

Consolidated Financial Statements

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista and Subsidiaries

December 31, 2009 and 2008
with Report of Independent Auditors

CTEEP - Companhia de Transmissão de Energia Elétrica Paulista

Financial statements

December 31, 2009 and 2008

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A free translation from Portuguese into English of Report of Independent Auditors on financial statements in accordance with accounting practices adopted in Brazil

Report of independent auditors

The Board of Directors and Stockholders

CTEEP - Companhia de Transmissão de Energia Elétrica Paulista

1. We have examined the balance sheets of CTEEP – Companhia de Transmissão de Energia Elétrica Paulista and its subsidiaries, (Company and Consolidated), as of December 31, 2009, and the related statements of income, changes in stockholders' equity and statements of cash flows and value added 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 generally accepted auditing standards in Brazil which comprised: (a) the planning of our work, taking into consideration the materiality of balances, the volume of transactions and the accounting and internal control systems of the Company; (b) the examination, on a test basis, of documentary evidence and accounting records supporting the amounts and disclosures in the financial statements; and (c) an assessment of the accounting practices used and significant estimates made by management of the Company, as well as an evaluation of the overall financial statement presentation.
3. In our opinion, the financial statements referred to in paragraph 1 above present fairly, in all material respects, the financial position of CTEEP – Companhia de Transmissão de Energia Elétrica Paulista and its subsidiaries, at December 31, 2009, and the results of their operations, changes in their stockholders' equity, cash flows and value added for the year then ended, in accordance with accounting practices adopted in Brazil.

4. As mentioned in Note 34, pursuant to a decision awarded by the 49th São Paulo Labor District Court, from September 2005, Fundação CESP started to process the payroll for beneficiaries of the supplementary retirement benefit plan governed by Law No. 4819/58 through funds passed on to such beneficiaries by the Company in the form adopted until December 2003. In January 2006, the São Paulo (SP) State General Attorney's Office understood that the SP State Government liability is limited to the state legal limits prescribed for retirement benefit payouts. Since then, the State Government started to disallow part of the funds passed on to the Company for this purpose. The difference between the amount paid to beneficiaries by the Company and the SP State partial disallowance is recorded in noncurrent assets, as stated in Note 6. In a decision rendered in October 2008, the Higher Court of Justice (STJ) reaffirmed the Courts of Law as the competent courts of jurisdiction in regard to Civil Class Actions involving the same parties and subject matter, a decision which was subject to requests for rehearing en banc. Grounded on the opinion of its legal advisors, the Company management understands that the State Government is fully liable to the benefit payouts under the said supplementary retirement benefit plan; as a consequence, no obligation or provision for losses on this plan was recorded in the Company's financial statements.
5. The financial statements (Company and Consolidated) of CTEEP - Companhia de Transmissão de Energia Elétrica Paulista and its subsidiaries, for the year ended December 31, 2008, presented for comparative purposes, were audited by other independent auditors whose unqualified opinion thereon, dated March 31, 2009, contained an emphasis paragraph as to the matter described in paragraph 4, above.

São Paulo, February 5, 2010, except for the matter mentioned in Note 35, the date of which is March 8, 2010.

Ernst & Young
Auditores Independentes
CRC 2SP015199/O-6

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

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Management Report
Financial Year 2009

Dear stockholders,

The management of CTEEP – Companhia de Transmissão de Energia Elétrica Paulista, in accordance with legal and statutory requirements, hereby submits to your appreciation this Management Report and related Financial Statements, accompanied by the respective reports of independent auditors and of the supervisory board, for the fiscal year ended December 31, 2009.

Management comments

In 2009, the year CTEEP celebrates its 10th anniversary, the Company moved forward with its management model, marked by major achievements that allowed us to lay the foundations for business growth over the next years.

The financial income realized this year reflects the Company's operational accomplishments. Gross Sales and/or Service Revenues totaled R\$ 1,904.8 million in 2009, increasing by 5.7% as compared with 2008. EBITDA reached R\$ 1,361.4 million whereas EBITDA margin was 82.5%, which is 3.4% higher than prior-year result (R\$ 1,316.7 million).

The market good acceptance of CTEEP issue of debentures is worth to be highlighted. The R\$ 548.6 million-worth funds raised from this operation were used as a source of cash, in payments of capital in subsidiaries and investments enhanced transmission assets.

Operational performance was one of the Company's strength this year. In spite of repeated electric power consumption records hit in the industry, we managed to keep high-level performance in relation to the major industry indicators: the not-supplied-energy index was 0.94%, and availability of facilities exceeded 99.91%.

Seeking to meet the electricity consumer market growth by expanding and strengthening our transmission network capacity, the Company completed 54 energy projects and installed 491.3 km of new transmission lines.

After purchasing four batches at the auction organized by Aneel in January 2009, we engaged in Serra do Japi electric interconnection efforts to implement Salto and Jandira substations. With an estimated R\$ 208.9-million investment and R\$ 21.8-million RAP, this venture start-up is scheduled for November 2011.

Total investments in 2009 amounted to R\$ 557.3 million, of which R\$ 211.6 million were earmarked for increased capacity projects, building new transmission lines and installing substation equipment.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Relatório da Administração--Continued
Exercício social 2009

A virtuous growth cycle resulted from CTEEP year 2009 performance, and this cycle will continue in 2010. In addition to consolidating all achievements in this year, we will keep on strengthening our management model and undertaking sustainable and added-value initiatives to our stockholders and society as a whole.

1. Business profile

CTEEP is Brazil's main private electric utility in the country's energy transmission sector, accounting for the transmission of 30% of all energy produced nationwide. Since June 2006 the Company is controlled by ISA, one of Latin America's largest energy transmission groups.

Relying on 43,223-MVA installed capacity, CTEEP is responsible for transmitting nearly 100% of the electric power produced in the State of São Paulo (SP). To ensure customer service excellence, its infrastructure comprises a network of 12,271-km transmission lines, 18,698-km circuits, 105 substations with up to 550-kV voltage and 2,488 km fiber optic cables.

CTEEP activities are premised on the pursuit of value continuously focused on improved services provided to customers, adequate stockholders' return, initiatives fostering permanent process improvement and adoption of a socially responsible attitude.

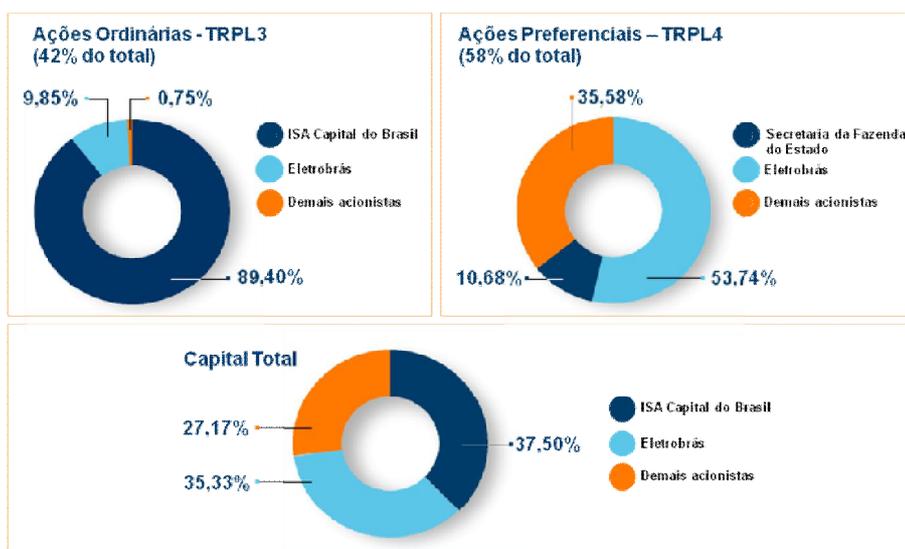
The Company invests in modernizing systems, innovating processes and expanding its transmission system capacity. Its growth strategy encompasses optimizing existing assets, taking part in new transmission line auctions, and continually evaluating acquisition opportunities in the transmission market. As a result of this consistent growth strategy, CTEEP has expanded its operations across 12 Brazilian states, by means of the new undertakings acquired in ANEEL auctions and interest held in Pinheiros, Serra do Japi, IeSul, IEMG, IEMadeira and IENNE companies.

As a company listed in the São Paulo Stock Exchange Market (Bovespa), CTEEP has since 2002 joined the Level 1 Corporate Governance Practices, and its preferred shares are traded on Ibovespa, the Brazilian stock markets major indicator of average price quotations. Additionally, CTEEP has a Rule 144 A American Depositary Receipts (ADRs) program in the United States.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Relatório da Administração--Continued
Exercício social 2009

Ownership structure



2. Electric energy sector environment

The electric power consumption by early 2009 was slightly lower, directly reflecting the adverse impacts on the Brazilian economy of the international financial crisis triggered from mid-2008 on. Consumption levels were nonetheless resumed in the following months of 2009, as particularly evidenced by the National Interconnected System (SIN) maximum demand record high, 2.83% higher than the previous record hit in year 2008.

Data from the survey conducted by Empresa de Pesquisa Energética (EPE), published in 2009, points to an increase of 51.5% in energy generation capacity from 2007 to 2017 to meet Brazil's constant growth demand. Over the same period, to ensure outflow of the energy produced, EPE estimates an increase of 36,387 km in transmission lines and 71,357MVA in transformation. In this scenario, the same survey provides for investments amounting to R\$ 50.7 billion in new transmission lines and substations.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Relatório da Administração--Continued
Exercício social 2009

3. Transmission system expansion and extension

3.1. Energy projects in 2009

To assure higher system reliability, ensure service quality and thus consolidate its position as a major company in the Brazilian electricity sector, CTEEP permanently invests in increased transformation capacity, transmission line and other improvements construction, refurbishing and reconductoring, which allowed in 2009 an increase of 243.75 MVA in the system installed transformation capacity. Transmission lines totaling 491.3 km (807.0 km of circuits) were also reconductored.

In 2009, by means of ANEEL Authorizing Resolutions or Transmission System Connection Contracts (CCT) signed with free customers, CTEEP completed 54 energy ventures, 14 of which at the Base Network and 40 at Other Transmission Facilities (DITs). These ventures included investments of R\$ 214.4 million, disbursed over the last 3 (three) years.

3.2. Increase in transformation capacity

Substation	Voltage (kV)	Increase in Transformation Capacity (in MVA)
Cerquilha	88-13.8	12.00
Mogi Mirim II	138-13.8	18.75
Botucatu	230-138	150.00
Scharlau	230-138	63.00
Total		243.75

3.3. Increase in transmission lines

Transmission Line	Voltage (kV)	No. of Circuits	Reconductored Transmission Lines (km)
S. J. Campos – Taubaté	230	1	34.7
Ilha Solteira – Jales	138	2	111.0
Taubaté – Aparecida	230	2	41.5
Jupiá – Valparaíso	138	2	47.0
Mogi (F) – S. J. Campos C1	230	1	49.4
Pres. Prudente – Capivara	138	2	53.0
Aparecida – S. Cabeça	230	1	41.5
Andradina – Valparaíso	138	2	63.2
Mogi (F) – S. J. Campos C2	230	1	50.0
Total			491.3

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Relatório da Administração--Continued
Exercício social 2009

4. Major operation and maintenance initiatives

To ensure its business strength, CTEEP undertakes initiatives that help increase its share in the electricity transmission market and therefore attain its growth objectives.

Since 2007 CTEEP Transmission Operation Center (COT) remotely runs the Company's 105 substations. COT is responsible for the Base Network (voltage equal to or higher than 230 kV) and the BackOffice Operation Center (COR), in charge of operating the Other Transmission Facilities (DITs – voltages under 230 kV).

The Company continuously invests in its employees' training, particularly in empowering substation technicians and assistants who are now part of the new work model at the Operation and Maintenance areas. Currently, not only are they prepared to operate the substation in emergency situations, but they are also responsible for the equipment maintenance. The COT's System Operators Training Simulator has also proven significant as a tool for the Company operators' training, which includes simulated real-life situations at the system, attended by generation and distribution companies and followed up on by the National Electric System Operator - ONS.

The Company's major operation and maintenance initiatives encompass:

✓ Substation digitalization

SE Mongaguá digitalization project - an initiative undertaken for the first time based on the concepts set forth in IEC 61850 standards - was completed. SE Mongaguá was provided with new protection and measurement systems, commands, controls and supervision grounded on the international open communication protocol standards, which enables safer and more reliable operation. The Company started digitalizing Mairiporã, Porto Ferreira and Jaguari substations, with total investments of R\$ 8 million and completion scheduled for 2010.

✓ CTEEP unified safe operation and maintenance manual and technical excellence program

In year 2009 the Company developed and consolidated the Unified Safe Operation and Maintenance Manual, which provides for the basic security assumptions to be followed in the Electrical Transmission System Maintenance and Operation activities, and which, in line with the Technical Excellence program, ensure maximum security conditions for Operation and Maintenance activities.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Relatório da Administração--Continued
Exercício social 2009

✓ ISO 9001 Implementation in Maintenance and Ventures

In 2009, Bureau Veritas Certification (BVC) recommended CTEEP for Certification of 100% of the Maintenance and Ventures Area processes under NBR ISO 9001:2008 criteria, which in conjunction with the Operation processes certification consolidate the organization's technical management capabilities.

✓ SICAR

In 2009, SICAR (Integrated Automatic Record Gathering System) implementation process was completed. This digital system quickly provides Bom Jardim Operating Center with all data concerning any Electrical System disorders. Based on this information, operators can analyze the occurrence and bring the affected equipment back to operation within the shortest possible term.

✓ Telecommunications System Modernization

With total investments of R\$ 65 million, CTEEP started up its telecom system digitalization project, involving substituting digital equipment for its analog counterparts. As soon as this project is completed as scheduled for the first half of 2010, monitoring the Company transmission assets will be a more agile and reliable task.

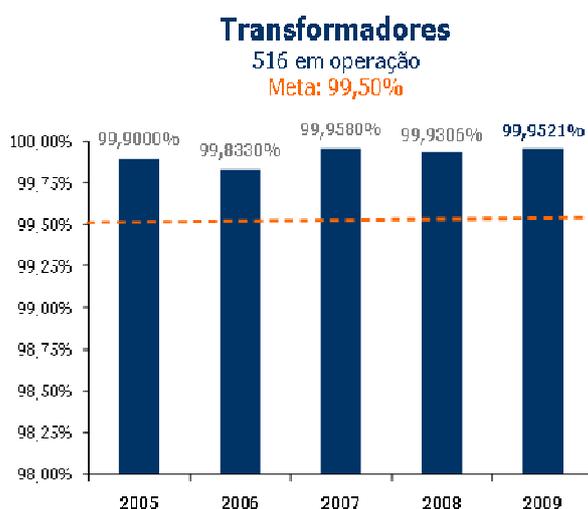
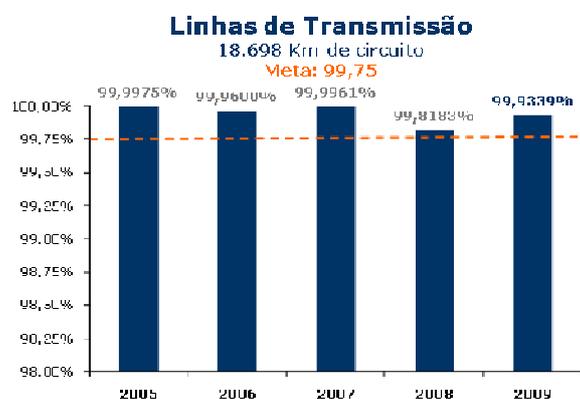
✓ Transmission System Performance Indicators

CTEEP revenues are directly related to the availability of its assets, namely transmission lines, reactors and transformers. The Company permanently invests to ensure its operation quality and efficiency, since the unavailability of its facilities may give rise to revenue deductions (annual revenue adjustment).

In July 2009, ANEEL granted R\$ 2.8 million bonus to the Company deriving from its low annual revenue adjustment index, which measures up the equipment unavailability (0.13%, Company vs. 0.53%, average industry index). Set out below are indicators illustrating the Company's operational efficiency in 2009:

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Relatório da Administração--Continued
Exercício social 2009



5. Economic and financial performance

The Management comments on economic and financial performance and the results of operations should be read in conjunction with the Audited Financial Statements. The amendments to the accounting practices introduced by Laws Nos. 11638/07 and 11941/09 and the Pronouncements issued by the Brazilian Securities and Exchange Commission (CVM) and the Brazilian FASB (CPC) had no impact on comparability of the results, which are presented as follows.

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Relatório da Administração--Continued
Exercício social 2009

5.1. Gross sales and/or service revenues

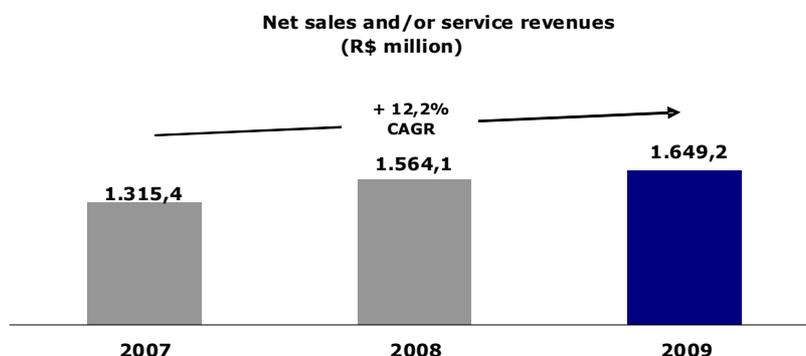
Gross sales and/or service revenues increased by 5.7%, reaching R\$ 1,904.8 million in 2009 (R\$ 1,802.4 million in 2008), which substantially derived from the 5.6% growth in electricity network usage revenues, reflecting the annual tariff adjustment by reference to the General Market Price Index (IGP-M) for 2008/2009 cycle.

5.2. Revenue deductions

Revenue deductions increased by 7.8%, totaling R\$ 255,6 million in 2009 comparatively with R\$ 237.1 million in 2008, due to the 12.9% increase in regulatory charges stemming from the higher balance to be invested in Research & Development (R&D) projects. In addition to this, such variation is also explained by the 0.1% increase in taxes on revenues arising from the regulatory asset adjustment recorded in 2008.

5.3. Net sales and/or service revenues

CTEEP net sales and/or service revenues totaled R\$ 1,649.2 million in 2009, a growth of 5.4% vis-à-vis year 2008. Average annual growth rate since 2007 (CAGR - Compound Annual Growth Rate) corresponded to 12.2%.



5.4. Costs of operation services and G&A expenses

Costs of operation services and general and administrative expenses increased by 17.8%, reaching R\$ 505.5 million in 2009 as compared to R\$ 429.0 million in 2008. This performance largely derives from the 8.1% increase in personnel expenses plus 19.7% reduction in pension plan actuarial gains and 17.1% increase in third-party services.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Relatório da Administração--Continued
Exercício social 2009

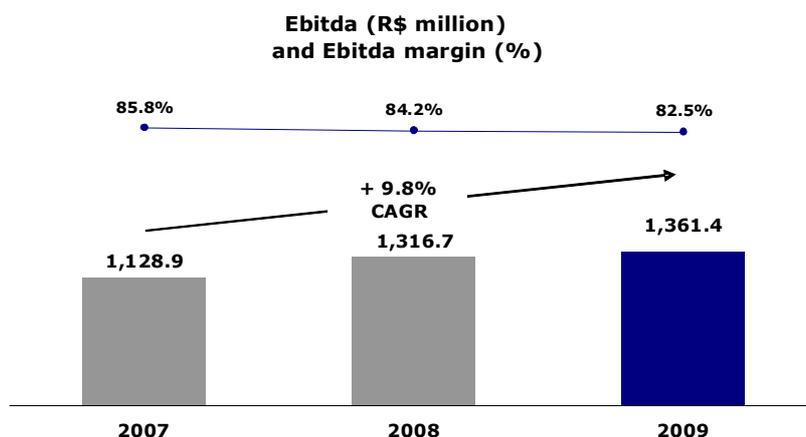
Increased personnel expenses are substantially explained by the 6.2% collective bargaining agreement reached and granted in August 2009 and applying retroactively to June 2009.

The reduced actuarial gain from pension plans largely derives from the difference in actuarial gains computed in 2009.

The increase in third-party services stems from more transmission line and substation maintenance, environments' cleaning and hygiene and tax advisory services.

5.5. EBITDA

EBITDA totaled \$ 1,361,4 million in 2009, with EBITDA margin of 82.5%, a quite stable performance vis-à-vis 2008 (EBITDA of R\$ 1,316.7 million, EBITDA margin of 84.2%).



5.6. Financial income

Financial expenses amounted to R\$ 266.8 million in 2009, a 6.0% reduction in relation to 2008 (R\$ 284.0 million) due to increased interest on equity capital and debt charges (promissory notes and tax installment payments), partially offset by increased asset interest deriving from restated tax credits.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Relatório da Administração--Continued
Exercício social 2009

5.7. Income and social contribution taxes

Income and social contribution taxes increased by 3.6%, totaling R\$ 268.1 million in 2009 in comparison with R\$ 258.7 million in 2008. Effective income and social contribution tax rate was 31.7% in 2009 against 30.6% in 2008.

5.8. Net income

On account of the aforementioned events, net income for the year remained virtually stable vis-à-vis 2008, reaching R\$ 828.0 million.

5.9. Capital structure

In consonance with its optimized capital structure strategy, CTEEP raised financing for its growth out of competitive market sources.

The Company's total consolidated debt by late 2009 amounted to R\$ 1,048.4 million, whereas net debt corresponded to R\$ 1,006.2 million, representing a net debt/Ebitda ratio of 0.76.

Out of total indebtedness, 52.9% refer to loans taken out from the National Bank for Economic and Social Development (BNDES), 46.8% to issuance of short-term promissory notes and private financial institutions – both CDI-indexed -, and the remainder corresponds to other sources of funds.

Although higher than current assets amounting to R\$ 688.1 million, consolidated current liabilities of R\$ 1,259.8 million are absorbed by the Company's strong generation of cash. Also as part of the Company's strategy, which provides for debt rescheduling to the long term, a successful issue of debentures took place in December 2009.

At the end of 2009, 43.6% of the Company's total financing corresponded to long-term debts. The Company does not perform any derivative financial instrument transactions.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Relatório da Administração--Continued
Exercício social 2009

6. Investments

In 2009, CTEEP total investment in its existing assets, corporate, personnel capitalization and contributions to subsidiaries amounted to R\$ 557.3 million. This is broken down as follows:

R\$ million	2009
Corporate	16.7
Type 1 Reinforcements	151.6
Type 2 Reinforcements	31.2
New Connections	28.8
PMT	38.6
PMIS	11.3
Personnel Capitalization (workforce)	7.3
Telecom Project	40.5
Investments in subsidiaries	231.3
Total	557.3

Type 1 and 2 Reinforcements:

Investments directed to servicing the Base Network system, which generate additional RAP.

New Connections:

Investments exclusively directed to servicing free consumers, generating additional RAP.

PMTs and PMIs:

Investments required for the system quality maintenance and to minimize the variable deduction impact.

6.1. New concessions

In addition to investments in existing assets, one of CTEEP investment drivers is the acquisition of new transmission line batches at ANEEL auctions, as a mechanism to increase its revenues and presence in the Brazilian market. In consonance with this position, in May 2009 CTEEP purchased four batches at auction No. 001/2009 organized by ANEEL:

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Relatório da Administração--Continued
Exercício social 2009

	CTEEP share	RAP (R\$ million)	RAP CTEEP (R\$ million)	Operation start up in
Serra do Japi – Interligação Elétrica do Japi S.A.	100%	21.8	21.8	Nov/2011
Linha Verde	25.5%	42.7	10.9	Nov/2011
Rio Branco	25.5%	24.4	6.2	Nov/2011
Transmissora Matogrossense	5%	27.5	1.4	Nov/2011
		116.4	40.3	

6.2. Pluriannual Investment Plan, 2010/2012 term

At a meeting held on January 18, 2010, the Board of Directors approved the Pluriannual Investment Plan for the 2010/2012 three-year term, based on the Company's estimated investment execution.

(in R\$ million)			
Own investments	2010	2011	2012
Corporate	7.3	7.2	6.2
Type 1 Reinforcements	218.4	243.7	206.9
Type 2 Reinforcements	47.5	68.3	47.8
New Connections	45.9	2.4	23.3
PMT	36.9	41.1	37.4
PMIS	37.9	47.2	37.9
Telecom Project	35.0	0	0
Personnel Capitalization	12.7	13.3	13.9
Subtotal – Own Investments (A)	441.7	423.2	373.4
Investments in subsidiaries	2010	2011	2012
IEMG	2.7	0	0
IENNE	39.9	0	0
Pinheiros	105.6	0	0
IESul	37.2	9.4	0
IEMadeira	129.7	204.3	47.9
Serra do Japi	37	58.6	0
Subtotal - Subsidiaries (B)	352.1	272.3	47.9
Total (A + B)	793.8	695.5	421.3

Under its Pluriannual Investment Plan, CTEEP assumes to seek financial support from different sources to finance its investments in relation to reinforcement projects, new connections, maintenance (PMT and PMIS) and Telecom, as well as investments in subsidiaries.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Relatório da Administração--Continued
Exercício social 2009

7. Corporate governance

Since its incorporation CTEEP has been enhancing its management processes and control systems. The Company was the first electric utility in the State of São Paulo to join Bovespa's Level 1 of Corporate Governance in September 2002. Since then, the Company, which has its preferred shares included in Ibovespa is also part of the Corporate Governance Index (IGC), a theoretical portfolio made up of company stocks having high-level relationship standards with all stockholders and other stakeholders.

7.1. Board of Directors

The Board of Directors is the central forum for decision-making and general guidance for the Company business, primarily focused on stockholders value. The Company's Board of Directors is made up of 10 members, including one independent party, one representative of employees and one representative of non-controlling stockholders.

7.2. Supervisory Board

CTEEP Supervisory Board is permanent and comprise five regular and five alternate members, including representatives of non-controlling stockholders. It is incumbent upon this board and/or any of its members, among other responsibilities, to inspect the acts performed by management and check compliance of its legal and statutory duties.

7.3. Specialized Committees

Under CTEEP-enforced governance model, which prioritizes administrative efficiency and the Company's management professionalization, these committees' primary role is to interact with Top Management, preparing upfront the businesses to be transacted and approved at the Board of Directors' meetings. Accordingly, in 2009 CTEEP Board of Directors relied on two committees to help its decision-making, to wit:

✓ Internal audit committee

Aimed at strengthening the Company's Internal Control System, Risk Management and Corporate Governance practices, the Internal Audit Committee is made up of five members, four of whom Board of Directors members and one corporate auditor from ISA Group. CTEEP's CEO and internal auditor attend these meetings as permanent guest and technical secretary, respectively. Internal audit committee meetings are held three times a year.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Relatório da Administração--Continued
Exercício social 2009

✓ **Compensation committee**

Made up of three members, this committee responsibilities include following up on, analyzing and proposing to the Board of Directors matters concerning officers' and directors' compensation, appointment of Top Management members; jobs and salaries; salary policy; variable compensation; profit sharing (PLR); and collective bargaining agreement.

8. Capital markets

8.1. Our shares

CTEEP preferred shares were the subject of 197,794 trading transactions in 2009, an increase of 22.9% vis-à-vis 2008, involving the amount of R\$ 2.486 million.

In year 2009, common (TRPL3) and preferred (TRPL4) shares appreciated 19.76% and 23.21%, respectively, in a period when Ibovespa appreciated by 82.66% and the Electric Energy Index (IEE) appreciated by 59.09%.

CTEEP is also a member of the American Depositary Receipts (ADR) Level 1 Sponsored Program backed by common and preferred shares. For this purpose, Bank of New York Mellon is the ADRs depository institution in the US, whereas in Brazil Itaú S.A. is the custodian of these ADRs backing shares, to the ratio of 1 Depositary Share for each share from both species. At the end of financial year 2009, the Company's share portfolio includes 23,699 ADRs referring to common shares and 2,041,296 ADRs referring to preferred shares.

8.2. First public issue of debentures

In December 2009, CTEEP completed its 1st Issue of Debentures, whereby 54,860 unsecured, nonconvertible, non-preferred and registered book-entry debentures were subscribed for and paid up in two series, at the par value of R\$ 10,000.00 each, thus totaling R\$ 548,600,000.00. The issues of these debentures were approved at the Board of Directors meetings held on September 30 and December 14, 2009.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Relatório da Administração--Continued
Exercício social 2009

9. Corporate social responsibility

In furtherance of its Corporate Social Responsibility model development plan, CTEEP highlights the following actions and programs, structured by focus group in year 2009:

9.1. Customers

One of CTEEP areas of concern is to build sustainable relationships with its customers, providing quality services at competitive costs. At CTEEP Customer Program, the Company moved forward with its Customer Opinion Survey conducted at the Operation area, where customer satisfaction level increased from 73.3 in 2008 to 74.6 in 2009. The Company also measured for the first time the customers' and agents' satisfaction levels at its Maintenance and Ventures areas, in which satisfaction rates reached 75.8 and 79.2, respectively.

Another major action was the Simulation and Shutdown Plan – an exercise to tackle system contingencies that involved distribution and generation companies and was followed up on by the National Electric System Operator (ONS), thereby providing operators with qualified training.

9.2. Suppliers

Envisioning building transparency- and trust-based relationships with suppliers, CTEEP maintains a development- and management-oriented program through ongoing communication process. The Company also relies on meetings to present results, demands and strategies in connection with supplies as well as a top suppliers award premised on an evaluation process considering such criteria as quality, logistics, human resources, innovation and social responsibility.

9.3. Stockholders and investors

Consolidating permanent communication channels with stockholders and the market is part of CTEEP positioning, by investing in initiatives such as consolidated Corporate Governance practices, use of performance indicators from Bovespa Corporate Sustainability Index (ISE), and periodic meetings and conference calls with analysts and investors.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Relatório da Administração--Continued
Exercício social 2009

Recognition for this effort came out with the Abrasca Shareholders' Value Award – Sector-based Highlight, which was offered to the Company by the Brazilian Publicly-held Companies' Association (Abrasca). In year 2009 CTEEP was also awarded APIMEC's 'Availability Gold Seal'.

9.4. State

By means of a Government Relations Program aimed to strengthen relations with government agencies, CTEEP actively participates in boards of directors, committees, government agency commissions and trade associations in its sector. Another action is the establishment of a regulatory committee engaged in proactively working on possible solutions for the main interaction issues with regulatory entities.

9.5. Society

Providing inputs to sustainable development and social welfare is one of CTEEP drivers in its relationship with society.

In 2009, the Company focused on setting guidelines and areas of concern regarding Social Responsibility to ensure better strategic objectives alignment and the pursuit of sustainable projects imparting its corporate identity in such areas as Education, Culture, Sustainable Development, Environment and Solidarity.

In this connection, a Corporate Social Responsibility (RSE) Workshop was conducted with the internal audience to set guidelines and areas of concern, in an exercise that served as a basis for analyzing both current and future projects. Another significant initiative is the project that engages neighboring communities, a pilot performed at three CTEEP areas of influence. A survey at these areas allowed the Company to gauge community needs and expectations. The Company also supported Santa Marcelina Cultura Juvenile Groups.

Environmentally, in line with minimizing environmental impact on the areas where it operates, in 2009 CTEEP developed and implemented measures to extend and reaffirm its commitment to sustainability, where the following items are worth highlighting: Environmental Management System maintenance at 58 substations, and extended recommendation to 5 new substations as well as to the 1st CTEEP transmission line (LT) - Araraquara / São Carlos LT 138 kV, totaling 63 substations, and a transmission line certified by NBR ABNT ISO 14001:2004 Standard. We have also performed a diagnosis for implementing the Occupational Health and Safety System (SGSST) by OHSAS Standard 18.001:2007.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Relatório da Administração--Continued
Exercício social 2009

9.6. Employees

CTEEP relationship with its 1,409 employees is pervaded by the Company's concern with its professionals' overall development, which places value on their contributions to business growth. Based on this positioning, the actions performed in 2009 concentrated on preparing the professional team for the Company's challenges by strengthening employees' competencies and skills.

CTEEP keeps its Inclusiveness Program for People with Special Needs, thus reaffirming its commitment towards building a culture of respect to difference while fostering diversity. In 2009, 62 people with special needs were hired as part of the Company's workforce. CTEEP Internship Program also moved forward in the year, including 28 youngsters and a 50% hiring rate.

9.7. Corporate Education

CTEEP Corporate Education Program provides employees with training and empowerment initiatives to boost development of competencies required for executing the business strategies and qualify the Company's talents.

One of the major actions developed in 2009 was the Leadership Development Program directed to groups of managers and coordinators. The Program aims to prepare CTEEP leaders to develop aspects underlying people management and leadership.

The Company also offers Education incentive programs, consisting of subsidized tuition fees that benefited 281 employees in 2009. Additionally, several employee training, education, and qualification actions were endorsed, seeking continually enhanced and improved performance of their professional activities. Mandatory, regulatory and development training sessions were delivered to 738 classes in the aggregate, totaling 74,368 class/hours, 6,005 attendances and average 54 yearly hours of training per employee.

9.8. Performance-based evaluation

In 2009, CTEEP embraced an internationally recognized performance management model primarily aimed at identifying and understanding how each employee actually contributes to the organization achievements.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Relatório da Administração--Continued
Exercício social 2009

This new model allowed the Company to follow up on the professional's progress and, based on the information thus surveyed, recognize individual performance and suggest improvements/development of skills.

9.9. Knowledge management

With a view to enhancing capabilities associated with retaining, sharing, disseminating and building essential knowledge while keeping market competitive, in 2009 CTEEP launched its Knowledge Management Program. CTEEP Strategic Knowledge Management Modeling encompasses evaluating business characteristics, mapping and prioritizing critical knowledge areas to set strategic guidelines for knowledge management methods and tools.

10. Research and development program

The strategic importance of the Company's R&D programs, together with the launching of the new Manual for ANEEL Electricity Sector Technology Research and Development Program have driven significant change in definition of topics for research to be developed over the next five years, enabling better alignment with CTEEP strategic objectives.

In January 2009, ten new projects from 2006/2007 cycle, as approved by ANEEL in November 2008 were implemented. Two projects in accordance with the new ANEEL Manual terms were also implemented, in September 2009. To encourage proposals for the next cycles, CTEEP conducted an R&D Workshop attended by nearly 140 professionals from institutions related to the scientific and academic community, electric utilities and manufacturers.

Investments in R&D Projects (completed or in progress)

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 (Started in January 2009)	4.78
Subtotal Projects (completed or in progress)	23.30

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Relatório da Administração--Continued
Exercício social 2009

11. Independent auditors

Pursuant to CVM Ruling No. 381/03 of January 14, 2003, CTEEP hereby represents that it has not entered into any agreements with its Independent Auditors other than those related to the audit of the Company's Financial Statements disclosed and routed to the Brazilian Securities and Exchange Commission.

12. Acknowledgments

CTEEP management expresses thanks to its stockholders, customers, suppliers and the community for their cooperation and trust extended to the Company throughout 2009, and to its employees in particular, for their competency, efforts and dedication towards attaining the established objectives and goals.

The Management

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

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Balance sheets

December 31, 2009 and 2008

(In thousands of reais – R\$, unless otherwise stated)

	Note	Company		Consolidated	
		2009	2008	2009	2008
Assets					
Current assets					
Cash and cash equivalents	4	18,564	104,229	42,218	123,024
Trade accounts receivable	5	288,683	299,329	289,536	299,329
Inventories		43,328	31,952	43,328	31,952
Amounts receivable from State Finance Department	6	19,439	19,786	19,439	19,786
Taxes recoverable	7	212,715	3,145	213,317	3,240
Tax benefit – merged goodwill	8	28,832	28,832	28,832	28,832
Deferred income and social contribution taxes	9	31,472	11,315	31,472	11,315
Other		21,371	30,429	19,950	34,859
		664,404	529,017	688,092	552,337
Noncurrent assets					
Long-term receivables					
Trade accounts receivable	5	62,074	45,088	62,074	45,088
Amounts receivable from State Finance Department	6	557,027	454,639	557,027	454,639
Tax benefit – merged goodwill	8	147,911	176,743	147,911	176,743
Deferred income and social contribution taxes	9	67,078	76,648	67,078	76,648
Pledges and restricted deposits	10	43,946	51,860	43,946	51,860
Other		2,405	2,405	4,383	2,407
		880,441	807,383	882,419	807,385
Investments					
Property, plant and equipment	11	290,793	50,332		
Intangible assets	12	4,272,259	4,158,514	4,676,574	4,234,614
	13	70,331	67,942	73,004	75,267
		4,633,383	4,276,788	4,749,578	4,309,881
		5,513,824	5,084,171	5,631,997	5,117,266
Total assets		6,178,228	5,613,188	6,320,089	5,669,603

	Note	Company		Consolidated	
		2009	2008	2009	2008
Liabilities and stockholders' equity					
Current liabilities					
Loans and financing	15	518,690	294,492	591,113	345,502
Suppliers		47,497	32,889	70,806	36,291
Taxes, charges and contributions	16	87,439	19,171	88,505	19,476
Taxes in installments - Law No. 11941	17	9,853		9,853	
Regulatory charges	18	39,742	36,528	40,018	36,528
Interest on equity capital and dividends payable		374,398	233,272	374,398	233,272
Provisions	19	27,523	34,895	27,688	34,922
Amounts payable- Fund. CESP	20	6,917	6,210	6,917	6,210
Annual revenue adjustment	23 (a) (ii)	21,277		21,277	
Other		22,182	5,111	29,309	6,782
		1,155,518	662,568	1,259,884	718,983
Noncurrent liabilities					
Long-term payables					
Loans and financing	15	419,786	511,286	457,281	511,286
Taxes in installments - Law No. 11941	17	137,885		137,885	
Regulatory charges	18	3,269	2,805	3,269	2,805
Provisions	19	167,953	174,152	167,953	174,152
Amounts payable- Fund. CESP	20	13,601	68,503	13,601	68,503
Special obligations – Reversion/ amortization	21	24,053	24,053	24,053	24,053
Annual revenue adjustment	23 (a) (ii)	21,277		21,277	
Negative goodwill	3 (m)	49,540	66,525	49,540	66,525
		837,364	847,324	874,859	847,324
Stockholders' equity					
Paid-in capital	22	1,063,049	1,000,000	1,063,049	1,000,000
Capital reserve		2,259,945	2,286,374	2,259,945	2,286,374
Income reserve		861,686	816,256	861,686	816,256
Future capital contributions		666	666	666	666
		4,185,346	4,103,296	4,185,346	4,103,296
Total liabilities and stockholders' equity		6,178,228	5,613,188	6,320,089	5,669,603

See accompanying notes.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Statements of income

Years ended December 31, 2009 and 2008

(In thousands of reais – R\$, unless otherwise stated)

	Note	Company		Consolidated
		2009	2008	2009
Gross sales and/or service revenues				
Electricity network usage revenues	23 (a)	1,885,521	1,785,457	1,893,481
Other revenues	23 (b)	19,274	16,982	19,274
		1,904,795	1,802,439	1,912,755
Deductions from operating revenues				
Taxes	24	(94,052)	(93,940)	(94,499)
Regulatory charges	24	(161,506)	(143,115)	(161,778)
		(255,558)	(237,055)	(256,277)
Net sales and/or service revenues		1,649,237	1,565,384	1,656,478
Cost of sales and/or services	25	(347,794)	(312,769)	(350,991)
Gross profit		1,301,443	1,252,615	1,305,487
Operating (expenses)/income				
General and administrative	25	(149,701)	(109,513)	(149,999)
Management fees	25	(7,989)	(6,710)	(8,105)
Financial expense	26	(420,597)	(312,500)	(424,895)
Financial Income	26	153,744	28,532	154,150
Other expenses, net	27	(31,162)	(6,511)	(31,162)
Equity pickup		(262)		
Operating income		845,476	845,913	845,476
Income and social contribution taxes				
Current	28	(278,654)	(279,328)	(278,654)
Deferred	28	10,587	20,581	10,587
Income before reversal of interest on stockholders' equity		577,409	587,166	577,409
Reversal of interest on stockholders' equity		250,610	239,899	250,610
Net income for the year		828,019	827,065	828,019
Number of shares at end of year (thousands)		150,657	149,285	
Net earnings per share at end of year – R\$		5.49605	5.54017	

See accompanying notes.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Statement of changes in stockholders' equity
 Years ended December 31, 2009 and 2008
 (In thousands of reais – R\$, unless otherwise stated)

	Income reserves							Future capital contributions	Total
	Capital	Capital reserve	Legal reserve	Statutory reserve	Realizable profits	Retained profits reserve	Retained earnings		
At December 31, 2007	462,000	2,592,369	92,400	46,200	41,478	713,694	-	666	3,948,807
Dividends (R\$ 1.138762 per share)	-	-	-	-	-	(170,000)	-	-	(170,000)
Capitalization of reserves	538,000	(538,000)	-	-	-	-	-	-	-
Realization of realizable profit reserve	-	-	-	-	(2,669)	-	2,669	-	-
Interest on equity capital expired	-	-	-	-	-	-	320	-	320
Reserve for special goodwill on ISA Capital merger (Note 22 (c))	-	232,005	-	-	-	-	-	-	232,005
Net income for the year	-	-	-	-	-	-	827,065	-	827,065
Income allocation:	-	-	-	-	-	-	-	-	-
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 equity capital (R\$ 1,606981 per share)	-	-	-	-	-	-	(239,899)	-	(239,899)
Dividends (R\$ 1.509870 per share)	-	-	-	-	-	-	(228,390)	-	(228,390)
At December 31, 2008	1,000,000	2,286,374	133,753	100,000	38,809	543,694	-	666	4,103,296
Capital increase (Note 22 (a))	63,049	(26,429)	-	-	-	-	-	-	36,620
Realization of realizable profit reserve	-	-	-	-	(2,276)	-	2,276	-	-
Interest on equity capital expired	-	-	-	-	-	-	590	-	590
Net income for the year	-	-	-	-	-	-	828,019	-	828,019
Income allocation:	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	41,401	-	-	-	(41,401)	-	-
Statutory reserve	-	-	-	6,305	-	-	(6,305)	-	-
Interest on equity capital (R\$ 1.671031 per share)	-	-	-	-	-	-	(250,610)	-	(250,610)
Interim dividends (R\$ 1.094182 per share)	-	-	-	-	-	-	(164,287)	-	(164,287)
Dividends (R\$ 2.444514 per share)	-	-	-	-	-	-	(368,282)	-	(368,282)
At December 31, 2009	1,063,049	2,259,945	175,154	106,305	36,533	543,694	-	666	4,185,346

See accompanying notes.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Statements of cash flows

Years ended December 31, 2009 and 2008

(In thousands of reais – R\$, unless otherwise stated)

	Company		Consolidated	
	2009	2008	2009	2008
Cash flows from operating activities				
Net income for the year	828,019	827,065	828,019	827,065
Adjustments to reconcile net income to cash provided from (used in) operating activities:				
Depreciation and amortization	217,690	180,288	219,782	180,288
Provision for inventory adjustment				
Deferred income and social contribution taxes	(10,588)	(20,581)	(10,588)	(20,581)
Provision for contingencies	3,087	59,941	3,087	59,941
Net book value of permanent assets written off	20,347	6,590	20,347	6,590
Amortization of negative goodwill	(16,985)	(16,985)	(16,985)	(16,985)
Amortization of goodwill	28,832	26,430	28,832	26,430
Interest, monetary and exchange variation on assets and liabilities	63,010	68,204	65,526	68,204
Equity pickup	262			
(Increase) decrease in assets				
Trade accounts receivable	23,665	(125,597)	22,811	(125,597)
Inventories	(11,376)	(71)	(11,376)	(71)
Amounts receivable from State Finance Department	(102,199)	(125,605)	(102,199)	(125,605)
Deferred income and social contribution taxes		1,647		1,647
Taxes recoverable	(209,570)	54,672	(210,077)	54,577
Pledges and restricted deposits	7,948	(2,097)	7,943	(2,097)
Others	10,119	318	8,585	1,564
Increase (decrease) in liabilities				
Trade accounts payable	14,608	3,739	36,863	1,752
Taxes and social charges	68,268	(39,535)	69,030	(39,394)
Taxes in installments - Law No. 11941	147,738		147,738	
Regulatory charges	3,678	6,211	3,955	6,211
Provisions	(19,525)	(84,304)	(19,095)	(84,318)
Amounts payable- Fund CESP	(54,198)	(68,596)	(54,198)	(68,596)
Others	62,489	(2,754)	61,402	(2,731)
Net cash flow from operating activities	1,075,319	748,980	1,099,402	748,294

See accompanying notes.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Statements of cash flows--Continued

Years ended December 31, 2009 and 2008

(In thousands of reais – R\$, unless otherwise stated)

	Company		Consolidated	
	2009	2008	2009	2008
Cash flows from investing activities				
Property, plant and equipment	(349,845)	(262,989)	(666,189)	(289,611)
Intangible assets	(4,342)	(10,342)	(4,342)	(11,909)
Investments	(240,723)	(50,329)		(13,605)
IEMG cash upon acquisition				1,364
Net cash flow used in investing activities	(594,910)	(323,660)	(670,531)	(313,761)
Cash flows from financing activities				
New loans	464,347	560,376	575,943	569,958
Loan payments (including interest)	(425,586)	(359,392)	(480,785)	(359,392)
Dividends paid	(641,455)	(713,722)	(641,455)	(713,722)
Capital payment	36,620		36,620	
Net cash flow used in financing activities	(566,074)	(512,738)	(509,677)	(503,156)
Decrease in cash and cash equivalents	(85,665)	(87,418)	(80,806)	(68,623)
Cash and cash equivalents at end of year	18,564	104,229	42,218	123,024
Cash and cash equivalents at beginning of year	104,229	191,647	123,024	191,647
Decrease in cash and cash equivalents	(85,665)	(87,418)	(80,806)	(68,623)

See accompanying notes.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Statements of value added

Years ended December 31, 2009 and 2008

(In thousands of reais – R\$, unless otherwise stated)

	<u>Company</u>		<u>Consolidated</u>
	<u>2009</u>	<u>2008</u>	<u>2009</u>
Revenues			
Sales of goods and services	1,904,795	1,802,439	1,912,755
Other operating revenues (expenses)	(31,162)	(6,313)	(31,162)
	1,873,633	1,796,126	1,881,593
Inputs acquired from third parties			
Cost of services rendered	(11,476)	(18,827)	(12,338)
Materials, electricity, outsourced services and others	(116,949)	(103,532)	(117,408)
	(128,425)	(122,359)	(129,746)
Gross value added	1,745,208	1,673,767	1,751,847
Retention			
Depreciation and amortization	(217,690)	(180,288)	(219,782)
Net value added produced by entity	1,527,518	1,493,479	1,532,065
Value added received in transfer			
Equity pickup	(262)		
Financial income	153,744	28,532	154,150
Total value added to be distributed	1,681,000	1,522,011	1,686,215
Distribution of value added:			
Taxes and social charges			
Direct compensation	(120,128)	(99,426)	(120,209)
Benefits	(28,521)	(30,108)	(28,524)
Actuarial adjustment	54,902	68,390	54,902
FGTS	(7,914)	(12,403)	(7,917)
	(101,661)	(73,547)	(101,748)
Taxes, charges and compulsory contributions			
Federal	(562,119)	(534,458)	(563,009)
State	(753)	(194)	(762)
Local	(10,532)	(11,088)	(10,532)
	(573,404)	(545,740)	(574,303)

See accompanying notes.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Statements of value added--Continued

Years ended December 31, 2009 and 2008

(In thousands of reais – R\$, unless otherwise stated)

	<u>Company</u>		<u>Consolidated</u>
	<u>2009</u>	<u>2008</u>	<u>2009</u>
Remuneration of third party capital			
Rent	(8,977)	(7,356)	(8,988)
Interest and monetary and exchange variation	(168,939)	(68,303)	(173,157)
	<u>(177,916)</u>	<u>(75,659)</u>	<u>(182,145)</u>
Remuneration of stockholders' equity			
Interest on equity capital and dividends	(783,179)	(734,901)	(783,179)
	<u>(783,179)</u>	<u>(734,901)</u>	<u>(783,179)</u>
Retained profits	<u>44,840</u>	<u>92,164</u>	<u>44,840</u>

See accompanying notes.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements
December 31, 2009 and 2008
(In thousands of reais – R\$, unless otherwise stated)

1 Operations

1.1 Corporate purpose

CTEEP - Companhia de Transmissão de Energia Elétrica Paulista (“CTEEP” or the “Company”), a publicly-traded company, is authorized to operate as an electric public utility concessionaire, and is principally engaged in the planning, construction and operation of electric transmission systems, as well as in research and development programs related to power 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 stockholder 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 stockholder. 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.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements--Continued

December 31, 2009 and 2008

(In thousands of reais – R\$, unless otherwise stated)

1. Operations--Continued

1.1 Operations--Continued

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 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, of a total of 62,558,662 common shares, 55,924,465 are held by ISA Capital do Brasil S.A.

In August, 2009 a capital increase in the amount of R\$ 63,049 – represented by 1,371,525 shares - was approved, of which R\$ 26,429, equivalent to 574,927 shares, was contributed by the controlling stockholder, (Note 22 (a)). As a result, ISA Capital now owns 56,499,392 common shares, corresponding to 37.5% of CTEEP's total capital.

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 stockholders, 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).

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements--Continued

December 31, 2009 and 2008

(In thousands of reais – R\$, unless otherwise stated)

1. Operations--Continued

1.2 Concessions

The Company is entitled to explore, directly or indirectly, the following Public Utility Concession Agreements for Electric Power Transmission:

Concessionaire	Agreement	Interest (%)	Term (years)	Maturity	Annual Revenue Allowed - RAP	
					R\$ thousand	Base
CTEEP	059/2001		20	07/07/15	1,816,005	06/09
CTEEP	143/2001		30	12/20/31	13,747	06/09
IEMG (Note 11)	004/2007	60	30	04/19/37	12,339	06/09
IENNE (Note 11)	001/2008	25	30	03/16/38	31,674	06/09
Pinheiros (Note 11)	012/2008	100	30	10/16/38	6,421	06/09
Pinheiros (Note 11)	015/2008	100	30	10/16/38	10,819	06/09
Pinheiros (Note 11)	018/2008	100	30	10/16/38	2,759	06/09
IESul (Note 11)	013/2008	100	30	10/16/38	3,866	06/09
IESul (Note 11)	016/2008	100	30	10/16/38	6,960	06/09
IEMadeira (Note 11)	013/2009	51	30	02/25/39	176,249	11/08
IEMadeira (Note 11)	015/2009	51	30	02/25/39	151,788	11/08
Serra do Japi (Note 11)	026/2009	100	30	11/19/39	21,804	05/09

Due to the acquisition of the shareholding control of CTEEP by ISA Capital do Brasil S.A. on June 28, 2006, an Amendment to Concession Agreement 059/2001 - ANEEL of CTEEP was signed on January 29, 2007, in order to reflect this reality of the new controlling stockholder. In this amendment, the conditions initially negotiated were maintained and a clause was added defining that the goodwill paid in the auction, as well as the special obligations and the amounts arising from the State Law No. 4819/58 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 amendment, ISA Capital do Brasil S.A. and Interconexión Eléctrica S.A. E.S.P. (Colombia) are committed to increasing CTEEP's capital.

On May 8, 2009, through ANEEL auction No. 001/2009, at the Rio de Janeiro Stock Exchange, in public session conducted by the BM&F BOVESPA, CTEEP purchased C, D and E batches through the Porto Velho Consortium with participation from Eletronorte and Abengoa. The batches purchased are as follows:

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Notes to financial statements--Continued

December 31, 2009 and 2008

(In thousands of reais – R\$, unless otherwise stated)

1. Operations--Continued

1.2 Concessions--Continued

Batch C - Porto Velho – Jauru Transmission Line

Batch C refers to the third 230 kV transmission line circuit between Jauru (Mato Grosso) and Porto Velho (Rondônia), totaling 987 km. Linha Verde Transmissora de Energia S.A. was incorporated on July 2, 2009 to develop this venture. To date, CTEEP has not paid its equity interest in Linha Verde.

This project involves an investment estimated at R\$ 380 million and Annual Revenue Allowed (RAP) of R\$ 42.7 million, based on data for May 2009. The Company is the holder of a 25.5% interest in the venture, and operations are projected to start in October 2011.

Batch D - Porto Velho – Rio Branco Transmission Line

This batch refers to the second 230 kV transmission line circuit between Porto Velho (Rondônia), Abunã and Rio Branco (Acre), totaling 487 km. Rio Branco Transmissora de Energia S.A. was incorporated on July 2, 2009, to develop this transmission line. To date, CTEEP has not paid its equity interest in Rio Branco.

This project involves an investment estimated at R\$ 210 million and Annual Revenue Allowed (RAP) of R\$ 24.4 million, based on data for May 2009. The Company is the holder of a 25.5% interest in the venture, and operations are projected to start in October 2011.

Batch E – Jauru – Cuiabá Transmission Line and Jauru Substation

This batch refers to the 500 kV transmission line between Jauru and Cuiabá (Mato Grosso), totaling 348 km, and the Jauru 500/230 kV substation. Transmissora Matogrossense de Energia S.A was incorporated on July 2, 2009, to develop these installations. To date, CTEEP has not paid its equity interest in Matogrossense.

This project involves investment estimated at R\$ 302 million and Annual Revenue Allowed (RAP) of R\$ 27.5 million, based on data for May 2009. The Company holds a 5% interest in the venture. Operation start-up is projected for October 2011.

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Notes to financial statements--Continued

December 31, 2009 and 2008

(In thousands of reais – R\$, unless otherwise stated)

1. Operations--Continued

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 counterparty entry to the special goodwill on merger reserve, in stockholders' equity.

2. Presentation of financial statements

The financial statement account balances were approved by the Executive Board at January 15, 2010. The financial statements were approved at an Executive Board meeting held on March 2, 2010.

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Notes to financial statements--Continued

December 31, 2009 and 2008

(In thousands of reais – R\$, unless otherwise stated)

2. Presentation of financial statements--Continued

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

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

Change in the Brazilian Corporation Law

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

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

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements--Continued

December 31, 2009 and 2008

(In thousands of reais – R\$, unless otherwise stated)

2. Presentation of financial statements--Continued

Change in the Brazilian Corporation Law--Continued

In furtherance of this process, in the course of 2009, new accounting pronouncements were issued and approved, including, among others, those which may have greater impact on the financial statements of the Company and its subsidiaries, namely:

<u>CPC</u>	<u>Pronouncement</u>
17	Construction Contracts
20	Borrowing Costs
21	Interim Financial Reporting
22	Segment Information
24	Subsequent Events
25	Provisions,Contingent Liabilities and Contingent Assets
26	Presentation of Financial Statements
27	Property, Plant and Equipment
30	Revenue
32	Income Taxes
33	Employee Benefits
36	Consolidated Financial Statements
37	First-time Adoption of International Financial Reporting Standards
38	Financial Instruments: Recognition and Measurement
39	Financial Instruments: Presentation
40	Financial Instruments: Disclosures
43	First-time Adoption of Accounting Pronouncements CPC 15 to 40
ICP 01	Service Concession Arrangements
ICP 08	Accounting for Proposed Dividend Distribution
	Interpretation of First-time Adoption of Technical Pronouncements CPC 27 -
ICP 10	Property, Plant and Equipment and CPC 28 – Investment Property

Interpretation ICPC No. 01, which establishes the principles for recognition and measurement of liabilities and assets under service concession arrangements, may substantially change future financial statements of the Company.

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

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Notes to financial statements--Continued

December 31, 2009 and 2008

(In thousands of reais – R\$, unless otherwise stated)

2. Presentation of financial statements--Continued

Change in the Brazilian Corporation Law--Continued

As such, according to CVM Rule No. 603, of November 10, 2009, the Company, in preparing its 2009 financial statements, did not elect early adoption of CPC pronouncements, interpretations and guidelines, approved by CVM, and effective for financial years beginning January 1, 2010.

Consolidated financial statements

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

	Financial statement date	Interest %	
		2009	2008
Interligação Elétrica de Minas Gerais S.A. (IEMG)	12/31/09	60	60
Interligação Elétrica Norte e Nordeste S.A. (IENNE)	12/31/09	25	25
Interligação Elétrica Pinheiros S.A. (Pinheiros)	12/31/09	100	100
Interligação Elétrica do Sul S.A. (IESUL)	12/31/09	100	100
Interligação Elétrica do Madeira S.A. (IEMADEIRA)	12/31/09	51	-
Interligação Elétrica Serra do Japi S.A. (Serra do Japi)	12/31/09	100	-

All financial statements for these subsidiaries were audited by our independent auditors for consolidation purposes.

Except for IEMG, authorized to operate commercially in 2009, all subsidiaries were at their pre operating stage on the consolidated financial statement reporting date. Accordingly, consolidated statements of income and of value added for financial year 2008 were not presented.

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

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements--Continued

December 31, 2009 and 2008

(In thousands of reais – R\$, unless otherwise stated)

3. Significant accounting practices

a) Determination of profit and loss

Determined on the accrual basis of accounting.

b) Cash and cash equivalents

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

c) Financial instruments

(i) *Classification and measurement*

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

The Company classifies its financial instruments under the following categories: a) measured at fair value through profit or loss; and b) loans and receivables. 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 profit or loss

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

Loans and receivables

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

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements--Continued
December 31, 2009 and 2008
(In thousands of reais – R\$, unless otherwise stated)

3. Significant accounting practices--Continued

c) Financial instruments--Continued

(ii) *Derivative financial instruments and hedge activities*

The Company is not engaged in any transactions involving derivative financial instruments.

d) Trade accounts receivable

Includes the amounts billed by Company and subsidiaries for use of the base network systems and other transmission facilities (DIT) by electric utility concessionaires and companies connected to these systems, with average receivables turnover below 60 days, and there is no need for adjustment to present value.(Note 5).

The allowance for doubtful accounts consists of 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 acquisition, which does not exceed their replacement cost.

f) Investments

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

Property, plant and equipment items are stated at cost of acquisition and/or construction, plus price-level restatements up to December 31, 1995; interest on equity capital up to December 31, 1998, interest, monetary and exchange variation on loans and financing for property, plant and equipment in progress; net of the accumulated depreciation. Depreciation is computed on the straight-line basis, at the rates disclosed in Note 12, which consider the estimated useful lives of the assets, in compliance with the regulatory agency.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements--Continued

December 31, 2009 and 2008

(In thousands of reais – R\$, unless otherwise stated)

3. Significant accounting practices--Continued

h) Impairment of assets

The Company understands that there is no indication of impairment of the recoverable amount of its property, plant and equipment and intangible assets. Nevertheless, the recoverability of these assets is tested for impairment on a yearly basis using the net present value method, including the indemnification set forth by the concession agreements for property, plant and equipment at the end of the concession period. The criteria for calculating this indemnification have not yet been defined by the Granting Power. However, in the understanding of management and of its legal advisors, said indemnification amount should approximate the residual value of property, plant and equipment on that date (Note 14).

i) Other current and noncurrent assets

Stated at net realizable value.

j) Current and noncurrent liabilities

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

k) Provisions

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

l) Income and social contribution taxes

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

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Notes to financial statements--Continued

December 31, 2009 and 2008

(In thousands of reais – R\$, unless otherwise stated)

3. Significant accounting practices--Continued

m) Negative goodwill

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

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

n) Employment benefits

The Company sponsors pension and health care plans for its employees, which are managed by Fundação CESP. Actuarial liabilities were calculated on the projected unit credit method, as set forth by CVM Rule No. 371, of December 13, 2000 (Note 20).

4. Cash and cash equivalents

	Company		Consolidated	
	2009	2008	2009	2008
Cash and banks	396	7,166	(606)	6,958
Short-term investments	18,168	97,063	42,824	116,066
	18,564	104,229	42,218	123,024

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

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Notes to financial statements--Continued

December 31, 2009 and 2008

(In thousands of reais – R\$, unless otherwise stated)

5. Trade accounts receivable

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

	Company		Consolidated	
	2009	2008	2009	2008
Base network	332,850	324,703	333,703	324,703
Other transmission facilities - DIT	17,907	19,714	17,907	19,714
	350,757	344,417	351,610	344,417
Current	288,683	299,329	289,536	299,329
Noncurrent	62,074	45,088	62,074	45,088

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

	Company		Consolidated	
	2009	2008	2009	2008
Falling due	345,707	283,541	346,560	283,541
Past due				
up to 30 days	1,084	3,315	1,084	3,315
from 31 to 60 days	859	3,191	859	3,191
over 61 days	3,107	54,370	3,107	54,370
	5,050	60,876	5,050	60,876
	350,757	344,417	351,610	344,417

On January 13, 2009 the Company signed an acknowledgment of debt and payment agreement with delinquent distributors. This agreement requires the balance to be paid in 36 installments. Up to September 2009 all installments were received as scheduled.

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Notes to financial statements--Continued

December 31, 2009 and 2008

(In thousands of reais – R\$, unless otherwise stated)

6. Amounts receivable from State Finance Department – Company and Consolidated

	2009			2008
	Current	Noncurrent	Total	Total
Agreement for acknowledgment and consolidation of debt (a)	16,094	25,482	41,576	55,353
Sale of property (b)	3,345	5,297	8,642	11,506
Payroll processing – Law No. 4819/58 (c)	-	410,127	410,127	309,811
Labor claims – Law No. 4819/58 (d)	-	116,121	116,121	97,755
Family allowance – Law No. 4819/58 (e)	-	2,218	2,218	2,218
Allowance for doubtful accounts	-	(2,218)	(2,218)	(2,218)
	19,439	557,027	576,466	474,425

(a) Agreement for acknowledgment and consolidation of debt

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

(b) Sale of property

On July 31, 2002, a Private Sale Agreement, providing for the intended 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 and 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 IGP-M variation plus interest of 6% per annum.

(c) Payroll processing – Law No. 4819/58

The amount of R\$ 410,127 refers to the remaining balance of the payroll processing for the supplemental pension plan regulated by State Law No. 4819/58, R\$ 1,426 of which through individual injunctions from January to August 2005 and R\$ 408,701 from September 2005 to December 2009, as a result of a court decision by the 49th Labor District Court of São Paulo, whose payments are made by Fundação CESP using part of the funds received from the State Government and passed on by the Company (Note 34 (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.

(d) Labor claims – Law No. 4819/58

These refer to certain labor claims 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.

(e) Family allowance – Law No. 4819/58

CESP - Companhia Energética de São Paulo made advances for payment of monthly expenses with family allowances arising from the benefits of State Law No. 4819/58, which were transferred to 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 noncurrent assets, in the amount of R\$ 2,218.

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Notes to financial statements--Continued

December 31, 2009 and 2008

(In thousands of reais – R\$, unless otherwise stated)

7. Taxes recoverable

	Company		Consolidated	
	2009	2008	2009	2008
COFINS	156,709	798	156,718	798
PIS	50,014	249	50,016	249
Income tax	2,989	760	3,564	760
Social contribution tax	847	486	863	486
Other	2,156	852	2,156	947
	<u>212,715</u>	<u>3,145</u>	<u>213,317</u>	<u>3,240</u>

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

Change for the year ended December 31, 2009 is as follows:

Original tax credit recognized	193,139
Monetary restatement	99,403
Tax credit offset from October to December	<u>(88,429)</u>
	<u>204,113</u>

8. Tax benefit – merged goodwill – Company and Consolidated

The goodwill paid by ISA Capital on acquisition of the CTEEP shareholding control process (Note 1.3) is economically based on the expected profitability during the concession term, originating from the acquisition of the concession right granted by the Government, under paragraph 2 b of article 14 of CVM Ruling No. 247, of March 27, 1996, as amended by CVM Ruling No. 285 of July 31, 1998.

In order for the amortization of goodwill not to adversely impact the dividend flow to stockholders, a provision for maintaining integrity of the stockholders' equity of its acquiror (PMIPL) was recognized, in accordance with the provisions of CVM Ruling No. 349, of March 6, 2001.

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Notes to financial statements--Continued
 December 31, 2009 and 2008
 (In thousands of reais – R\$, unless otherwise stated)

8. Tax benefit – Company’s merged goodwill – Company e consolidated--Continued

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

Goodwill totaled R\$ 689,435 at December 31, 2007 and is currently amortized over the remaining concession period, in monthly installments according to the projected annual future profitability and as permitted by ANEEL Resolution No. 1164 of December 18, 2007, as follows:

	Amortization - % p.a.		
	Concession agreement		Total
	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

To better present the Company’s financial position in the financial statements, the net amount of R\$ 176.743, which essentially represents the merged tax credit, was classified, in the balance sheet, in current assets and in long-term receivables as tax benefit – merged goodwill, based on its expected realization.

Change for the year ended December 31, 2009 is as follows:

	Goodwill	Provision	Net
Balances at 12.31.2008	604,634	(399,059)	205,575
Realization for the year	(84,800)	55,968	(28,832)
Balances at 12. 31.2009	519,834	(343,091)	176,743
Current			28,832
Noncurrent			147,911

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements--Continued

December 31, 2009 and 2008

(In thousands of reais – R\$, unless otherwise stated)

9. Deferred income and social contribution taxes – Company and Consolidated

These refer to tax credits on the temporary differences in the determination of taxable profit, as set out below:

	Income tax	Social contribution tax	2009 Total	2008 Total
Provision for contingencies	41,243	14,848	56,091	58,529
Voluntary Termination Program				
– PDV	1,036	373	1,409	6,330
Negative goodwill	12,385	4,459	16,844	22,618
Others	17,798	6,408	24,206	486
	72,462	26,088	98,550	87,963
Current			31,472	11,315
Noncurrent			67,078	76,648

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

2010	2011	2012	2013	2014	As from 2015
30%	6%	5%	-	-	59%

10. Pledges and restricted deposits – Company and Consolidated

In long-term receivables, in view of the uncertainties regarding the outcome of the lawsuits to which the deposits refer, the Company's procedure is to maintain these deposits at their nominal value, not recording any type of monetary restatement or interest thereon. The balance is broken down as follows:

	2009	2008
Notices of violation – ANEEL (a)	6,317	6,317
Judicial deposits (Note 19 (b))	37,431	45,319
Others	198	224
	43,946	51,860

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements--Continued

December 31, 2009 and 2008

(In thousands of reais – R\$, unless otherwise stated)

10. Pledges and restricted deposits – Company and Consolidated-- Continued

- (a) Refer to two deposits in connection with lawsuits to annul the notices of violation issued by ANEEL for disturbances in the transmission system in March 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, related to notice of violation 001/1999-SFE which had fined the Company under alleged violations for obstructing the inspection related to disturbances from interrupted electric power transmission and distribution over a large part of the Southeast, South and Middle West regions; noncompliance with the "inspection report" requirements; and noncompliance with the legal duty of rendering proper service. The second deposit, made on June 17, 2003, in the amount of R\$ 3,277, relates to notice of violation 005/2002-SFE, dated May 7, 2002, as a consequence of punitive administrative process brought by ANEEL, for the breakage, on January 21, 2002, of one subconductor of a 440 kV transmission line between the Company substations 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

	Number of common shares held	Interest - %	Paid-in capital	Stockholders' equity	Net income (loss)
IENNE	46.901.000	25,0	187.604	187.604	-
IEMG	47,313,175	60,0	78,855	78,419	(436)
Pinheiros	127,170,999	100,0	127,171	127,171	-
IESUL	6,835,999	100,0	6,836	6,836	-
IEMadeira	52,631,286	51,0	103,199	103,199	-
Serra do Japi	10,202,999	100,0	10,203	10,203	-

With the exception of Pinheiros and Serra do Japi in which the Company exercises independent control, the Company exercises shared control in all other investees.

At December 31, 2009, the Company had not paid its interest in Linha Verde Transmissora de Energia S.A., Rio Branco Transmissora de Energia S.A. and Transmissora Matogrossense de Energia S.A.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements--Continued

December 31, 2009 and 2008

(In thousands of reais – R\$, unless otherwise stated)

11. Investments--Continued

a) Information on investments--Continued

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

IENNE was formed on December 3, 2007 for the stated purpose of exploring the utility concession for electric power transmission, in particular the Colinas (Tocantins) - Ribeiro Gonçalves (Piauí) and Ribeiro Gonçalves - São João do Piauí (Piauí) transmission lines, both of 500 kV, totaling 720 km.

Investment in this project is estimated at R\$ 561.7 million with Annual Revenue Allowed (RAP) of R\$ 31.7 million. Start-up is scheduled for December 2010.

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

IEMG was incorporated on December 13, 2006, in order to explore the utility concession for electric power transmission, particularly the 500 kV Neves 1 – Mesquita (Minas Gerais) transmission line totaling 172 km.

On July 3, 2008, the Company published a material fact notice informing that ANEEL had approved, in 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 to acquire ISA's share in IEMG's capital, corresponding to 60%

Investment in the project is estimated to be in the region of R\$ 145.6 million and Annual Revenue Allowed (RAP) is R\$ 12.3 million, for the 2009-2010 period.

IEMG was authorized to operate commercially in 2009.

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Notes to financial statements--Continued
December 31, 2009 and 2008
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11. Investments--Continued

a) Information on investments--Continued

Interligação Elétrica Pinheiros S.A. (Pinheiros)

Pinheiros was incorporated July 22, 2008, for the stated purpose of exploiting the utility concession for electric power transmission, in particular the transmission lines and substations purchased as E, H and K Batches at ANEEL Auction No. 004/2008:

Batch	Description	Tension (kV)
E	Interlagos – Piratininga II Transmission Line (SP) Piratininga II Substation (SP)	345 345/138/88
H	Mirassol II, Getulina and Araras Substations (SP)	440/138
K	Atibaia II Substation (SP)	345/138

Investment in the project is estimated at R\$ 342.6 million and Annual Revenue Allowed (RAP) is R\$ 19.9 million. Start-up of respective facilities is scheduled for the 2nd quarter of 2010, i.e., 18 months after the execution of the agreement.

Interligação Elétrica Sul S.A. (IESUL)

IESUL was formed on July 23, 2008, for the stated purpose of exploiting the utility concession for electric power transmission, in particular the transmission lines and substations purchased as F and I Batches at ANEEL Auction No. 004/2008:

Batch	Description	Tension (kV)
F	Nova Santa Rita – Scharlau Transmission Line (RS) Scharlau Substation (RS)	230 230/138
I	Joinville Norte (SC) – Curitiba C2 Transmission Line (PR) Jorge Lacerda B – Siderópolis C3 Transmission Line (SC) Forquilha Substation (SC)	230 230 230/69

On August 28, 2009, the Company released a market statement on ANEEL Resolution No. 2052 (amended in November 2009) approving IESUL's restructuring process. After execution of relevant corporate documents, IESUL's ownership structure will be as follows:

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11. Investments--Continued

a) Information on investments--Continued

Interligação Elétrica Sul S.A. (IESUL)--Continued

<u>Stockholder</u>	<u>Ownership %</u>
CTEEP	50% plus 1 share
CYMI	50% less 1 share

Investment in the project is estimated at R\$ 151.6 million and Annual Revenue Allowed (RAP) is R\$ 10.8 million. Start-up of respective facilities is scheduled for the 2nd quarter of 2010, i.e., 18 months after the execution of the agreement.

Interligação Elétrica do Madeira S.A. (IEMadeira)

IEMADEIRA was incorporated on December 18, 2008 for the stated purpose of exploring the utility concession for electric power transmission, in particular the transmission lines and substations purchased as DC and FC Batches at ANEEL Auction no. 007/2008, as follows:

<u>Batch</u>	<u>Description</u>	<u>Term (months)</u>
DC	Coletora Porto Velho – Araraquara Transmission Line 2, No. 01, in CC, 2375 Km	36
FC	Rectifier Station No. 02 CA/CC, 3150 MW; Rectifier Station No. 02 CC/CA, 2950 MW	50

Investment in the project is estimated at R\$ 3,430.6 million and Annual Revenue Allowed (RAP) is R\$ 328.0 million, base for November 2008. Start-up of respective facilities is scheduled for February 2012 (DC batch) and April 2013 (FC batch).

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

Serra do Japi was incorporated on July 1, 2009 to explore the utility concession for electric power transmission, particularly Jandira and Salto substations purchased as Batch I at ANEEL Auction No. 001/2009.

Investment for this project is estimated to be R\$ 208.9 million and Annual Revenue Allowed (RAP) of R\$ 21.8 million, based on data for May 2009. Start-up for operations is scheduled for October 2011.

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Notes to financial statements--Continued

December 31, 2009 and 2008

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11. Investments--Continued

b) Change in investments

	Balances at 12.31.2008	Capital payment	Equity pickup	Balances at 12.31.2009
IENNE	15,251	31,650	-	46,901
IEMG	26,779	20,534	(262)	47,051
Pinheiros	6,651	120,520	-	127,171
IESUL	1,651	5,185	-	6,836
IEMadeira		52,631	-	52,631
Serra do Japi		10,203	-	10,203
	<u>50,332</u>	<u>240,723</u>	<u>(262)</u>	<u>290,793</u>

12. Property, plant and equipment

Property, plant and equipment is broken down as follows:

	Company		Company		Average annual depreciation rates - %
	2009	2008	2009	2008	
	Cost	Accumulated depreciation	Net	Net	
In operation					
Land	44,365		44,365	44,365	
Buildings, civil works and improvements	584,561	(400,293)	184,268	204,323	3.64%
Machinery and equipment	5,808,567	(2,726,172)	3,082,395	3,152,012	2.96%
Vehicles	9,803	(9,477)	326	284	20.00%
Furniture and fixtures	26,814	(17,947)	8,867	8,193	10.00%
	<u>6,474,110</u>	<u>(3,153,889)</u>	<u>3,320,221</u>	<u>3,409,177</u>	
In progress	<u>980,805</u>	<u>-</u>	<u>980,805</u>	<u>778,104</u>	
Special obligations					
Donations received	<u>(28,767)</u>	<u>-</u>	<u>(28,767)</u>	<u>(28,767)</u>	
	<u>7,426,148</u>	<u>(3,153,889)</u>	<u>4,272,259</u>	<u>4,158,514</u>	

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Notes to financial statements--Continued

December 31, 2009 and 2008

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12. Property, plant and equipment--Continued

	Consolidated				Average annual depreciation rates - %
	2009	2008	2009	2008	
	Cost	Accumulated depreciation	Net	Net	
In operation					
Land	44,365		44,365	44,365	
Buildings, civil works and improvements	585,105	(400,315)	184,790	204,323	3.64%
Machinery and equipment	5,885,534	(2,728,240)	3,157,294	3,152,012	2.96%
Vehicles	9,835	(9,478)	357	284	20.00%
Furniture and fixtures	26,822	(17,948)	8,874	8,193	10.00%
	6,551,661	(3,155,981)	3,395,680	3,409,177	
In progress	1,309,661	-	1,309,661	854,204	
Special obligations					
Donations received	(28,767)	-	(28,767)	(28,767)	
	7,832,555	(3,155,981)	4,676,574	4,234,614	

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

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

Concession agreements provide for indemnification for property, plant and equipment at the end of the concession period. The criteria for calculating this indemnification have not yet been defined by the Granting 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 No. 44, of March 17, 1999, and revoked by ANEEL Regulatory Resolution No. 240, of December 5, 2006, for assets with similar use and characteristics in the area of electric power transmission and distribution.

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Notes to financial statements--Continued

December 31, 2009 and 2008

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12. Property, plant and equipment--Continued

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

13. Intangible assets

	Company		Consolidated	
	2009	2008	2009	2008
Rights-of-way	57,449	57,449	60,122	64,774
ERP – SAP implementation	12,731	10,342	12,731	10,342
Other	151	151	151	151
	70,331	67,942	73,004	75,267

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

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

14. Recoverable amount of assets

The Company tested the recoverability of its property, plant and equipment and intangible assets based on the present value of future cash flows and on the assumptions set out below.

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Notes to financial statements--Continued

December 31, 2009 and 2008

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14. Recoverable amount of assets--Continued

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

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

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

15. Loans and financing

The breakdown of loans and financing is as follows:

	Maturity	Company		Consolidated	
		2009	2008	2009	2008
Local currency					
BNDES (a)	06.15.2015	514,117	606,169	514,117	606,169
IEMG (b)	04.15.2023	-	-	40,680	-
Promissory notes (c)					
1 st issue	06.17.2009	-	199,068	-	199,068
2 nd issue	04.19.2010	213,696	-	213,696	-
3 rd issue	01.13.2010	208,029	-	208,029	-
Banco Bradesco					
IEMG (d)	02.25.2009	-	-	-	51,010
IENNE (e)	02.14.2010	-	-	45,700	-
Citibank (f)	04.15.2010	-	-	23,538	-
Eletróbrás	11.15.2021	491	541	491	541
Finance lease		2,143	-	2,143	-
		938,476	805,778	1,048,394	856,788
Current		518,690	294,492	591,113	345,502
Noncurrent		419,786	511,286	457,281	511,286

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Notes to financial statements--Continued

December 31, 2009 and 2008

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15. Loans and financing--Continued

- (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 interest of 2.3% p.a. above the Long-term Interest Rate (TJLP).

Repayment will be in 78 monthly installments from January 2009. As guarantee, 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 0.7% 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 being expected for the first quarter of 2010. 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 December 2010. Interest thereon corresponds to TJLP plus 1.8% p.a. Repayment will be in 54 monthly installments as from January 2011 and up to the beginning of repayment, interest will be paid on a quarterly basis. Bank guarantees will be contracted.

- (b) On January 14, 2009 subsidiary IEMG entered into a loan agreement with BNDES in the amount of R\$ 70.6 million, drawn down on March 27, 2009. This amount is aimed to finance approximately 50% of the Transmission Line (LT) between Neves 1 and Mesquita substations. This loan bears monthly interest of 2.4% p.a. above the Long Term Interest Rate – TJLP.

This loan will be amortized in 168 monthly installments due from May 15, 2009. An HSBC bank guarantee effective through March 18, 2010 was pledged as collateral for the loan.

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Notes to financial statements--Continued

December 31, 2009 and 2008

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15. Loans and financing--Continued

- (c) 1st Issue – issued on December 9, 2008, amounting to R\$ 200 million, maturing on June 17, 2009. Nominal charges correspond to 120.0% of the Bank Deposit Certificate (CDI). The promissory notes issue costs totaled R\$ 1,908.

2nd Issue – issued on April 24, 2009, amounting to R\$ 200 million, maturing on April 19, 2010. Nominal charges correspond to 119.5% of the CDI. The promissory notes issue costs totaled R\$ 1,692.

3rd Issue – issued on July 17, 2009, amounting to R\$ 200 million, maturing on January 13, 2010. Nominal charges correspond to 106.5% of the CDI. The promissory notes issue costs totaled R\$ 1,295.

Pursuant to CPC 08, the promissory notes issue costs were recorded as a deduction of the funds raised and are charged to P&L over the transaction period.

- (d) Refers to working capital contract signed by IEMG on February 25, 2008, drawn down on the contract execution date and on August 28, 2008, both repaid in a lump sum on February 25, 2009. Interest on this transaction was paid semiannually, corresponding to CDI + 0.9% p.a. The transaction was guaranteed by a guarantee letter.
- (e) On July 13, 2009, IENNE signed a credit line contract with Banco Bradesco S.A. limited in R\$ 180 million, maturing on February, 14, 2010. Interest on this transaction will be paid on maturity, corresponding to CDI + 2.5% p.a. The transaction was guaranteed by a “Standby Letter of Credit” (SBLC).
- (f) On July 27, 2009, IESUL signed a credit line contract with Citibank S.A. limited in R\$ 40 million, maturing on April, 15, 2010. Interest on this transaction will be paid on maturity, corresponding to CDI + 3% p.a.

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Notes to financial statements--Continued

December 31, 2009 and 2008

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15. Loans and financing--Continued

Maturities of long-term portions are set out as follows:

	Company		Consolidated	
	2009	2008	2009	2008
2011	93,951	92,940	96,989	92,940
2012	93,046	92,940	96,084	92,940
2013	93,033	92,940	96,071	92,940
After 2013	139,756	232,466	168,137	232,466
	419,786	511,286	457,281	511,286

16. Taxes and social charges

	Company		Consolidated	
	2009	2008	2009	2008
Income tax	52,289	722	52,289	760
Social contribution tax	15,923	270	15,923	338
COFINS	3,578	6,121	3,609	6,127
PIS	775	1,328	782	1,329
Scholarship program (a)	2,195	2,786	2,195	2,786
INSS	4,462	2,385	4,539	2,496
FGTS	964	874	976	875
Other	7,253	4,685	8,192	4,765
	87,439	19,171	88,505	19,476

(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.

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Notes to financial statements--Continued

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17. Taxes in installments – Law No. 11941 – Company and Consolidated

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

Change for the year ended December 31, 2009 is as follows:

Original debt	212,097
Fine and interest	119,054
Fine and interest rate reduction (benefit under the Law)	(42,257)
Payments	(141,156)
	147,738
Current	9,853
Noncurrent	137,885

18. Regulatory charges

	Company		Consolidated	
	2009	2008	2009	2008
Research and Development - R&D	30,672	20,363	30,709	20,363
Energy Development Account - CDE	2,561	3,041	2,561	3,041
Fuel Consumption Bill - CCC	2,167	2,804	2,167	2,804
Global Reversion Reserve - RGR	6,431	10,732	6,630	10,732
Alternative Energy Source Program - PROINFA	1,180	1,774	1,180	1,774
Inspection fee - ANEEL		619	40	619
	43,011	39,333	43,287	39,333
Current	39,742	36,528	40,018	36,528
Noncurrent	3,269	2,805	3,269	2,805

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Notes to financial statements--Continued

December 31, 2009 and 2008

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19. Provisions

	Company		Consolidated	
	2009	2008	2009	2008
Vacation pay and social charges	15,641	12,040	15,806	12,067
Profit sharing - PLR	8,035	7,991	8,035	7,991
Voluntary termination program - PDV (a)	3,649	18,304	3,649	18,304
Sundry indemnities	309	313	309	313
Contingencies (b)	167,842	170,399	167,842	170,399
	195,476	209,047	195,641	209,074
Current	27,523	34,895	27,688	34,922
Noncurrent	167,953	174,152	167,953	174,152

(a) Voluntary termination program - PDV

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

On December 31, 2009, the remaining balance substantially refers to 1 employee whose severance has not yet been processed, as well as the provision for medical and dental assistance that the terminated employees have the right to receive 36 months after the termination of their contracts.

(b) Provision for contingencies

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

Type	2009			2008		
	Provision	Judicial deposits	Net	Provision	Judicial deposits	Net
Labor (i)	147,344	(23,520)	123,824	139,917	(19,728)	120,189
Civil	3,994	-	3,994	2,741	-	2,741
Tax – IPTU (ii)	8,239	-	8,239	16,677	-	16,677
Tax – COFINS (iii)	-	(5,668)	(5,668)	-	(17,348)	(17,348)
Social security – INSS (iv)	5,398	(8,243)	(2,845)	8,197	(8,243)	(46)
ANEEL (v)	2,867	-	2,867	2,867	-	2,867
	167,842	(37,431)	130,411	170,399	(45,319)	125,080

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Notes to financial statements--Continued

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19. Provisions--Continued

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

The Company is a party to tax, labor and civil lawsuits, whose unfavorable outcomes are rated as possible by management, based on the assessment of its legal advisors, in the estimated amount of R\$ 83,392 (12.31.2008 - R\$ 64,029), mainly labor claims, 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 EPTE - 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 government of São Paulo, related to administrative proceedings for rectification of areas, in the amount of R\$ 8,239.

(iii) 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 regarding the increase in the calculation basis, and an unfavorable one in relation to the tax rate increase. In October 2009, the Company identified the amount originally deposited, and begun assessing the portion related to its restatement.

(iv) 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 tax on compensation paid to its employees in the form of meal tickets, morning snack and basket of food staples for the period from April 1999 to July 2001. Accordingly, management decided to establish a provision and made a judicial deposit in the amount of R\$ 8,243, recorded in noncurrent assets, under "Pledges and restricted deposits".

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Notes to financial statements--Continued

December 31, 2009 and 2008

(In thousands of reais – R\$, unless otherwise stated)

19. Provisions--Continued

(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 No. 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 345 kV Guarulhos – Anhanguera Transmission Line, authorized by ANEEL Resolution No. 064/2005 of December 31, 2005, with a fine in the amount of R\$ 886, totaling R\$ 2,867 as of December 31, 2009.

20. Amounts payable – Fundação CESP

Based on an appraisal prepared by independent actuaries to calculate the actuarial liability, the Company recorded in its income for the year the amount of R\$ 54,902. 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 4819/58, applied to employees hired up to May 13, 1974, establishes supplementary pension plan benefits, additional leave entitlements and family allowance. The reserves necessary to cover the liabilities assumed in this plan are total responsibility of the applicable authorities of the State of São Paulo Government, and therefore, with no risk and additional cost to the Company (Note 34).

b) Plans “B” and “B1” - supplementary pension plans

Plans "B" and "B1", regulated by Law No. 6435/77 and managed by Fundação CESP, are sponsored by the Company, providing supplementary pension plan benefits, the reserves of which are established under the fully-funded system.

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Notes to financial statements--Continued

December 31, 2009 and 2008

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20. Amounts payable -- Fundação CESP--Continued

b) Plans "B" and "B1" - supplementary pension plans--Continued

The Plan "B" refers to the Vested Supplementary Benefit Payout - BSPS, calculated on December 31, 1997 (CTEEP) and March 31, 1998 (EPTE), in accordance with current regulations, and its asset-liability matching was duly adjusted at the time. The Company is fully liable for the annual actuarial result of this plan (deficit or surplus).

On January 1, 1998 (CTEEP) and on April 1, 1998 (EPTE), the Company implemented Plan "B1", which defines contributions and related matching responsibilities between the Company and the participants, to ensure the plan's appropriate asset-liability management. 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 (DB) and 30% as Defined Contribution (DC). At the date of retirement the Benefit Plan of Defined Contribution (DC) becomes Defined Benefit (DB).

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 forming the PSAP Plan - Transmissão Paulista.

d) Pension Plan Statement –CVM Rule No. 371/00

In compliance with NPC 26, corroborated by CVM Rule No. 371 of December 13, 2000 and based on the actuarial opinions, the main economic and financial information of PSAP-Transmissão Paulista-DB plan (CTEEP/EPTE) are as follows:

(i) *Reconciliation of assets and liabilities*

	<u>2009</u>	<u>2008</u>
Asset fair value	2,001,707	1,790,191
Total actuarial liabilities	(1,628,613)	(1,517,603)
Deferred gains	(386,695)	(341,091)
Net liabilities	(13,601)	(68,503)

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Notes to financial statements--Continued

December 31, 2009 and 2008

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20. Amounts payable – Fundação CESP--Continued

d) Pension Plan Statement – CVM Rule No. 371/00--Continued

(ii) *Change in the plan assets*

	2009	2008
Asset fair value at beginning of year	1,790,191	1,774,274
Employer contributions	1,782	1,697
Employee contributions	2,658	2,651
Return on investments	304,884	113,516
Benefit payouts	(97,808)	(101,947)
Asset fair value at end of year	2,001,707	1,790,191

(iii) *Change in actuarial liabilities*

	2009	2008
Present value of net actuarial liabilities at beginning of year	1,517,603	1,506,892
Cost of current service	2,177	7,233
Cost of interest	162,154	154,306
Actuarial gain/loss	44,487	(48,881)
Benefit payouts	(97,808)	(101,947)
Present value of net actuarial liabilities at end of year	1,628,613	1,517,603

(iv) *Plan participants*

	2009	2008
Active	1,458	1,403
Inactive		
Retired	1,774	1,719
Retired by disability	34	31
Beneficiaries (survivors)	79	74
	1,887	1,824
	3,345	3,227

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Notes to financial statements--Continued
December 31, 2009 and 2008
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20. Amounts payable – Fundação CESP--Continued

d) Pension Plan Statement – CVM Rule No. 371/00--Continued

(v) *Actuarial assumptions*

	<u>2009</u>	<u>2008</u>
Actuarial liability discount-to-present value rate	11.25%	11.00%
Expected rate of return on the plan assets	12.00%	11.50%
Future salary growth rate	7.64%	7.12%
Annuity benefit payouts adjustment index	4.50%	4.00%
Actuarial table	AT-83	AT-83
Disability table	Light-Average	Light-Average
Actuarial table for the disabled	AT-49	AT-49

21. Special obligations – Reversion/Amortization

Refers to funds arising from the reversion reserve, amortization and portion held at the Company, of the monthly shares of the Global Reversion Reserve (RGR), related to investments of funds for expansion of the electric public utility and amortization of loans obtained for the same purpose, occurred up to December 31, 1971. The manner for the settlement of these liabilities has not been defined by the Granting Authority.

22. Stockholders' equity

a) Capital

The Company's authorized capital at December 31, 2009 and 2008 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 registered shares without par value.

Subscribed and paid up capital at December 31, 2009, totals R\$ 1,063,049, (12.31.2008 – R\$ 1,000,000) represented by 150,656,559 (12.31.2008 - 149,285,034) shares of which 63,199,250 (12.31.2008 - 62,558,662) are common and 87,457,039 (12.31.2008 - 86,726,372) are preferred shares.

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Notes to financial statements--Continued
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22. Stockholders' equity--Continued

a) Capital--Continued

In the extraordinary stockholders' meeting held on June 16, 2009, a capital increase of up to R\$ 70,551 was approved through the private issue of new shares with a par value of R\$ 45.97 each. Of the total value of the capital increase, R\$ 26,429, equivalent to 574,927 shares, apply to the controlling stockholder and will be fully paid-up through capitalization of the capital reserve (special reserve for merged goodwill) corresponding to the tax benefit – merged goodwill - consolidated (Note 8) due to the corporate restructuring (Note 1.3) carried out in February 2008.

Under the terms of article 171 of Law No. 6404/76, stockholders were given 30 days to exercise right of first refusal. This period ended on July 17, 2009, with capital increase as follows:

	<u>Quantity</u>	<u>R\$ thousand</u>
ON	640,588	29,448
PN	730,937	33,601
	<u>1,371,525</u>	<u>63,049</u>

The extraordinary stockholders' meeting held on August 24, 2009 approved:

- (i) CTEEP capital increase unanimously approved (on June 16, 2009).
- (ii) The cancellation of 2,543 common shares and 160,649 preferred shares was approved unanimously, all issued by CTEEP on June 16, 2009 and not paid by the stockholders during the designated period in the extraordinary stockholders' meeting carried out on June 16, 2009.

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.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

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(In thousands of reais – R\$, unless otherwise stated)

22. Stockholders' equity--Continued

b) Dividends and interest on equity capital

By resolution of directors at a special board meeting held on January 5, 2009, the Board of Directors approved payment of dividends from January 20, 2009 on, in the amount of R\$ 122,500, corresponding to R\$ 0.820578 per share.

The ordinary and extraordinary stockholders' meeting held on April 15, 2009, ratified the Board of Directors' decision on the payment of dividends as from April 24, 2009, amounting to R\$ 105,891, corresponding to R\$ 0.709319 per share.

The Board of Directors' also decided upon the distribution of interest on equity capital and interim dividends as follows:

Date	Interest on equity capital		Interim dividends		
	Total	Per share	Total	Per share	Payment
3.31.2009	63,236	0.423590			4.24.2009
6.19.2009	63,938	0.428297			7.01.2009
6.30.2009			60,842	0.407557	7.21.2009
9.30.2009	62,055	0.411900	103,445	0.686625	10.21.2009
12.30.2009	61,381	0.407244			12.30.2009
	250,610	1.671031	164,287	1.094182	

The Company's articles of incorporation provide for mandatory minimum dividends corresponding to 10% of capital, equivalent to R\$ 106.3 million, whenever there is surplus after establishment of the legal reserve.

	<u>2009</u>
Net income for the year	828,019
Legal reserve	(41,401)
Realization of realizable profit reserve	2,276
Dividends expired	590
	<hr/>
Basis for calculation of dividends	789,484
Interest on equity capital	(250,610)
Interim dividends	(164,287)
Statutory reserve	(6,305)
	<hr/>
Earmarked for dividends	368,282

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements--Continued

December 31, 2009 and 2008

(In thousands of reais – R\$, unless otherwise stated)

22. Stockholders' equity--Continued

b) Dividends and interest on equity capital--Continued

Out of the amount earmarked for dividends, as mentioned in Note 35, R\$ 161,000 was paid in January 2010. The remaining balance of R\$ 207,282 will be paid in year 2010.

c) Capital reserves

	<u>2009</u>	<u>2008</u>
Investment grants – CRC (i)	1,264,084	1,264,084
Remuneration of construction in progress (ii)	633,053	633,053
Donations and investment grants	150,489	150,489
Tax incentives – FINAM	6,743	6,743
Special Goodwill on Merger Reserve (Note 8)	205,576	232,005
	<u>2,259,945</u>	<u>2,286,374</u>

(i) *Investment grants - CRC*

The Recoverable Rate Deficit (CRC) account was instituted by Decree No. 41019/1957 and Law No. 5655/1971 to remunerate electricity utilities for certain investments made by them. Upon enactment of Law No. 8631/1993, the CRC ceased to exist, and later on, Law No. 8724/1993 established that CRC credits should be recorded in stockholders' equity as investment grant, under 'Capital Reserve'.

As permitted by CPC No. 13, the Company opted for maintaining under stockholders' equity the CRC balance existing at December 31, 2007 as well as other donations and investment grants recorded as capital reserve, until the related amounts are fully used as prescribed in the Brazilian Corporation Law.

(ii) *Remuneration of construction in progress*

These are credits resulting from the capitalization of the remuneration calculated on equity capital funds 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 Electric Public Utility.

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Notes to financial statements--Continued

December 31, 2009 and 2008

(In thousands of reais – R\$, unless otherwise stated)

22. Stockholders' equity--Continued

d) Income reserves

	<u>2009</u>	<u>2008</u>
Legal reserve (i)	175,154	133,753
Statutory reserve (ii)	106,305	100,000
Realizable profits reserve (iii)	36,533	38,809
Retained profits reserve (iv)	543,694	543,694
	<hr/> 861,686 <hr/>	<hr/> 816,256 <hr/>

(i) *Legal reserve*

Set up at 5% of net income for the year, before any appropriations, capped at 20% of capital.

(ii) *Statutory reserve*

The Company's by-laws provide for the setting up of an investment reserve for the expansion of operations at 20% of annual net income, less legal reserve and mandatory minimum dividends, up to 10% of capital.

(iii) *Realizable profits reserve*

Realizable 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 Retained earnings monthly.

(iv) *Retained profits reserve*

Pursuant to Brazil's Corporation Law, the remaining portion of net income after distribution and other statutory requirements was intended for this reserve in order to meet the Company's capital budgeting and working capital requirements.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements--Continued

December 31, 2009 and 2008

(In thousands of reais – R\$, unless otherwise stated)

23. Operating revenues

a) Revenues from electricity network usage

Revenues from usage of the electricity network (Company and Consolidated), accumulated for the year ended December 31, 2009 are as follows:

	Company		Consolidated
	2009	2008	2009
Base network			
Existing assets	1,239,947	1,037,491	1,239,947
New investments	362,396	484,048	362,396
Bidder	13,680	12,742	21,591
Surplus	9,954	19,198	10,023
Revenue adjustment	19,832	16,320	19,812
Variable deduction	(3,684)	(782)	(3,684)
	1,642,125	1,569,017	1,650,085
Other transmission facilities-- DIT			
Existing assets	104,694	92,845	104,694
New investments	40,822	31,295	40,822
Revenue adjustment	3,394	6,623	3,394
	148,910	130,763	148,910
Charges			
Fuel Consumption Bill – CCC	34,797	35,539	34,797
Energy Development Account – CDE	39,004	38,801	39,004
Alternative Energy Source Program - PROINFA	20,685	11,337	20,685
	94,486	85,677	94,486
	1,885,521	1,785,457	1,893,481

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

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

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Notes to financial statements--Continued
December 31, 2009 and 2008
(In thousands of reais – R\$, unless otherwise stated)

23. Operating revenues--Continued

a) Revenues from electricity network usage--Continued

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

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

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

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

On March 23, 2006, through Official Circular OF/F/1372/2006, CTEEP presented an appeal to ANEEL requesting a review of the position taken by the SFF, that up to December 31, 2009, was not disclosed.

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

In accordance with Concession Agreement No. 59, executed with the Federal Government on June 20, 2001 as intermediated by ANEEL, every four years from the execution date, ANEEL will periodically review the Annual Revenue Allowed (RAP) of electric transmission related to the installations of authorized projects whose business operations commenced after December 31, 1999, for the purpose of promoting efficiency and reasonable rates, in accordance with the methodology approved by Regulatory Resolution No. 257, of March 6, 2007.

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Notes to financial statements--Continued
December 31, 2009 and 2008
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23. Operating revenues--Continued

a) Revenues from electricity network usage--Continued

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

The review comprises revenue repositioning by determining:

- a) the basis for regulatory remuneration to the Base Network - New Facilities (RBNl);
- b) efficient operating costs;
- c) the optimal capital structure and the transmission companies' remuneration;
- d) the amount to be deemed as tariff reducing component – Other Revenues.

First periodic tariff review cycle

Through Resolution No. 488 of June 26, 2007, the result of the first periodic rate review of Companhia de Transmissão de Energia Elétrica Paulista - CTEEP was approved, reducing the new Annual Revenue Allowed (RAP) by 26.15%, to be applied to the Base Network - New Facilities (RBNl) and Other Facilities - New Investments (RCDM) portions effective on July 1, 2005.

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

Second periodic tariff review cycle

The periodic rate review as contractually provided for in July 2009 was postponed to July 2010. On December 21, 2009 ANEEL published Regulatory Resolution No. 386, which establishes overall concepts, related methodologies and procedures applicable to the Second Periodic Tariff Review Cycle – RTP of electric transmission public utility.

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Notes to financial statements--Continued
December 31, 2009 and 2008
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23. Operating revenues--Continued

a) Revenues from electricity network usage--Continued

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

Second periodic tariff review cycle--Continued

As set forth by article 6 of Regulatory Resolution No. 386/09, the tariff review results will be effective from July 1, 2009 onwards. Taking into consideration this retroactive review and the capital cost reduction from 9.18% to 7.24% in this second cycle, the financial statements recognize a reduction in revenues by R\$ 42,554 for the period from July through December/09, matched against accounts receivable.

(iii) *Variable Deduction – PV*

The Variable Deduction - PV consists in the application of a penalty arising from operating inefficiency. The Annual Revenue Allowed (RAP) of CTEEP is subject to a PV, calculated in accordance with the unavailability of facilities and disconnections in the period. It is set forth in the Concession Agreements and regulated by Regulatory Resolution No. 270 of July 09, 2007.

(iv) *Annual revenue adjustment*

On June 25, 2009, Authorizing Resolution No. 843 was issued and established CTEEP's annual revenue allowed from the provision of base network transmission facilities among others, for the 12 month cycle, comprising the period from July 1, 2009 to June 30, 2010.

In accordance with this Resolution, CTEEP's annual revenue allowed (RAP) that was R\$ 1,869,134 on July 1, 2008, fell to R\$ 1,829,752 on July 1, 2009, a reduction of R\$ 39,382, or 2.1%.

The breakdown of the revenue effective from July 1, 2009 to June 30, 2010 is as follows:

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Notes to financial statements--Continued

December 31, 2009 and 2008

(In thousands of reais – R\$, unless otherwise stated)

23. Operating revenues--Continued

a) Revenues from electricity network usage--Continued

(iv) *Annual revenue adjustment* --Continued

	<u>Concession agreement</u>		
	<u>059</u>	<u>143</u>	<u>Total</u>
Base network			
Existing assets	1,087,132	-	1,087,132
New investments	337,656	-	337,656
Bidder		13,925	13,925
Annual revenue adjustment	20,937	(178)	20,759
	<u>1,445,725</u>	<u>13,747</u>	<u>1,459,472</u>
Other transmission facilities – DIT			
Existing assets	312,757	-	312,757
New investments	56,483	-	56,483
Annual revenue adjustment	1,040	-	1,040
	<u>370,280</u>	<u>-</u>	<u>370,280</u>
	<u>1,816,005</u>	<u>13,747</u>	<u>1,829,752</u>

b) Other operating revenues

	<u>Company</u>		<u>Consolidated</u>
	<u>2009</u>	<u>2008</u>	<u>2009</u>
Rental	12,340	10,877	12,340
Services	6,934	6,105	6,934
	<u>19,274</u>	<u>16,982</u>	<u>19,274</u>

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Notes to financial statements--Continued

December 31, 2009 and 2008

(In thousands of reais – R\$, unless otherwise stated)

24. Deductions from operating revenues

	Company		Consolidated
	2009	2008	2009
Taxes on revenues			
COFINS	(76,989)	(77,887)	(77,356)
PIS	(16,695)	(15,747)	(16,775)
ISS	(368)	(306)	(368)
	<u>(94,052)</u>	<u>(93,940)</u>	<u>(94,499)</u>
Regulatory charges			
Fuel Consumption Bill – CCC	(31,578)	(32,306)	(31,578)
Energy Development Account – CDE	(35,396)	(35,272)	(35,396)
Global Reversion Reserve – RGR	(48,113)	(50,314)	(48,312)
Research and Development – R&D	(27,647)	(14,934)	(27,720)
Alternative Energy Source Program - PROINFA	(18,772)	(10,289)	(18,772)
	<u>(161,506)</u>	<u>(143,115)</u>	<u>(161,778)</u>
	<u>(255,558)</u>	<u>(237,055)</u>	<u>(256,277)</u>

25. Costs of operation services and G&A expenses

	Company			2008 Total
	Costs	2009 Expenses	Total	
Personnel	(132,885)	(42,562)	(175,447)	(162,322)
CVM Rule No. 371/00	39,636	15,266	54,902	68,390
Services	(58,522)	(33,688)	(92,210)	(78,718)
Depreciation	(182,122)	(35,568)	(217,690)	(180,288)
Materials	(11,123)	(1,750)	(12,873)	(9,912)
Leases and rental	(5,126)	(3,851)	(8,977)	(7,356)
Contingencies		(24,878)	(24,878)	(35,266)
Other	2,348	(30,659)	(28,311)	(23,520)
	<u>(347,794)</u>	<u>(157,690)</u>	<u>(505,484)</u>	<u>(428,992)</u>

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Notes to financial statements--Continued

December 31, 2009 and 2008

(In thousands of reais – R\$, unless otherwise stated)

25. Costs of operation services and G&A expenses--Continued

	Consolidated		
	2009		
	Costs	Expenses	Total
Personnel	(132,885)	(42,680)	(175,565)
CVM Rule No. 371/00	39,636	15,266	54,902
Services	(59,565)	(33,913)	(93,478)
Depreciation	(184,213)	(35,569)	(219,782)
Materials	(11,124)	(1,750)	(12,874)
Leases and rental	(5,128)	(3,860)	(8,988)
Contingencies	-	(24,878)	(24,878)
Other	2,288	(30,720)	(28,432)
	<u>(350,991)</u>	<u>(158,104)</u>	<u>(509,095)</u>

26. Financial income (expenses), net

	Company		Consolidated
	2009	2008	2009
Income			
Short-term investment income	13,124	17,201	13,529
Interest receivable	103,001	4,117	103,001
Monetary variation	36,841	6,610	36,832
Other	778	604	788
	<u>153,744</u>	<u>28,532</u>	<u>154,150</u>
Expenses			
Interest on equity capital	(250,610)	(239,899)	(250,610)
Interest payable	(130,437)	(66,261)	(133,071)
Charges on promissory notes	(34,496)	(127)	(34,496)
Other	(5,054)	(6,213)	(6,718)
	<u>(420,597)</u>	<u>(312,500)</u>	<u>(424,895)</u>
Financial expenses, net	<u>(266,853)</u>	<u>(283,968)</u>	<u>(270,745)</u>

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Notes to financial statements--Continued

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27. Other operating revenues (expenses)

	Company		Consolidated
	2009	2008	2009
Revenues			
Realization of negative goodwill	16,985	16,985	16,985
Other	281	15,895	281
	17,266	32,880	17,266
Expenses			
Amortization of goodwill	(28,832)	(26,430)	(28,832)
Other (Note 12)	(19,596)	(12,961)	(19,596)
	(48,428)	(39,391)	(48,428)
	(31,162)	(6,511)	(31,162)

28. Income and social contribution taxes on net income

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

	Company	
	2009	2008
Income before income and social contribution taxes	845,476	845,913
Tax rates	34%	34%
Expected expenses on income and social contribution taxes	(287,462)	(287,610)
Income and social contribution taxes on permanent differences	19,395	28,863
Effective expenses on income and social contribution taxes	(268,067)	(258,747)
Income and social contribution taxes		
Current	(278,654)	(279,328)
Deferred	10,587	20,581
	(268,067)	(258,747)

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Notes to financial statements--Continued

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29. Transactions with related parties

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

	Type of operation	2009		2008	
		Assets	Income/ (Expense)	Assets	Income/ (Expense)
Management key personnel	Short-term benefits		(7,989)		(6,710)
ISA Capital	Sublease	15	200	15	201
	Provision of services	7	83	7	67
IEMG	Provision of services	1,499	1,499	-	-
	Sublease	1	17	-	-
IENNE	Sublease	9	95	-	-
IESUL	Sublease	12	12	-	-
Pinheiros	Sublease	3	40	-	-
Serra do Japi	Sublease	2	5	-	-
IEMadeira	Reimbursement for pre-auction analysis	193	-	-	-

The Company's compensation policy does not provide for any post-employment benefits, other long-term benefits, employment termination benefits or share-based payments.

The sublease agreement comprises the area occupied by 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 was signed including, among others, delivery of bookkeeping, tax calculation and payroll processing services.

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Notes to financial statements--Continued

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29. Transactions with related parties--Continued

In 2009, the Company's contract with IEMG to render operating and maintenance services at its facilities came into force.

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

Expenses incurred with pre-auction analyses of which the batches purchased resulted in the incorporation of IEMadeira were recorded and will be reimbursed by this electric utility.

30. Financial instruments

a) Identification and measurement 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 base network and other transmission facilities – DIT is defined by ANEEL, pursuant to prevailing legislation.

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

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

b) Cash and cash equivalents, financial instruments, accounts receivable, other current assets and accounts payable

The amounts recorded approximate their realizable values.

CTEEP – Companhia de Transmissão de Energia Elétrica Paulista

Notes to financial statements--Continued

December 31, 2009 and 2008

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30. Financial instruments--Continued

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 in 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 base network for 216 users, with a bank guarantee clause. Likewise, the Company has agreements regulating the provision of services in other transmission facilities – DIT with 30 concessionaires and other agents, with a bank guarantee clause.

Price risk - pursuant to the concession agreement, 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 23 (a)).

Interest rate risk – the restatement of financing agreements is subject to TJLP and CDI variation (Note 15).

Currency risk - the Company does not have financing, accounts receivable and assets in foreign currency. Its exposure to currency fluctuations is irrelevant, and corresponds to possible import of equipment.

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Notes to financial statements--Continued
December 31, 2009 and 2008
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30. Financial instruments--Continued

e) Risk management--Continued

Since the Company management understands that the above risk exposure is not significant, no sensitivity analysis is provided in this report.

31. Operating leases

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

	<u>2009</u>	<u>2008</u>
Up to one year	3,876	5,500
Over one year and up to five years	1,243	7,066
	<u>5,119</u>	<u>12,566</u>

32. Insurance coverage

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

<u>Type</u>	<u>Coverage</u>	<u>Amount insured - R\$ thousand</u>	<u>Premium – R\$ thousand</u>
Assets	9/1/09 to 9/1/10	2,067,000	3,784
Civil Liability	9/1/09 to 9/1/10	15,000	242
National transport	9/30/09 to 9/30/10	61,397	6,7
Collective personal accidents	5/1/09 to 5/1/10	27,479	1,3
Vehicles	3/2/09 to 3/2/10	Market value	33
			<u>4,067</u>

a) Assets

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

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Notes to financial statements--Continued
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32. Insurance coverage--Continued

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 transport

Coverage of damage 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.

The assumptions adopted for taking out insurance cover, given their nature, do not form part of the financial statement audit scope. Consequently, these were not reviewed by our independent auditors.

33. 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.

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Notes to financial statements--Continued

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33. Collection Lawsuit by ELETROBRÁS against Eletropaulo and EPTE--Continued

Under the partial spin-off explanatory record of Eletropaulo, made on December 31, 1997 and that resulted in the establishment of EPTE - Empresa Paulista de Transmissão de Energia Elétrica S.A. and other companies, Eletropaulo is solely liable for obligations of any kind referring to acts until the spin-off date, except for contingent liabilities whose provisions had been allocated to the 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, corresponding to the amount that it understood to be owed to ELETROBRÁS regarding the balance of the aforementioned financing agreement, and allocation to EPTE's liabilities of the same amount referring to this debt.

Therefore, under the partial spin-off explanatory record of Eletropaulo, EPTE would be responsible for the transferred asset and Eletropaulo would be liable for the contingent liabilities referring to the difference between the 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, on the understanding that EPTE would pay its part with the adjusted amounts of the escrow deposit. CTEEP merged EPTE on November 10, 2001, succeeding it in its rights and obligations.

On September 26, 2003 a decision of the Court of Justice of the State of Rio de Janeiro was published, excluding Eletropaulo from the execution of the aforementioned sentence. Due to these facts, ELETROBRÁS filed, on December 16, 2003, an Appeal to the Higher Court of Justice (STJ) and another one to the Federal Supreme Court (STF) to maintain the collection regarding Eletropaulo. Appeals similar to those of ELETROBRÁS were lodged by CTEEP.

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

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33. Collection Lawsuit by ELETROBRÁS against Eletropaulo and EPTE--Continued

Due to said acceptance by the STJ, on December 4, 2006 Eletropaulo filed a request for amendment of judgment, which was rejected, according to the decision published on April 16, 2007, as well as the Appeals to the STJ and the STF, which sustained the decision of the Higher Court of Justice, and which final and unappealable sentence was rendered on October 30, 2008. In view of these decisions, the execution of the decision filed by ELETROBRÁS follows its normal course as proposed.

With a view to obtaining extension of time to find evidence of the effective liability attributable under the split-off agreement, CTEEP filed a declaratory action against the other parties in connection with the collection proceedings.

With respect to that debt and in view of the formal documents of the partial spin-off of Eletropaulo, CTEEP, according to the understanding of its management and legal advisors, holds only the escrow deposit which was received as an asset from 1988 to pay for a portion of the debt, and intends to proceed in the defense of such right. On the other hand, the Company has not recognized a reserve for the remaining contingency, which the Company understands to be the responsibility of Eletropaulo, to which the debt is being charged by ELETROBRÁS.

34. Supplementary pension plan regulated by state Law No. 4819/58

a) Material fact notices

(i) *July 19, 2005*

"In compliance with CVM Instruction No. 358/02, CTEEP - Companhia de Transmissão de Energia Elétrica Paulista clarifies aspects related to the supplementary pension plan regulated by State Law no. 4819/58. This plan applies to employees hired through May 13, 1974, as mentioned in Note 23.1 to the financial statements of the Company as of December 31, 2004.

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34. Supplementary pension plan regulated by state Law No. 4819/58-- Continued

a) Material fact notices--Continued

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

The necessary funds to cover the charges of the plan are the responsibility of the applicable agencies of the Government of the State of São Paulo. This was implemented according to an agreement made on December 10, 1999 between the São Paulo State Finance Department and the Company, effective until December 31, 2003.

Such procedure was regularly performed until December 2003 by Fundação CESP, with funds from the State Finance Department, transferred by CTEEP. From January 2004 onwards, the State Finance Department began to directly process those payments, without the participation of CTEEP and Fundação CESP.

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

To comply with said court decisions, CTEEP must require on a monthly basis the necessary funds from the São Paulo State Finance Department, to be transferred to Fundação CESP, which must process the payments to the beneficiaries. Said decisions apply to about 6,500 beneficiaries, with a monthly expense 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 object to said judicial decisions since it understands that the responsibility for the payment of the above-mentioned benefits befalls, under applicable legislation, the State of São Paulo.”

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December 31, 2009 and 2008

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34. Supplementary pension plan regulated by state Law No. 4819/58-- Continued

a) Material fact notices--Continued

(ii) *January 27, 2006*

"CTEEP - Companhia de Transmissão de Energia Elétrica Paulista, in accordance with CVM Ruling No. 358/02, announces a change in procedure by the State Finance Department, due to a recent understanding of the State Attorney General regarding the transfer of funds to CTEEP for compliance with the decision of the 49th Labor Court of São Paulo, which authorized Fundação CESP to resume processing of pension plan benefit payments established by State Law No. 4819/58 using funds received from the State of São Paulo and transferred by CTEEP. This matter has been previously addressed in Note 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. As informed by the State Finance Department, certain expenses were disallowed in that month due to the recent understanding by the State Attorney General regarding the State's responsibility in this case. The decision of the 49th Labor Court currently applies to 5,528 beneficiaries. The State Finance Department continues directly paying 794 benefits established by State Law no. 4819/58.

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

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Notes to financial statements--Continued

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34. Supplementary pension plan regulated by state Law No. 4819/58-- Continued

a) Material fact notices--Continued

(iii) *February 24, 2006*

“CTEEP - Companhia de Transmissão de Energia Elétrica Paulista, in accordance with CVM Instruction no. 358/2002, announces, in furtherance of the information included in the Material Fact Notice of January 27, 2006, that the State Finance Department transferred to CTEEP in February 2006 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. 4819/58 using the funds received from the State of São Paulo and transferred by CTEEP. In February, CTEEP's total expenditure to comply with said court decision was R\$ 19,652.

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

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

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

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

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34. Supplementary pension plan regulated by state Law No. 4819/58-- Continued

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

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

c) Current situation

As a result of the aforementioned facts and by force of said decision of the 49th Labor Court of São Paulo, as well as the decision of the STJ, CTEEP passed on to Fundação CESP, in the period of September 2005 to December 2009, the amount of R\$ 1,258,920 for payment of benefits under State Law No. 4819/58, having received from the State Finance Department the amount of R\$ 850,219 for that purpose. The difference between the amount passed on to Fundação CESP and the amount reimbursed by the State Finance Department, of R\$ 408,701, is currently claimed by the Company at the administrative level (Note 6).

On October 20, 2005, CTEEP received from the State Attorney General Office (PGE) a copy of that agency's statement, dated October 6, 2005, regarding the consultation by the State Finance Department on the scope of said court decisions. In this statement, the PGE concludes that the decision of the 49th Labor Court of São Paulo applies subjectively to the State Finance Department, which is the defendant in the claim. Accordingly, the State Attorney General concluded that "in the current scenario, the State Finance Department is liable for the full reimbursement of the amounts disbursed by CTEEP for compliance with the court decision regarding labor claim No. 1145/2005-6, currently in progress at the 49th Labor Court of São Paulo". On the other hand, in the same statement, the PGE concludes that the decision issued by the Regional Labor Court, whose effects are suspended by the injunction obtained as a result of the Claim for Correction, does not fully apply to the State Finance Department, which was removed from the lawsuit at the plaintiff union's request. In this case, the State Finance Department should, according to the PGE, reimburse CTEEP, observing the strict limits of State Law No. 4819/58, excluding possible benefits established by the related regulation, that surpass or that are in conflict with the specific legislation.

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34. Supplementary pension plan regulated by state Law No. 4819/58-- Continued

c) Current situation--Continued

In view of the aforementioned, it is clear that the PGE understanding of the issue, formally stated through its PGE/SF Official Letter No. 01, dated February 10, 2006, and respective PGE/SF Technical Note No. 01/06, changed the prior understanding, which was in effect through December 2005 for purposes of transfer of funds to CTEEP to comply with the decision of the 49th Labor Court of São Paulo. According to PGE current understanding, the State Finance Department must disallow certain transfers to CTEEP for purposes of transfer to Fundação CESP to comply with said court decision.

In October 2008, the STJ decided again for the jurisdiction of the Ordinary Courts in a Civil Class Action involving the same parties and matter, the sentence of which was subject to requests for amendment.

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

In January 2009, due to the inconclusive decision of the 49th Labor Court on 583 retirees, such retirees were transferred to receive direct payment by the State Finance Department. These had represented a cash disbursement of R\$ 1.9 million/month for the Company.

According to the Material Fact Notices mentioned above, CTEEP continues its efforts to make the decision awarded by the 49th Labor Court of São Paulo null and void so as to transfer the responsibility for the pension plan benefit payment established by State Law No. 4819/58 back to the State Finance Department. CTEEP also confirms its legal advisors' understanding that the expenses arising from State Law No. 4819/58 and respective regulation are the full responsibility of the State Finance Department and is analyzing additional actions to protect the Company's interests. The Company records these disallowances as "Accounts receivable from São Paulo State Finance Department" (Note 6).

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35. Subsequent events

Notice to stockholders

At the extraordinary meeting held on January 11, 2010, the Board of Directors approved payment of dividends on year 2009 profit as from January 22, 2010, in the amount of R\$ 161,000, corresponding to R\$ 1.068656 per share.

Debentures

CTEEP issue in two series of 54,860 debentures was financially settled in January 2010 in the total amount of R\$ 548,600, as set by Bookbuilding:

	Number of debentures	R\$	Remuneration	Amortization	
				Term	Dates
1 st series	49,100	491,000	CDI + 1.3% p.a.	5 years	12/15/2012 12/15/2013 12/15/2014
2 nd series	5,760	57,600	IPCA + 8.1% p.a.	8 years	6/15/2014 12/15/2015 12/15/2016 12/15/2017

The remuneration on both debenture series is payable semiannually, every December 15 and June 15, first maturing on June 15, 2010.

Supplementary pension plan governed by Law No. 4819/58

On February 22, 2010 the requests for amendment of the decision whereby jurisdiction of the Ordinary Courts over a Civil Class Action was confirmed were deemed unfounded since no conflict of jurisdiction was determined. For this reason, the action will continue under examination by the State Court.

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35. Subsequent events--Continued

Collection suit brought by Eletrobrás against Eletropaulo and EPTE

A court order issued on February 25, 2010 in regard to the collection enforcement suit filed by Eletrobrás against Eletropaulo and EPTE ruled on settlement by arbitration, so that the liability for the debt may be assigned by means of an expert examination, in view of the provisions set forth in the partial spin-off explanatory record and attachments thereto. On the same date the court acknowledged the declaratory action connection to the enforcement suit.

Capital increase

At the Board of Directors' Meeting held on March 8, 2010, a capital increase was approved in an amount capped at R\$ 76,881, upon private issue of new shares at the price of R\$ 48.50 per share. Out of this capital increase, R\$ 28,832, equivalent to 594,477 shares are assignable to the controlling stockholder and will be paid up through capitalization of capital reserves (special goodwill on merger reserve) corresponding to the tax benefit represented by goodwill merged into the Company.

Pursuant to article 171 of Law No. 6404/76, stockholders will be granted a 30-day term to exercise their preemptive rights.