRACTICES

### (a) Determination of results of operations

Results of operations are determined on the accrual basis of accounting.

### (b) Cash and cash equivalents

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

### (c) Financial instruments

#### (i) Classification and measurement

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

#### ■ Financial assets measured at fair value through results

Financial assets measured at fair value through results are financial assets held for active and frequent trading. The assets of this category are classified as current assets. Gains or losses arising from variations in the fair value of financial assets measured at fair value through results are presented in the statement of income under “financial income (loss)” in the period in which they occur.



#### ■ Loans and receivables

This category comprises loans granted and receivables that are non-derivative financial assets with fixed or determinable payments, not quoted in an active market. They are included as current assets, except for those with maturity term exceeding 12 months after the balance sheet date (which are classified as non-current assets). The Company's loans and receivables comprise loans to affiliates, trade accounts receivable, other accounts receivable and cash and cash equivalents, except for short-term investments. Loans and receivables are accounted for at amortized cost, under the effective interest rate method.

#### ■ Assets held to maturity

These are basically financial assets that cannot be classified as loans and receivables, since they are quoted in an active market. In this case, these financial assets are acquired with the purpose and financial capacity to keep them in the portfolio to maturity. They are valued at the acquisition cost, plus income earned as a contra entry to results for the year.

#### (ii) Derivative financial instruments and hedge activities

The Company does not have a policy for the use of derivative financial instruments.

#### (d) Trade accounts receivable

Includes the amounts billed relating to the use of the basic network systems and other transmission facilities (DIT) by the electric power public service concessionaires and companies connected to these systems (Note 5), with average receipt term below 60 days, and there is no need for adjustment to present value.

The allowance for doubtful accounts comprises amounts realization of which is not considered probable on the balance sheet date.

#### (e) Inventories

The materials in stock are valued and stated at average cost of purchase, which does not exceed the replacement value.

#### (f) Investment

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

#### (g) Property, plant and equipment

The items that comprise the Company's property, plant and equipment are stated at cost of acquisition and/or construction, plus price-level restatements up to December 31, 1995; interest on stockholders' equity up to December 31, 1998, financial charges, monetary and foreign exchange variations on loans and financing for property, plant and equipment in progress; net of the accumulated depreciation and amortization.

Depreciation is computed on the straight-line basis, at the rates disclosed in Note 12, which consider the estimated useful lives of the assets, in compliance with the regulatory agency.

#### (h) Impairment of assets

The recoverable amount of property, plant and equipment and other non-current assets is analyzed on a yearly basis or whenever events or changes in circumstances suggest that the accounting value may not be recoverable. The Company did not identify indicators of loss of the recoverable amount of its assets. The concession agreements set forth an indemnification for property, plant and equipment at the end of the concession period. Criteria for computation of this indemnification have not yet been defined by the Conceding Power. However, in the understanding of Management and of its legal advisers, said indemnification amount should approximate the residual value of property, plant and equipment on that date.

#### (i) Other current and non-current assets

Stated at net realizable value.

#### (j) Current and non-current liabilities

Stated at known or estimated amounts including, when applicable, related charges and monetary or exchange rate variations incurred up to the balance sheet date.

#### (k) Provisions

Provisions are recorded based on an evaluation of the probability of loss on the ongoing lawsuits, supported by reports prepared by the legal counsel engaged by the Company.

#### (l) Income tax and social contribution

These are calculated in compliance with the provisions of applicable legislation, based on pretax income, adjusted by the inclusion of non-deductible expenses and the exclusion of non-taxable revenues and the inclusion and/or exclusion of temporary differences.

#### (m) Negative goodwill

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

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

#### (n) Employee benefits

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

# Notes to the financial statements

At December 31, 2008 and 2007. In thousands of reais, unless otherwise indicated

## (o) Financial charges and monetary/foreign exchange variations

Based on the provisions of Accounting Instruction 6.3.10, item 4, of the Accounting Manual for the Electric Energy Public Service, the interest and other financial charges, as well as monetary/foreign exchange variations, relating to financing obtained from third parties, effectively applied in property, plant and equipment in progress, comprise the costs recorded in this subgroup.

## 4. CASH AND CASH EQUIVALENTS

	Company		Consolidated
	2008	2007	2008
Cash and banks	7,166	13,767	6,958
Financial investments	97,063	177,880	116,066
	<b>104,229</b>	<b>191,647</b>	<b>123,024</b>

Financial investments are measured at fair value through results and refer to Bank Deposit Certificates, whose yield is linked to the variation of the Interbank Deposit Certificate (CDI) and have daily liquidity.

## 5. TRADE ACCOUNTS RECEIVABLE – COMPANY AND CONSOLIDATED

The Company's customers are concessionaries/permittees of public service of electric energy and free consumers, connected to the Company's facilities.

	2008		2007	
	Current	Non-Current	Total	Total
Basic network	279,635	45,068	324,703	196,661
Other transmission facilities – DIT	19,694	20	19,714	22,159
	<b>299,329</b>	<b>45,088</b>	<b>344,417</b>	<b>218,820</b>

The trade accounts receivable are guaranteed by collaterals and/or accesses to current accounts operated by the National System Operator (ONS) or directly by the Company and are distributed by maturity as follows:

	2008	2007
Falling due	283,541	206,598
Past due		
up to 30 days	3,315	46
from 31 to 60 days	3,191	12
over 61 days	54,370	12,164
	<b>60,876</b>	<b>12,222</b>
	<b>344,417</b>	<b>218,820</b>

On January 13, 2009 the Company signed a debt confession and payment agreement with delinquent distributors. This agreement requires the balance to be paid in 36 installments.

## 6. AMOUNTS RECEIVABLE – SÃO PAULO STATE FINANCE DEPARTMENT – COMPANY AND CONSOLIDATED

	2008		2007	
	Current	Non-Current	Total	Total
Acknowledgement and consolidation of liabilities agreement (i)	16,575	38,778	55,353	60,829
Payroll processing – Law 4,819/58 (ii)	–	309,811	309,811	193,101
Sale of property (iii)	3,211	8,295	11,506	12,643
Labor claims – Law 4,819/58 (iv)	–	97,755	97,755	71,410
Family allowance – Law 4,819/58 (v)	–	2,218	2,218	2,218
Allowance for doubtful accounts	–	(2,218)	(2,218)	(2,218)
	<b>19,786</b>	<b>454,639</b>	<b>474,425</b>	<b>337,983</b>

### (i) Agreement for the Acknowledgement and Consolidation of Liabilities

On May 2, 2002, an Agreement for the Acknowledgement and Consolidation of Liabilities was entered into with the São Paulo State Finance Department, in which the State Government acknowledges and admits that it owes to the Company the amounts corresponding to the disbursements originally made by CESP – Companhia Energética de São Paulo, in the period from 1990 to 1999, for paying supplemental retirement and pension payrolls, arising from benefits under the terms of State Law No. 4,819/58. The amount admitted was adjusted up to January 2002, by the variation of the Fiscal Unit of the São Paulo State Government (UFESP) and, as from February 2002, by the monthly variation of the General Market Price Index (IGP-M), plus 6% per annum. The reimbursement will be made in 120 monthly installments, starting on August 1, 2002 and with final settlement on July 1, 2012.

### (ii) Processing of the payroll – Law 4,819/58

The amount of R\$ 309,811 refers to the remaining balance of the processing of the payroll of the supplemental pension plan regulated by State Law No. 4,819/58, R\$ 1,426 of which through individual injunctions from January to August 2005 and R\$ 308,385 from

September 2005 to December 2008, as a result of a court decision by the 49th Labor Court of São Paulo, whose payments are made by Fundação CESP, with resources received from the State Government and passed on by the Company (Note 32 (c)). This balance will not be monetarily adjusted and no earnings will be recorded until the State Government approves its actual payment to the Company.

**(iii) Sale of a property**

On July 31, 2002, a Private Transaction Instrument, providing for the sale of a property, the recognition of liabilities and commitment to pay, was signed with the State Finance Department, in which the State Government acknowledges and admits that it owes to the Company an amount corresponding to the market value of the total area of the property occupied by the State Government which is being partially used for the construction of prison units.

Therefore, the State Government committed to reimburse the Company of said amount in 120 monthly installments, the first of which on August 1, 2002 and final settlement on July 1, 2012, adjusted by the monthly variation of the General Market Price Index (IGP-M) plus interest of 6% per annum.

**(iv) Labor proceedings – Law 4,819/58**

These refer to certain labor proceedings settled by the Company, relating to employees who retired supported by State Law No. 4,819/58, which are the responsibility of the State Government. This balance is not monetarily adjusted and no earnings will be recorded until the State Government approves its actual payment to the Company.

**(v) Family allowances – Law 4,819/58**

CESP – Companhia Energética de São Paulo made advances for the payment of monthly expenses related to family allowances arising from the benefits of State Law No. 4,819/58, which were transferred to the Company upon the partial spin-off of CESP.

Considering the expectation of loss, the Company's management recorded an allowance for doubtful accounts, in non-current assets, in the amount of R\$ 2,218.

## 7. TAXES AND CONTRIBUTIONS TO OFFSET

	Company		Consolidated
	2008	2007	2008
Income tax	760	40,710	760
Social contribution	486	14,862	486
COFINS	798	1,091	798
PIS	249	353	249
Other	852	801	947
	<b>3,145</b>	<b>57,817</b>	<b>3,240</b>

## 8. TAX BENEFIT – COMPANY'S MERGED GOODWILL – COMPANY AND CONSOLIDATED

The goodwill paid by ISA Capital in the acquisition of the CTEEP shareholding control process (Note 1.3) has its economic basis on the perspective of results during the term of concession and arises from the acquisition of the concession right granted by the Government, under item b, Paragraph 2, of article 14 of CVM Instruction 247, of March 27, 1996, as amended by CVM Instruction 285 of July 31, 1998.

In order that the amortization of goodwill does not negatively affect the dividend flow to shareholders, a provision for maintenance of integrity of its merging company's equity (PMIPL) was recognized, in accordance with the provisions of CVM Instruction No. 349, of March 6, 2001.

The amortization of goodwill, net of reversal of the provision and of the corresponding tax effect, is neutral with respect to the result for the year and, accordingly, the mandatory minimum dividend calculation basis.

To better present the Company's financial position in the financial statements, the net amount of R\$ 205,575, which essentially represents the merged tax credit, was classified, in the balance sheet, in current assets and in long-term receivables as merged goodwill tax benefit, based on its expected realization.

The change in 2008 is as follows:

	Goodwill	Provision	Net
Merged balances			
(January 31, 2008)	682,368	(450,363)	232,005
Realization in the year	(77,734)	51,304	(26,430)
<b>Balance at</b>			
December 31, 2008	604,634	(399,059)	205,575
Current assets			28,832
Non-current assets			176,743

Goodwill, which on December 31, 2007 totaled R\$ 689,435, is being amortized for the remaining period of the concession, in monthly installments and according to the future profitability annual projection and as authorized by ANEEL Resolution 1164, of December 18, 2007; its breakdown is as follows:

# Notes to the financial statements

At December 31, 2008 and 2007. In thousands of reais, unless otherwise indicated

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

## 9. DEFERRED INCOME TAX AND SOCIAL CONTRIBUTION – COMPANY AND CONSOLIDATED

These refer to tax credits on the temporary differences in the determination of taxable income, mainly the provisions for contingencies and the Voluntary Termination Program (PDV).

	2008		2007	
	Income tax	Social contribution	Total	Total
Provision for contingencies	43,036	15,493	58,529	54,457
Voluntary Termination Program – PDV	4,654	1,676	6,330	13,822
Negative goodwill	16,631	5,987	22,618	
Other	357	129	486	750
	<b>64,678</b>	<b>23,285</b>	<b>87,963</b>	<b>69,029</b>
Current			11,315	8,224
Non-current			76,648	60,805

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

	As from					
	2009	2010	2011	2012	2013	2014
	13%	8%	7%	6%	-	66%

## 10. PLEDGES AND RESTRICTED DEPOSITS – COMPANY AND CONSOLIDATED

In long-term receivables, in view of the uncertainties about the outcome of the lawsuits object of deposits, the Company's procedure is to maintain them at their nominal value, not recording any type of monetary restatement or earnings. The balance is composed as follows:

	2008	2007
Assessment notices – ANEEL (a)	6,317	6,317
Judicial deposits (Note 17 (b))	45,319	43,278
Provisional contribution on bank account outflows (CPMF)	199	199
Other	25	-
	<b>51,860</b>	<b>49,794</b>

(a) Refer to two deposits in connection with lawsuits to annul ANEEL assessment notices issued because of disturbances in the transmission system in February 1999 and January 2002. The first one, deposited on January 17, 2000, in the amount of R\$ 3,040, was required in an annulment action filed by the Company against ANEEL, arising from the assessment notice 001/1999-SFE which fined the Company under allegation of practice of violations for obstructing the inspection related to the disturbances arising from the interruption of the transmission and distribution of electric energy in most of Southeast and Middle West regions; non-compliance with the determinations of the "inspection report"; and non-compliance with the legal duty of rendering proper service. The second one, deposited on June 17, 2003, in the amount of R\$ 3,277, relates to the issue of assessment notice 005/2002-SFE, on May 7, 2002, as a consequence of punitive administrative process brought by ANEEL, for the breakage, on January 21, 2002, of one sub conductor of transmission line of 440 kV between the sub stations of the Company in the Power Plant of Ilha Solteira and Araraquara. The Company's legal advisors understand that it is not practicable to determine whether its position in both cases will prevail.

## 11. INVESTMENTS

### (a) Information on investments

	Interest – %	2008	2007
Interligação Elétrica Norte			
Nordeste S.A. (IENNE)	25.0	15,251	1
Interligação Elétrica			
de Minas Gerais S.A. (IEMG)	60.0	26,779	-
Interligação Elétrica			
Pinheiros S.A. (IEPIN)	100.0	6,650	-
Interligação Elétrica Sul S.A. (IESUL)	100.0	1,650	-
		<b>50,330</b>	<b>1</b>

#### IENNE

IENNE was formed on December 3, 2007 with the objective of exploring the public service concession of electric energy, in particular the Colinas (Tocantins) - Ribeiro Gonçalves (Piauí) and Ribeiro Gonçalves – São João do Piauí (Piauí) transmission lines, both of 500 kV.

Investment in this project is estimated at R\$ 533.6 million with Annual Revenue Allowed (RAP) of R\$ 28.9 million, base November 2007. Start-up is scheduled for December 2009.

On June 10, 2008 the Company published a significant event notice informing on the filing, with ANEEL, of the request for authorization to accept Isolux Energia e Participações S.A. ("Isolux") and Cymi Holding S.A. ("CYMI") as IENNE shareholders.

After this transaction, subject to the ANEEL's approval and execution of the respective agreements, IENNE's capital structure is as follows:

Shareholder	Interest in the capital
CTEEP	25%
CYMI	25%
Isolux	50%

#### IEMG

On July 3, 2008, the Company published a significant event notice informing that ANEEL had approved, during the 25th Executive Board Annual Public Meeting held on July 1, 2008, IEMG's corporate restructuring.

On July 31, 2008, the Company entered into an agreement for the acquisition of ISA's share in IEMG's capital, corresponding to 60%.

IEMG is awardee of the Concession Contract for the exploitation of public service of transmission related to the Transmission Line Neves 1 – Mesquita, of 500 kV, located in the State of Minas Gerais, according to ANEEL Auction 005/2006. IEMG started operations on December 19, 2008, on a test basis, while awaiting the Instrument of Release for operation on a commercial basis. RAP is R\$ 11.7 million, base June 2008.

#### IEPinheiros

IEPinheiros was formed on July 22, 2008, with the objective of exploiting the public service concession of electric energy, in particular the transmission lines and substations purchased in Batches E, H and K of ANEEL Auction No 004/2008 (Note 1.2). The start-up of the respective facilities is scheduled for the 2nd quarter of 2010, i.e., 18 months after the execution of the agreement.

#### IESUL

IESUL was formed on July 23, 2008, with the objective of exploiting the public service concession of electric energy, in particular the transmission lines and substations purchased in Batches F and I of ANEEL Auction No. 004/2008 (Note 1.2). The start-up of the respective facilities is scheduled for the 2nd quarter of 2010, i.e., 18 months after the execution of the agreement.

### (b) Change in investments

	IENNE	IEMG	IEPIN	IESUL	Total
Balances at					
December 31, 2006					
Payment of capital	1	-	-	-	1
Balances at					
December 31, 2007	1	-	-	-	1
Payment of capital	15,250	13,174	6,650	1,650	36,724
Acquisition of interest	-	13,605	-	-	13,605
Balances at					
December 31, 2008	15,251	26,779	6,650	1,650	50,330

# Notes to the financial statements

At December 31, 2008 and 2007. In thousands of reais, unless otherwise indicated

## 12. PROPERTY, PLANT, AND EQUIPMENT

Property, plant and equipment is composed as follows:

	2008			Company 2007	
	Cost	Accumulated depreciation	Net	Net	Annual average depreciation rates – %
<b>In service</b>					
Land	44,365		44,365	44,538	
Buildings, civil works and improvements	584,146	(379,823)	204,323	215,989	3.64%
Machinery and equipment	5,740,518	(2,588,506)	3,152,012	2,859,243	2.96%
Vehicles	10,897	(10,613)	284	879	20.00%
Furniture and fixtures	23,528	(15,335)	8,193	9,824	10.00%
	6,403,454	(2,994,277)	3,409,177	3,130,473	
<b>In progress</b>	<b>778,104</b>	<b>-</b>	<b>778,104</b>	<b>967,998</b>	
<b>Special liabilities</b>					
Donations received	(28,767)	-	(28,767)	(16,068)	
	<b>7,152,791</b>	<b>(2,994,277)</b>	<b>4,158,514</b>	<b>4,082,403</b>	

Construction in progress refers, substantially, to the ongoing expansion works of the electric energy transmission systems.

All subsidiaries are in the pre-operating phase and therefore the respective property, plant and equipment, totaling R\$ 76,100, is classified as "in progress".

Special liabilities are represented by amounts received from electric energy public service concessionaires and customers for investments in the concession.

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

Consequently, the Company adopts the annual depreciation rates established by ANEEL, restated in accordance with ANEEL Regulatory Resolution 44 of March 17, 1999 and revoked by ANEEL Regulatory Resolution 240, of December 5, 2006, for assets with similar use and characteristics in the area of electric energy transmission and distribution. Still based on this understanding, despite the fact of not having identified indicators of impairment of its assets, the Company prepared, in accordance with the methodology established by CPC 01, a recoverability study considering, in the discounted cash flow, the book value of assets which could revert to the conceding power.

In accordance with articles 63 and 64 of Decree no. 41,019, of February 26, 1957, assets and installations used in the transmission of electric power are linked to these services and cannot be retired, sold or pledged as mortgage guarantees without the prior and express authorization of the regulatory body. ANEEL Resolution no. 20, of February 3, 1999, regulates the electric power utility concession assets, giving prior authorization for not restricting assets no longer serviceable to the concession, when intended for sale, and determining that the proceeds from the sale be deposited in a restricted bank account, and invested in the concession.

### 13. INTANGIBLE ASSETS

	Company		Consolidated
	2008	2007	2008
Easements	57,449	57,449	64,774
ERP – SAP implementation	10,342	-	10,342
Other	151	151	151
	<b>67,942</b>	<b>57,600</b>	<b>75,267</b>

Transmission lines easements are associated to distribution in the Company's concession area, and in private urban and rural areas, imply indemnification in favor of the property owner. As they are permanent items, there is no amortization.

ERP implementation includes all expenditures incurred in the SAP structuring project, except for the training expenses which were charged to income. The project started on April 2008 and completion is scheduled for February 2009, when its amortization will begin.

### 14. LOANS AND FINANCING

The breakdown of loan and financing payable balances is as follows:

	Company		Consolidated
	2008	2007	2008
Local currency			
BNDES (a)	606,169	402,058	606,169
Promissory Notes (b)	199,068	-	199,068
Eletrobrás	541	592	541
Banco Bradesco (c)	-	-	51,010
Banco Safra	-	50,173	-
Banco Alfa	-	70,000	-
Banco do Brasil	-	10,081	-
	<b>805,778</b>	<b>532,904</b>	<b>856,788</b>
Current	294,492	132,191	345,502
Non-current	511,286	400,713	511,286

(a) On September 17, 2007 the Company signed a loan agreement with the National Bank for Economic and Social Development (BNDES), in the amount of R\$ 764.2 million, reduced to R\$ 602.2 million in December 2008. This amount accounts for 70% of the total investment, which includes system improvements, reinforcements, modernization of the current transmission system and new projects, and is part of the 2006/2008 Pluriannual Investment Plan. On October 25, 2007, R\$ 400.0 million were released, on February 25, 2008, R\$ 120.0 million, and on May 29, 2008, R\$ 82.2 million. This loan bears monthly charges of 2.3% p.a. above the Long-term Interest rate (TJLP). Repayment will be in 78 monthly installments from January 2009. Up to the beginning of repayment, interest is paid quarterly. As guarantee, the Company has given bank sureties contracted effective up to December 15, 2015, from the banks Bradesco, Santander and Banco do Brasil, at the cost of 0.70% p.a., with quarterly maturities.

On November 18, 2008 the Company entered into a loan agreement with BNDES in the amount of R\$ 329.1 million, the first drawdowns which are expected for the first quarter of 2009. This amount will be used to cover investments in reinforcements, modernization of the current system and new connections to be carried out between January 2009 and March 2010. Charges correspond to the Long-term Interest rate (TJLP) plus 1.8% p.a. Repayment will be in 54 monthly installments as from January 2011 and up to the beginning of repayment, charges will be paid on a quarterly basis. Bank guarantees will be contracted.

(b) Promissory Notes were issued on December 9, 2008, in the amount of R\$ 200.0 million, maturing on June 17, 2009. Nominal charges correspond to 120% of CDI. In conformity with CPC 08, the issue costs of the Promissory Notes, in the amount of R\$ 1,908, were recorded as deductions from the funding amount and will be recorded in results over the transaction term.

# Notes to the financial statements

At December 31, 2008 and 2007. In thousands of reais, unless otherwise indicated

(c) Refers to the working capital agreement entered into on February 25, 2008 by subsidiary IEMG, the releases of which occurred on the agreement execution date and on August 28, 2008, to be repaid in a lump sum falling due on February 25, 2009. Charges levied on these operations are paid semi-annually and correspond to Interbank Deposit Certificate (CDI) plus 0.8581% p.a. A letter of guarantee was given for this loan.

Maturities of long-term portions are distributed as follows:

	2008	2007
2009	-	61,633
2010	92,940	61,633
2011	92,940	61,633
2012	92,940	61,633
After 2012	232,466	154,181
<b>Total</b>	<b>511,286</b>	<b>400,713</b>

## 15. TAXES AND SOCIAL CHARGES PAYABLE

	Company		Consolidated
	2008	2007	2008
Income tax	722	30,526	760
Social contribution	270	10,820	338
COFINS	6,121	5,575	6,127
PIS	1,328	1,327	1,329
Scholarship program (a)	2,786	3,241	2,786
INSS	2,385	2,419	2,496
FGTS	874	882	875
Other	4,685	3,916	4,765
	<b>19,171</b>	<b>58,706</b>	<b>19,476</b>

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

## 16. REGULATORY CHARGES PAYABLE – COMPANY AND CONSOLIDATED

	2008		2007	
	Current	Non-Current	Total	Total
Research and Development – R&D	20,363		20,363	14,367
Energy Development Account – CDE	3,041		3,041	6,026
Fuel Consumption Account – CCC	2,804		2,804	5,490
Global Reserve for Reversion – RGR	7,927	2,805	10,732	4,600
Program for the Incentive of Alternative Sources of Electrical Energy – PROINFA	1,774		1,774	2,091
Inspection fee – ANEEL	619		619	548
	<b>36,528</b>	<b>2,805</b>	<b>39,333</b>	<b>33,122</b>

## 17. PROVISIONS

	Company		Consolidated
	2008	2007	2008
Férias e encargos sociais	12,040	8,606	12,067
Participação nos lucros e resultados – PLR	7,991	9,290	7,991
Programa de Desligamento Voluntário – PDV	18,304	40,651	18,304
Indenizações diversas	313	4,544	313
Contingências	170,399	163,168	170,399
	<b>209,047</b>	<b>226,259</b>	<b>209,074</b>
Circulante	34,895	46,627	34,922
Não circulante	174,152	179,632	174,152

### (a) Voluntary Termination Program – PDV

The Company, which had 2,737 employees as of October 31, 2006, approved a Voluntary Termination Program, with an adhesion period from November 21 to November 30, 2006 obtaining 1,534 adhesions. Due to this, there were 1,521 employee terminations, 323 of which in 2006, 1,163 in 2007, and 36 in 2008, in amounts equivalent to R\$ 78,979, R\$ 356,000 and R\$ 22,347, respectively.



## (b) Provision for contingencies

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

Type	2008			2007		
	Provision	Judicial deposits	Net	Provision	Judicial deposits	Net
Labor	139,917	(19,728)	120,189	139,079	(16,302)	122,777
Civil	2,741	-	2,741	4,926	-	4,926
Tax – IPTU (ii)	16,677	-	16,677	11,094	-	11,094
Tax – COFINS (iii)	-	(17,348)	(17,348)	-	(18,907)	(18,907)
Social Security – INSS (iv)	8,197	(8,243)	(46)	8,069	(8,069)	-
ANEEL (v)	2,867	-	2,867	-	-	-
	<b>170,399</b>	<b>(45,319)</b>	<b>125,080</b>	<b>163,168</b>	<b>(43,278)</b>	<b>119,890</b>

Judicial deposits are recorded in current and non-current assets under "Pledges and restricted deposits".

The Company is a party to tax, labor and civil lawsuits, whose unfavorable outcomes are regarded as possible by management, based on the assessment of its legal counsel, in the estimated amount of R\$ 49,366 (2007 – R\$ 31,282), mainly labor lawsuits, for which no provisions have been recorded.

### (i) Labor

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

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

The Company recognizes a provision to cover debts with the municipal governments of São Paulo, related to administrative processes for the rectification of areas, in the amount of R\$ 16,677.

The debts with the municipality of São José dos Campos, due to the Supplementary Law 335/07, have been negotiated with that municipality and settled for R\$ 39,141, with a rebate of R\$ 21,740 recorded as a gain under the caption "general and administrative expenses".

### (iii) Social Contribution on Revenues (COFINS)

The Company is challenging in court the constitutionality of the increase in the COFINS rate and calculation basis, in the amounts of R\$ 27,392 and R\$ 11,132, respectively.

The Company obtained a favorable outcome as regards the increase in the calculation basis and an unfavorable outcome in relation to the increase in the rate. Accordingly, in the third quarter of 2007, the Company reversed the portion of the provision related to the increase in the calculation basis against results and that referring to the increase in the COFINS rate against the related judicial deposit. The Company has started a process to release the judicial deposit which, as adjusted, corresponds to R\$ 18,907.

### (iv) National Institute of Social Security (INSS)

On August 10, 2001 the Company received from the National Institute of Social Security (INSS) a delinquency notice for nonpayment of social security contribution on compensation paid to its employees in the form of meal tickets, morning snack and basket of food staples for the period from April 1999 to July 2001. Accordingly, management decided to establish a provision and made a judicial deposit in the amount of R\$ 8,243, recorded in non-current assets, under "Pledges and restricted deposits"

### (v) ANEEL

The Company was notified by ANEEL for not meeting the deadline for installation of the 3rd bank of transformers 345/88 kV of substation (SE) Baixada Santista, authorized by ANEEL Resolution 197 of May 4, 2004, with a fine in the amount of R\$ 1,981, and for the noncompliance with the deadline for the start-up of the Transmission Line in 345 kV, Guarulhos – Anhanguera, authorized by Authorizing Resolution 064/2005 of December 31, 2005, with a fine in the amount of R\$ 886, totaling R\$ 2,867 as of December 31, 2008.

# Notes to the financial statements

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## 18. AMOUNTS PAYABLE – FUNDAÇÃO CESP

Based on an appraisal prepared by independent actuaries to calculate the actuarial liability, the Company recorded in the result for the year a gain in the amount of R\$ 68,390. Accordingly, the liability balance presented represents the current liability of the Company related to the supplementary pension and health assistance plans maintained with Fundação CESP.

### (a) Plan "A" - Supplementary pension plans

Regulated by State Law 4,819/58, applied to employees hired up to May 13, 1974, determines supplementary pension plan benefits, additional leave entitlements and family allowance. The resources necessary to cover the charges assumed in this plan are total responsibility of the applicable authorities of the State of São Paulo Government, and therefore, with no risk and additional cost to the Company (Note 32).

### (b) Plan "B" and "B1" - Supplementary pension plans

Plans "B" and "B1", regulated by Law 6435/77 and managed by Fundação CESP, are sponsored by the Company, providing supplementary pension plan benefits, the reserves of which are determined by the financial system of capitalization. The Plan "B" refers to Benefício Suplementar Proporcional Saldado – BSPS, calculated on December 31, 1997 (CTEEP) and March 31, 1998 (EPTE), in accordance with current regulation, and its actuarial financial and economic balance was determined at the time. The annual actuarial technical result of this plan (deficit or surplus) is the full responsibility of the Company.

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

### (c) Plan PSAP – Transmissão Paulista

On January 1, 2004, the plans sponsored by the Company, as well as those of the extinguished EPTE, were merged financially, and the individual characteristics of the related plans maintained, thus constituting the PSAP Plan – Transmissão Paulista.

### (d) CVM Deliberation 371/00 – information

The main financial and economic information of the plan PSAP-Transmissão Paulista-BD (CTEEP/EPTE), in conformity with CVM Deliberation 371, of December 13, 2000 and based on the actuarial reports is as follows:

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

	2008	2007
Fair value of the assets	1,790,191	1,774,274
Total actuarial liabilities	(1,517,603)	(1,506,892)
Gains to be recognized in future years	(341,091)	(396,816)
Net liabilities	(68,503)	(129,434)

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

	2008	2007
Fair value of assets at the beginning of the year	1,774,274	1,501,836
Employer contributions	1,697	10,244
Employee contributions	2,651	2,900
Return on investments	113,516	361,421
Benefits paid	(101,947)	(122,242)
Transfer from defined contribution to defined benefit	-	20,115
Fair value of the assets at the end of the year	1,790,191	1,774,274

#### (iii) Changes in actuarial liabilities

	2008	2007
Present value of the net actuarial liability at the beginning of the year	1,506,892	1,428,775
Cost of current services	7,233	8,284
Cost of interest	154,306	146,307
Actuarial gain/loss	(48,881)	25,653
Benefits paid	(101,947)	(122,242)
Transfer from defined contribution to defined benefit	-	20,115
Present value of the net actuarial liability at the end of the year	1,517,603	1,506,892

(iv) Plan participants

	2008	2007
Active	1,403	1,542
Inactive		
Retired	1,719	1,534
Retired for disability	31	30
Pensioners	74	71
	<b>1,824</b>	<b>1,635</b>
	<b>3,227</b>	<b>3,177</b>

(v) Actuarial assumptions used

	2008	2007
Discount rate of the present value of actuarial liabilities	11.00%	10.24%
Expected return rate on the plan assets	11.50%	11.28%
Future salary increase rate	7.12%	7.12%
Index for readjustment of regular benefits granted	4.00%	4.00%
General mortality table	AT-83	AT-83
Disability table	Light-Média	Light-Média
Mortality table of disabled employees	AT-49	AT-49

## 19. SPECIAL LIABILITIES – REVERSAL/AMORTIZATION

Refers to the resources arising from the reversion reserve, amortization and portion held at the Company, of the monthly quotas of the Global Reversion Reserve (RGR), related to investments of resources for expansion of the public service of electric energy and amortization of loans obtained for the same purpose, occurred up to December 31, 1971. The manner for the settlement of these liabilities is not defined by the Conceding Power.

## 20. STOCKHOLDERS' EQUITY

### (a) Capital social

The Company's authorized capital at December 31, 2008 and 2007 is R\$ 1,469,090, represented by R\$ 615,696 in common shares and R\$ 853,394 in preferred shares, all of which are book-entry nominative shares without par value.

On December 5, 2008 the Board of Directors approved the increase in the Company's paid-up capital by R\$ 538,000, upon the capitalization of part of the capital reserve "Subsidies for Investment – CRC".

With said increase, subscribed and paid-up capital at December 31, 2008 totals R\$ 1,000,000 (2007 – R\$ 462,000), divided into 149,285,034 shares (2007 – 149,285,034), 62,558,662 (2007 – 62,558,662) of

which are common and 86,726,372 (2007 – 86,726,372) are preferred shares, all book-entry nominative shares without par value.

Common shares are entitled to one vote in the decisions of the general stockholders' meetings.

Preferred shares are nonvoting, but have priority in capital reimbursement and payment of noncumulative dividends of 10% per year calculated on the paid-up capital corresponding to this type of share.

### (b) Dividends and interest on own capital

At an Extraordinary General Meeting held on January 15, 2008, the Board of Directors determined the payment of dividends to the shareholders, in the amount of R\$ 170,000, which corresponds to R\$ 1.138762 per share. The payment commenced on February 11, 2008.

The Board of Directors determined the payment of interest on own capital and interim dividends, as follows:

Date	Interest on own capital		Interim dividends		Payment
	Total	Per share	Total	Per share	
10/03/08	61,531	0.412171	-	-	18/04/08
09/04/08	-	-	67,000	0.448806	18/04/08
30/06/08	58,311	0.390604	145,000	0.971297	17/07/08
30/09/08	60,388	0.404516	54,612	0.365823	17/10/08
05/12/08	59,669	0.399690	-	-	30/12/08
	<b>239,899</b>	<b>1.606981</b>	<b>266,612</b>	<b>1.785926</b>	

The Company by-laws set forth mandatory minimum dividends, up to the limit of 10% of capital, corresponding to R\$ 100.0 million, whenever there is a sufficient profit balance after constitution of the legal reserve.

	2008
Net income for the year	827,065
Constitution of legal reserve	(41,353)
Realization of unrealized profits reserve	2,669
Dividends prescribed	320
Dividend calculation basis	788,701
Interest on own capital	(239,899)
Interim dividends	(266,612)
Constitution of statutory reserve	(53,800)
Allocation to dividends	228,390

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Of the amount allocated to dividends, as mentioned in Note 33, R\$ 122,500 were paid in January 2009.

## (c) Reverse stock split

At an Extraordinary General Meeting (AGE) held on July 12, 2007, the stockholders approved the proposal of the Board of Directors in their meeting held on June 18, 2007 for the reverse stock split of the Company's shares at the ratio of one new share for each existing one thousand shares of each class.

This reverse stock split did not change the amount of the Company's capital and its purpose was to align with the trading standards adopted by the São Paulo Stock Exchange (BOVESPA), as the latter has been instructing publicly-held companies to adopt a unit quotation for their shares instead of the quotation per one thousand shares. This should allow for more favorable conditions in the trading of the shares issued by the Company.

## (d) Capital reserves

	2008	2007
Subsidies for investment – CRC	1,264,084	1,802,084
Remuneration of construction in progress (i)	633,053	633,053
Donations and subsidies for investments	150,489	150,489
Tax incentives – FINAM	6,743	6,743
Special Goodwill on Merger Reserve	232,005	-
	<b>2,286,374</b>	<b>2,592,369</b>

### (i) Remuneration of construction in progress

These are credits resulting from the capitalization of the remuneration calculated on own capital resources used during the construction of fixed assets, applied to the construction in progress and that can only be used to increase capital. As from 1999, the Company abandoned this practice, as permitted by the Accounting Manual of the Public Service of Electric Energy.

## (e) Revenue reserves

### (i) Legal reserve

Set up at 5% of net income for the year, before any appropriations, up to the limit of 20% of capital. The reserve totals R\$ 133,753 at December 31, 2008, due to the increase in paid-up capital on December 5, 2008 (Note 20 (a)) (2007 – R\$ 92,400).

### (ii) Statutory reserve

The Company by-laws determine the constitution of this reserve at the rate of 20% of net income for the year, less legal reserve and mandatory minimum dividends, up to the limit of 10% of capital.

As of December 31, 2008, due to the increase in paid-up capital, R\$ 53,800 were appropriated, totaling R\$ 100,000 (2007 – R\$ 46,200).

### (iii) Unrealized profits reserve

The unrealized profits result from the credit balance of net monetary restatement up to 1995.

This reserve is realized in the proportion of property, plant and equipment depreciation. The amounts realized are transferred to the account "Retained earnings" monthly.

### (iv) Profits retention reserve

In conformity with Brazilian Corporate Law, the net income remaining after dividends and statutory appropriations was transferred to this reserve for budgeted investments and working capital.

## 21. OPERATING REVENUES

### (a) Revenues from Electricity Network Usage

Revenues from usage of the Company's electricity network, accumulated for the year ended December 31, 2008, totaled R\$ 1,785,457 (2007 – R\$ 1,548,248). These revenues are composed as follows:

	2008	2007
<b>Basic Network</b>		
Existing assets	1,182,807	1,062,440
New investments	315,580	236,746
Surplus	19,198	11,270
Adjustment portion	51,777	11,799
Variable portion	(782)	-
	<b>1,568,580</b>	<b>1,322,255</b>
<b>Other transmission facilities – DIT</b>		
Existing assets	103,532	74,951
New investments	28,227	22,722
Adjustment portion	(560)	8,751
	<b>131,199</b>	<b>106,424</b>
<b>Charges</b>		
Fuel Consumption Account – CCC	35,539	62,163
Energy Development Account – CDE	38,801	46,195
PROINFA	11,338	11,211
	<b>85,678</b>	<b>119,569</b>
	<b>1,785,457</b>	<b>1,548,248</b>

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

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

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

Due to the reduction in the investments in said project, the related annual amount of the RAP beginning July 2005 was then reduced by R\$ 32,251. The Company considers this reduction invalid and filed Official Circular OF/F No. 2,828, of July 8, 2005, with ANEEL requesting its restoration. On March 2, 2006, through Official Letter No. 321/06, the Financial and Economic Oversight Board (SFF) of ANEEL submitted an Inspection Follow-up Report (RAF) that analyzed CTEEP's request and upheld the SFF's initial position.

On March 23, 2006, through Official Letter OF/F No. 1,372/06, CTEEP filed an Administrative Appeal with ANEEL, requesting a review of the SFF's position.

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

In accordance with Concession Agreement No. 59, signed with the Federal Government on June 20, 2001 through the intermediation of ANEEL, every four years as from the date on which this agreement was signed, ANEEL will make a periodic review of the Allowed Annual Revenue (RAP) of electric energy transmission related to the installations of authorized projects whose business operations commenced after December 31, 1999, for the purpose of promoting efficiency and low rates, in accordance with the methodology approved by Normative Instruction No. 257, of March 6, 2007. Through Resolution No. 488, of June 26, 2007, the result of the first periodic rate review of Companhia de Transmissão de Energia Elétrica Paulista – CTEEP was approved, reducing the new Allowed Annual Revenue (RAP) by 26.15%, to be applied to the Basic Network – New Facilities (RBNI) and Other Facilities – New Investments (RCDM) portions effective on July 1, 2005.

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

The effects referring to the period from July 1, 2007 to June 30, 2008 and to the period from June 1, 2008 to June 30, 2009 were considered in Approving Resolution 496/07 and 670/08, respectively.

**(iii) Variable Portion – PV**

The Variable Portion – PV consists in the application of a penalty arising from operating inefficiency. The Allowed Annual Revenue (RAP) of CTEEP is subject to a PV, calculated in accordance with the unavailability of installations and occurrences of disconnection in the period. It is set forth in the Concession Agreements and is regulated by Regulatory Resolution N.º 270, of July 09, 2007.

**(iv) Annual revenue adjustment**

On June 27, 2008, Approving Resolution No. 670 was issued, establishing CTEEP's annual allowed revenues for making available the transmission facilities that comprise the Basic Network and Other Transmission Facilities, for a twelve-month cycle from July 1, 2008 to June 30, 2009. According to the mentioned Resolution, the Allowed Annual Revenue (RAP) of CTEEP, which was R\$ 1,478,456 on July 1, 2007, became R\$ 1,869,134 on July 1, 2008, which represents an increase of R\$ 390,672 or 26.42%.

The analysis of the revenue effective from July 1, 2008 to June 30, 2009 is as follows:

	Concession Agreement		
	059	143	Total
<b>Basic network</b>			
Existing assets	1,048,944	-	1,048,944
New investments	301,005	13,436	314,441
	1,349,949	13,436	1,363,385
<b>Other transmission facilities – DIT</b>			
Existing assets	305,970	-	305,970
New investments	39,257	-	39,257
	<b>345,227</b>	-	<b>345,227</b>
Adjustment portion	160,822	(300)	160,522
	<b>1,855,998</b>	<b>13,136</b>	<b>1,869,134</b>

**(b) Other operating revenues**

	2008	2007
Rentals	10,877	10,613
Services	6,105	4,433
	<b>16,982</b>	<b>15,046</b>

Rental revenue refers to an operation with a fixed-line telephone company, and services relate to maintenance and technical analysis contracted by third parties.

# Notes to the financial statements

At December 31, 2008 and 2007. In thousands of reais, unless otherwise indicated

## 22. DEDUCTIONS FROM OPERATING REVENUES

	2008	2007
<b>Taxes on revenues</b>		
COFINS	77,887	64,723
PIS	15,747	17,283
Other	1,622	222
	<b>95,256</b>	<b>82,228</b>
<b>Regulatory charges</b>		
Fuel Consumption Account – CCC	32,306	56,413
Energy development account – CDE	35,272	41,922
Global reversion reserve – RGR	50,314	35,706
Research and development – R& D	14,934	21,437
Program for the Incentive of Alternative Sources of Electric Energy – PROINFA	10,289	10,174
	<b>143,115</b>	<b>165,652</b>
	<b>238,371</b>	<b>247,880</b>

## 23. COSTS OF OPERATING SERVICES AND GENERAL AND ADMINISTRATIVE EXPENSES

	2008		2007	
	Costs	Expenses	Total	Total
Personnel	(59,949)	(33,983)	(93,932)	(114,578)
Services	(51,162)	(26,240)	(77,402)	(71,022)
Depreciation	(179,614)	(674)	(180,288)	(172,662)
Materials	(6,187)	(3,725)	(9,912)	(12,003)
Leases and rentals	(3,092)	(4,264)	(7,356)	(5,428)
Contingencies		(13,564)	(13,564)	46,594
Other	(11,449)	(33,773)	(45,222)	(30,099)
	<b>(311,453)</b>	<b>(116,223)</b>	<b>(427,676)</b>	<b>(359,198)</b>

## 24. FINANCIAL INCOME (EXPENSES)

	2008	2007
<b>Income</b>		
Income from financial investments	17,201	22,847
Interest on assets	4,117	19,203
Amortization of negative goodwill	16,985	16,985
Monetary and exchange rate variations	6,610	58,683
Other	604	1,928
	<b>45,517</b>	<b>119,646</b>
<b>Expenses</b>		
Interest on own capital	(239,899)	(238,737)
Interest on liabilities	(66,261)	(20,975)
Goodwill amortization	(26,430)	-
Charges on RGR	(1,508)	(1,140)
Other	(4,832)	(10,697)
	<b>(338,930)</b>	<b>(271,549)</b>
Financial result, net	(293,413)	(151,903)

## 25. INCOME TAX AND SOCIAL CONTRIBUTION ON NET INCOME

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

	2008	2007
Income before income tax and social contribution		
Tax rates	845,913	882,523
Expected income tax and social contribution expense	34%	34%
Income tax and social contribution on permanent additions	(287,610)	(300,058)
Actual income tax and social contribution expenses	28,863	34,281
Income tax and social contribution	(258,747)	(265,777)
Current	(279,328)	(90,380)
Deferred	20,581	(175,397)
	<b>(258,747)</b>	<b>(265,777)</b>

## 26. SALE OF THE TECHNICAL CENTER FOR EQUIPMENT MAINTENANCE – CETEMEQ

On April 13, 1998 a Private Agreement for Assignment and Transfer of Rights and Obligations was signed by and between EPTE – Empresa Paulista de Transmissão de Energia Elétrica S.A., merged into the Company on November 10, 2001, and Eletropaulo Metropolitana Eletricidade de São Paulo S.A. ("Eletropaulo") relating to the real property located at Rua Lavapés, 463, Cambuci, São Paulo, whose market price was R\$ 70,496, payable in 21 equal and successive monthly installments, with maturity on the first business day of each month, beginning May 1998. In view of the contestation by Eletropaulo of the aforementioned amount and the fact that the installments had not been received, EPTE filed collection lawsuits on February 11, 1999 and October 18, 2000, with the 1st and 36th Civil District Courts of the Central Jurisdiction of São Paulo, respectively.

In December 2000, the net book value of this asset, in the amount of R\$ 4,904, was written off from property, plant and equipment, and the related sale, deferred taxes on the gain resulting from the sale, allowance for doubtful accounts and tax credits were recorded. On February 27, 2007, through a Private Transaction Agreement entered into by and between Eletropaulo and CTEEP, the parties agreed to the following:

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

- (e) Eletropaulo assumes the commitment to provide for the regularization of the ownership status of the real properties transferred by it to EPTE/CTEEP, subject of the agreement in question, as well as any others that may be in its possession but belonging to CTEEP, as a result of the Memorandum for Partial Spin-off of Eletropaulo, dated December 22, 1997.

## 27. TRANSACTIONS WITH RELATED PARTIES

The main balances and transactions with related parties are as follows:

Type of Operation	2008		2007	
	Assets	Income	Assets	Income
Management key personnel				
Short-term benefits	-	6,710	-	4,458
ISA Capital				
Sublease	15	201	25	181
Provision of services	7	67	-	-

The sublease agreement comprises the area occupied by ISA Capital at the Company's main building, as well as the apportionment of condominium and maintenance expenses, among others.

In 2008, a service agreement covering tax and accounting bookkeeping, tax calculation and payroll processing, among other services, was entered into.

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

## 28. FINANCIAL INSTRUMENTS

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

The Company operates with several financial instruments, especially cash and cash equivalents, including financial investments, trade accounts receivable, trade accounts payable and loans and financing.

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

# Notes to the financial statements

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The carrying amounts of asset and liability financial instruments, compared with the amounts that might be obtained in active market trading, or in the absence thereof, with the net present value adjusted at the prevailing market interest rate, approximate their market values. The Company does not have a policy for the use of derivative financial instruments and, in the fiscal year, it did not enter into agreements that may be considered derivative financial instruments.

## (b) Cash and cash equivalents, financial investments, accounts receivable, other current assets and accounts payable

The amounts recorded approximate their realizable values.

## (c) Investments

These consist mainly of investments in closely held investees, recorded after the pre-operating phase on the equity method, in which the Company has strategic interest.

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

## (d) Financing

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

## (e) Risk management

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

**Credit risk** – the Company has agreements with the National Electric System Operator (ONS), concessionaires and other agents for regulating the provision of services related to the basic network for 216 users, with a bank guarantee clause. Likewise, the Company has agreements regulating the provision of services in other transmission facilities with 30 concessionaires and other agents, with a bank guarantee clause.

**Price risk** – pursuant to the concession agreement, the Company's revenues are annually adjusted by ANEEL based on the variation of the General Market Price Index (IGP-M), and part of the revenues is subject to periodic review every four years (Note 21(b)).

**Interest rate risk** – the restatement of financing agreements is subject to TJLP and CDI variation (Note 14).

**Exchange rate risk** – the Company does not have financing, accounts receivable and assets in foreign currency. Its exposure to exchange oscillation is irrelevant, and corresponds to possible import of equipment.

## 29. OPERATING LEASES

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

	2008	2007
Up to one year	5,500	3,000
Over one year and up to five years	7,066	5,500
	<b>12,566</b>	<b>8,500</b>

## 30. INSURANCE COVERAGE

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

Type	Coverage	Amount Insured – R\$	Premium R\$
Assets	12/02/08 to 09/01/09	2,052,581	3,322
Civil liability	12/02/08 to 09/01/09	15,000	147
National transports	09/30/08 to 09/30/09	54,970	7.3
Collective personal accidents	05/01/08 to 05/01/09	24,670	1.3
Vehicles	03/02/08 to 03/02/09	Market value	26
			<b>3,504</b>

### (a) Assets

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

### (b) Civil liability

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

### (c) National transports

Coverage of damages caused to the Company's assets and equipment, transported within Brazil.

### (d) Collective personal accidents

Coverage against personal accidents to executives, interns and trainees.

### (e) Vehicles

Coverage against collision, fire, theft and third parties.



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

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

Under the partial spin-off protocol of Eletropaulo, made on December 31, 1997 and that resulted in the establishment of EPTE – Empresa Paulista de Transmissão de Energia Elétrica S.A. and other companies, Eletropaulo is solely liable for obligations of any kind referring to acts until the spin-off date, except for contingent liabilities whose provisions had been allocated to the merging companies. In the case in question, at the time of the spin-off, there was no allocation to EPTE of any provision for such purpose, leaving it clear that Eletropaulo was exclusively liable for said contingency. At the time of the spin-off there was only the transfer to EPTE assets of an escrow deposit in the historical amount of R\$ 4.00, made in 1988 by Eletropaulo, referring to the amount that it understood to be owed to ELETROBRÁS regarding the balance of the aforementioned financing agreement, and allocation to EPTE's liabilities of the same amount referring to this debt.

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

On September 26, 2003 a decision of the Court of Justice of the State of Rio de Janeiro was published, excluding Eletropaulo from the execution of the aforementioned sentence. Due to these facts, ELETROBRÁS filed, on December 16, 2003, a Special Appeal in the Superior Court of Justice and an Extraordinary Appeal in the Federal Supreme Court to maintain the collection regarding Eletropaulo. Appeals similar to those of ELETROBRÁS were filed by CTEEP.

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

Due to said acceptance by the Superior Court of Justice, on December 4, 2006 Eletropaulo filed a special appeal, which was rejected, according to the decision published on April 16, 2007, as well as the Special Appeal and the Extraordinary Appeal, which sustained the decision of the Superior Court of Justice, and which final and unappealable sentence was rendered on October 30, 2008. In view of these decisions, the execution of the decision filed by ELETROBRÁS follows its normal course as proposed. With respect to that debt and in view of the formal documents of the partial spin-off of Eletropaulo, CTEEP, according to the understanding of its management and legal counsel, holds only the escrow deposit which was received as an asset from 1988 to pay for a portion of the debt, and intends to proceed in the defense of such right. On the other hand, the Company has not recognized a reserve for the remaining contingency, which the Company understands to be the responsibility of Eletropaulo, to which the debt is being charged by ELETROBRÁS. The total contingency is currently estimated at approximately R\$ 1,463 million.

### 32. SUPPLEMENTARY PENSION PLAN REGULATED BY STATE LAW NO. 4,819/58

#### (a) Significant event

##### (i) July 19, 2005

"In compliance with CVM Instruction No. 358/2002, CTEEP – Companhia de Transmissão de Energia Elétrica Paulista clarifies aspects related to the supplementary pension plan regulated by State Law no. 4,819/58. This plan applies to employees hired through May 13, 1974, as mentioned in Note 23.1 to the financial statements of the Company as of December 31, 2004. The necessary funds to cover the charges of the plan are the responsibility of the applicable agencies of the Government of the State of São Paulo this was implemented according to an agreement made on December 10, 1999 between the São Paulo State Finance Department and the Company, effective until December 31, 2003. Such procedure was regularly performed until December 2003 by Fundação CESP, with funds from the State Finance Department, transferred by CTEEP. In January 2004, the Finance Department began to directly process those payments, without the participation of CTEEP and Fundação CESP.

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The decision of the 49th Labor Court of São Paulo was communicated to CTEEP on July 11, 2005 (lawsuit no. 1.339/2005-1), authorizing Fundação CESP to resume processing the payment of benefits established by State Law no. 4,819/58, according to the respective regulation, in the same manner that had been made until December 2003, with funds transferred by CTEEP. On July 13, 2005, the 49th Labor Court of São Paulo gave 60 days for the fulfillment of this decision. There is also on the website of the Regional Labor Court of São Paulo a summary of a similar decision (lawsuit SDC No. 20058200400002000) of June 30, 2005, determining that Fundação CESP, using the funds transferred by CTEEP, may process again the beneficiaries' retirement and pension payments established by State Law no. 4,819/58.

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

## (ii) January 27, 2006

"CTEEP – Companhia de Transmissão de Energia Elétrica Paulista, in accordance with CVM Instruction No. 358/02, announces a change in procedure by the State Finance Department, due to a recent understanding of the State Attorney General regarding the transfer of funds to CTEEP for compliance with the decision of the 49th Labor Court of São Paulo, which authorized Fundação CESP to once again process the pension plan benefit payments established by State Law no. 4,819/58 using funds received from the State of São Paulo and transferred by CTEEP. This matter has been previously addressed in Note 22 of the quarterly information of CTEEP as of September 30, 2005.

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

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

## (iii) February 24, 2006

"CTEEP – Companhia de Transmissão de Energia Elétrica Paulista, in accordance with CVM Instruction no. 358/2002, announces, supplementing the information included in the Significant Event Notice of January 27, 2006, that the State Finance Department transferred to CTEEP in February 2006 the amount of R\$ 12,802 to comply with the decision of the 49th Labor Court of São Paulo, which ruled that Fundação CESP must process the pension plan benefit payments established by State Law no. 4,819/58 using the funds received from the State of São Paulo and transferred by CTEEP. In February, CTEEP's total expenditure to comply with said court decision was R\$ 19,652.

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

## (b) Decision of the 49th Labor Court of São Paulo

On May 2, 2006, the 49th Labor Court of São Paulo rendered a decision on the above-mentioned lawsuit, considering valid, in part, the claim at issue and maintaining the effects of the early relief previously granted (Significant Event Notice of July 19, 2005), in addition to ordering the payment of amounts falling due. On May 8, 2006, CTEEP filed appeals requesting clarification of the decision and amendment of certain aspects thereof.

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

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

### **(c) Current situation**

As a result of the aforementioned facts and by force of said decision of the 49th Labor Court of São Paulo, as well as the decision of the Superior Court of Justice, CTEEP passed on to Fundação CESP, in the period of September 2005 to December 2008, the amount of R\$ 963,592 for payment of benefits under State Law no. 4,819/58, having received from the State Finance Department the amount of R\$ 655,207 for that purpose. The difference between the amount passed on to Fundação CESP and the amount reimbursed by the State Finance Department, of R\$ 308,385, is being claimed by the Company at the administrative level (Note 6).

On October 20, 2005, CTEEP received from the State Attorney General a copy of that agency's statement, dated October 6, 2005, regarding the consultation by the State Finance Department on the scope of said court decisions. In this statement, the State Attorney General concludes that the decision of the 49th Labor Court of São Paulo applies subjectively to the State Finance Department, which is the defendant in the claim. Accordingly, the State Attorney General concluded that "in the current scenario, the State Finance Department is liable for the full reimbursement of the amounts disbursed by CTEEP for compliance with the court decision regarding labor claim no. 1,145/2005-6, in progress at the 49th Labor Court of São Paulo". On the other hand, in the same statement, the State Attorney General concludes that the decision issued by the Regional Labor Court, whose effects are suspended by the injunction obtained as a result of the Claim for Correction, does not fully apply to the State Finance Department, which was removed from the lawsuit at the plaintiff Union's request. In this case, the State Finance Department should, according to the State Attorney General, reimburse CTEEP, observing the strict limits of State Law no. 4,819/58, excluding possible benefits, established by the related regulation, that surpass or that are in conflict with the specific legislation.

In view of the aforementioned, it is clear that the understanding of the State Attorney General, on the issue, formalized through Official Letter no. 01, dated February 10, 2006, and respective Technical Note no. 01/06, changed the prior understanding, which was in effect through December 2005 for purposes of transfer of funds to CTEEP to comply with the decision of the 49th Labor Court of São Paulo. According to the current understanding of the State Attorney General, the State Finance Department must disallow certain transfers to CTEEP for purposes of transfer to Fundação CESP to comply with said court decision. In October 2008, the Superior Court of Justice decided again for the jurisdiction of the Ordinary Courts in a Civil Class Action involving the same parties and matter the sentence of which was subject to explanatory appeals.

Except if this sentence is changed by the appeals, which Management does not consider probable, the decision of the 49th Labor Court of São Paulo will be void and the issue will be defined by the State Justice. According to the Significant Event Notices mentioned above, CTEEP continues its efforts to change the decision of the 49th Labor Court of São Paulo so as to return the responsibility for the pension plan benefit payment established by State Law no. 4,819/58 to the State Finance Department. CTEEP also confirms its legal department's understanding that the expenses arising from State Law no. 4,819/58 and respective regulation are the full responsibility of the State Finance Department and is analyzing additional actions to protect the Company's interests. The Company records these disallowances as "Accounts receivable – São Paulo State Finance Department" (Note 6).

# Notes to the financial statements

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## 33. SUBSEQUENT EVENTS

### Communication to the Shareholders

At the Extraordinary General Meeting held on January 5, 2009, the Board of Directors approved the distribution of dividends on 2008 profits to the shareholders, as from January 20, 2009, in the amount of R\$ 122,500, corresponding to R\$ 0.820578 per share.

### Significant Event Notice

On January 13, 2009, the Company issued a Significant Event Notice informing that, by means of an "Instrument of Acknowledgment of Debt and Payment Agreement" entered into individually between CTEEP and the electric energy distribution concessionaires Companhia de Paulista de Força e Luz ("CPFL"), Elektro Eletricidade e Serviços S.A and Companhia Paulista de Energia Elétrica ("CPEE"), it has been agreed that the distributors would pay to CTEEP the amount of R\$ 169.8 million arising from the TUSTs owing and not paid in the period from 07/01/2004 to 12/31/2008, determined by the National Electric Power Agency (ANEEL), in accordance with Authorizing Resolution 497, of June 26, 2007. The agreement also establishes that the amount will be paid in 36 monthly installments of R\$ 4.7 million, restated monthly based on the cumulative index of the Special System for Settlement and Custody (SELIC). The first installment is due on January 30, 2009.

### EXECUTIVE COMMITTEE

César Augusto Ramírez Rojas  
José Sidnei Colombo Martini (up to March 5, 2009)  
**Chief Executive Officer**

Pío Adolfo Bárcena Villarreal  
**Chief Administrative Officer**

Marcio Lopes Almeida  
**Chief Financial Officer and Director of Investor Relations**

Celso Sebastião Cerchiarri  
**Chief Operating Officer**

Jorge Rodríguez Ortiz  
**Chief of Enterprises**

Claudio Luiz Pinto de Barros  
**Accountant – CRC – 1SP 195071/O-4**

### BOARD OF MANAGEMENT

Luis Fernando Alarcón Mantilla  
**Chairman**

Fernando Augusto Rojas Pinto  
**Deputy Chairman**

### Board Members

César Augusto Ramírez Rojas  
Fernando Maida Dall'Acqua  
Guido Alberto Nule Amin  
Isaac Yanovich Farbaiarz  
Luisa Fernanda Lafaurie Rivera  
Orlando José Cabrales Martinez  
Sinval Zaidan Gama  
Valdivino Ferreira dos Anjos

### AUDIT BOARD

Manuel Domingues de Jesus e Pinho.  
**Chairman**

Antonio Luiz de Campos Gurgel  
Celso Clemente Giacometti  
Vladimir Muskatirovic  
Roberto de Pádua Macieira

## Opinion of the fiscal council

The Fiscal Council of CTEEP – Companhia de Transmissão de Energia Elétrica Paulista (“Company”), in compliance with the provisions of Article 163 of Law 6.404/76, have examined the Company’s Financial Statements for the fiscal year ending December 31 2008, prepared according to the principles established in Chapter XV of the above legislation, and the Management Report on the corporate businesses and the principal management facts taking place during the fiscal year. Based on the examination undertaken and on the Independent Auditors Opinion, the Fiscal Council is satisfied that the Financial Statements and the complementary information is suitable for submission for examination and approval by the Shareholders.

São Paulo, March 10 2009.

Manuel Domingues de Jesus e Pinho

Antonio Luiz de Campos Gurgel

Celso Clemente Giacometti

Roberto de Pádua Macieira

Vladimir Muskatirovic

# Report of independent auditors

## To the Board of Directors and Stockholders

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

1. We have audited the accompanying balance sheet of CTEEP – Companhia de Transmissão de Energia Elétrica Paulista (Company) at December 31, 2008 and the consolidated balance sheet of the Company and its subsidiaries at December 31, 2008 and the related statements of income, of changes in stockholders' equity, of cash flows and of value added of the Company and the related consolidated statement of cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements.
2. We conducted our audit in accordance with approved Brazilian auditing standards, which require that we perform the audit to obtain reasonable assurance about whether the financial statements are fairly presented in all material respects. Accordingly, our work included, among other procedures: (a) planning our audit taking into consideration the significance of balances, the volume of transactions and the accounting and internal control systems of the Company, (b) examining, on a test basis, evidence and records supporting the amounts and disclosures in the financial statements, and (c) assessing the accounting practices used and significant estimates made by management, as well as evaluating the overall financial statement presentation.
3. In our opinion, the financial statements audited by us present fairly, in all material respects, the financial position of CTEEP – Companhia de Transmissão de Energia Elétrica Paulista and of CTEEP – Companhia de Transmissão de Energia Elétrica Paulista and its subsidiaries at December 31, 2008 and the results of operations, the changes in stockholders' equity, cash flows and value added to the Company's operations, and the consolidated cash flows for the year then ended, in accordance with accounting practices adopted in Brazil.
4. We previously audited the financial statements for the year ended December 31, 2007, comprising the balance sheet of CTEEP – Companhia de Transmissão de Energia Elétrica Paulista, the statements of income, of changes in stockholders' equity and of changes in the financial position of the Company, as well as the supplementary information comprising the statements of cash flows and of value added of the Company, on which we issued an unqualified opinion and with an emphasis paragraph on the matter described in paragraph 5 below. As mentioned in Note 2, the accounting practices adopted in Brazil were modified effective January 1, 2008. The financial statements for the year ended December 31, 2007, presented together with the financial statements for 2008, were prepared in accordance with the accounting practices adopted in Brazil in effect until December 31, 2007, and, as allowed by Technical Pronouncement No. 13 of the Brazilian Accounting Pronouncements Committee (CPC) - Initial Adoption of Law No. 11,638/07 and Provisional Measure No. 449/08, have not been restated to facilitate comparison between the years.
5. As described in Note 32, pursuant to the decision of the 49th Labor Court of São Paulo, as from September 2005 Fundação CESP started to process the payroll of the participants in the supplementary pension plan regulated by Law No. 4,819/58, through funds transferred by the Company, as carried out up to December 2003. In January 2006, the Attorneys' General Office of the State of São Paulo understood that the responsibility of the State Government is restricted to the limits set forth by the State Constitution in respect of the payment of pension benefits. Since then, the State Government started to disallow a portion of the resources transferred to the Company. The difference between the amount paid by the Company and the disallowance made by the State Government is recorded in non-current assets, as described in Note 6. In October 2008, the Superior Court of Justice decided again for the jurisdiction of the Ordinary Courts in Public Civil Actions involving the same parties and matter, decision which had been subject to appeals. Management of the Company, supported by its legal advisors, understands that the payment of the benefits related to the supplementary pension plan is the full responsibility of the State Government. Accordingly, the Company does not record any obligations or provision for losses relating to this plan in its financial statements.

São Paulo, March 12, 2009.

PricewaterhouseCoopers  
Auditores Independentes  
CRC 2SP000160/O-5

Sérgio Eduardo Zamora  
Contador CRC 1SP168728/O-4