EMAGIN CORP
Form 4
November 07, 2011

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
CRONSON PAUL C

(Last) (First) (Middle)

C/O EMAGIN CORPORATION, 3006 NORTHUP WAY, #103

(Street)

BELLEVUE, WA 98004

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
EMAGIN CORP [EMAN]

3. Date of Earliest Transaction (Month/Day/Year)
11/03/2011

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director
_____ 10% Owner
_____ Officer (give title below)
_____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative	2. Conversion	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if	4. Transaction	5. Number of Derivative	6. Date Exercisable and Expiration Date	7. Title and Amount of Underlying Securities

Security (Instr. 3)	or Exercise Price of Derivative Security		any (Month/Day/Year)	Code (Instr. 8)		Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		(Month/Day/Year)		(Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Stock Options (right to buy)	$ 4.03	11/03/2011		A		25,000		11/03/2011	11/03/2021	Common Stock	25,000
Stock Options (right to buy)	$ 4.03	11/03/2011		A		15,000		12/31/2011	11/03/2021	Common Stock	15,000

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
CRONSON PAUL C C/O EMAGIN CORPORATION 3006 NORTHUP WAY, #103 BELLEVUE, WA 98004	X			

Signatures

/s/ Paul Cronson	11/03/2011
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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Sales & marketing expense	57,851	6,074 (a)	63,925
Engineering, research, & development expense	128,571	17,920 (a)	146,491
General & administrative	545,039	81,212	

			(a) 626,251
Total Operating Expenses	731,461	105,206	836,667
Loss From Operations	(670,660)	(105,206)	(775,866)
Other Income/(Expense)			
Interest income	158	-	158
Interest expense	(105,408)	-	(105,408)
Change in fair market value of derivative liabilities	47,693	(478,095) (a)	(430,402)
Gain on debt extinguishment	-	-	-
Total Other Income/(Expense)	(57,557)	(478,095)	(535,652)
Net Loss	$(728,217)	$(583,301)	$(1,311,518)
Net Loss Per Share - Basic and Diluted	$(0.04)	$(0.03) (a)	$(0.07)
Weighted average number of shares during the period - basic and diluted	17,711,048	17,711,048	17,711,048

(a) To reflect change due to the change in fair market value of restricted stock in underlying calculations

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NOTE 15 - RESTATEMENT OF FINANCIAL STATEMENTS (CONTINUED)

Balance Sheet
(Unaudited)

	June 30, 2011			
	As Filed	Adjustments		Restated
Current Assets				
Cash	$ 23,195	$ -		$ 23,195
Accounts Receivable	154,978	-		154,978
Other Current Assets	43,852	-		43,852
Total Current Assets	222,025	-		222,025
Equipment, Net	31,865	-		31,865
Goodwill	1,996,763	7,067,000	(a)	9,063,763
Intangible Assets, Net	2,319,240	32,143	(a)	2,351,383
Other Assets	67,750	-		67,750
TOTAL ASSETS	$ 4,637,643	$ 7,099,143		$ 11,736,786
Current Liabilities				
Accounts Payable	$ 304,088	$ -		$ 304,088
Accrued Interest	91,628	-		91,628
Accrued and Deferred Personnel Compensation	127,802	-		127,802
Deferred Revenue - related party	200,000	-		200,000
Deferred Revenue and Customer Deposits	143,639	-		143,639
Notes Payable, net of discount	580,895	-		580,895
Convertible notes payable, net of discount	867,111	(2,944)	(a)	864,167
Cash payment obligation, net of discount	219,424	-		219,424
Derivative Liabilities	329,479	593,804	(a)	923,283
Other Current Liabilities	98,488	-		98,488
Total Current Liabilities	2,962,554	590,860		3,553,414
Non-Current Liabilities				
Notes Payable	31,807	-		31,807
Total Non-Current Liabilities	31,807	-		31,807
Total Liabilities	2,994,361	590,860		3,585,221
Stockholders' Deficit				
Common Stock, $0.001 par value; 150,000,000				
shares authorized; 21,509,620 and 17,700,000 shares				
issued and outstanding as of June 30, 2011 and				

December 31, 2010, respectively		21,509		-			21,509
Additional Paid-in Capital		10,990,429		7,623,382	(a)		18,613,811
Accumulated Deficit		(9,368,656)		(1,115,100)	(a)		(10,483,756)
Total Stockholders' Deficit		1,643,282		6,508,283			8,151,565
TOTAL LIABILITIES & STOCKHOLDERS' DEFICIT	$	4,637,643	$	7,099,143		$	11,736,786

(a) To reflect change due to the change in fair market value of restricted stock in underlying calculations

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NOTE 15 - RESTATEMENT OF FINANCIAL STATEMENTS (CONTINUED)

Statement of Operations (Unaudited)

	Three months ended June 30, 2011			
	As Filed	Adjustments		Restated
Revenues				
Revenues	$ 553,108	$ -		$ 553,108
Cost of revenues	179,051	-		179,051
Gross Margin	374,057	-		374,057
Operating Expenses				
General & administrative	374,448	185,187	(a)	559,635
Sales & marketing expense	200,822	15,263	(a)	216,085
Engineering, research, & development expense	161,291	17,982	(a)	179,273
Depreciation & amortization	124,741	-		124,741
Total Operating Expenses	861,302	218,432		1,079,734
Loss From Operations	(487,245)	(218,432)		(705,677)
Other Income/(Expense)				
Interest income	16	-		16
Interest expense	(138,258)	-		(138,258)
Change in fair market value of derivative liabilities	159,263	(313,367)	(a)	(154,104)
Total Other Income/(Expense)	21,021	(313,367)		(292,346)
Loss before income taxes	(466,224)	(531,799)		(998,023)
Income tax benefit/(expense)	38	-		38
Net Loss	$ (466,186)	$ (531,799)		$ (997,985)

	47.2	0.0	12.4	59.5
Distribution	1,383.3	0.0	21.4	1,404.7
Supply	141.9	0.0	0.5	142.4
Telecommunications	0.0	4.0	146.4	150.4
Other operations and consolidation adjustments[1]	(809.8)	(96.8)	108.4	(798.2)

EDP Group	8,584.4	664.3	428.3	9,677.0

(1) *Services provided by EDP Group and consolidation adjustments.*

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The following table sets forth our operating costs and expenses and our results of operations as a percentage of total turnover:

	Year ended December 31, 2004	2005
Total turnover	100.0%	100.0%
Raw materials and consumables	53.9%	60.1%
Supplies and services	9.0%	8.4%
Personnel costs and employee benefits expense	13.2%	7.7%
Concession and power-generation rental costs	2.6%	2.2%
Other operating expenses (income)	5.7%	0.4%
Provisions	0.9%	0.1%
Depreciation and amortization	11.4%	10.3%
Compensation of depreciation	1.2%	1.0%
Total operating costs and expenses	95.7%	88.2%
Operating margin	4.3%	11.8%
Gains / losses from the sale of financial assets	0.1%	4.6%
Financial income/expense	3.7%	4.1%
Share of profit of associates	(0.1)%	(0.4)%
Profit before tax	0.9%	12.6%
Consolidated net income attributable to equity holders of EDP	0.6%	11.1%

2005 COMPARED WITH 2004

Turnover

Our total turnover for 2005 increased 32.4% to 9,677.0 million from 7,310.7 million in 2004, due primarily to a 2,045.0 million increase in electricity sales from our activities in Iberia and Brazil. In 2005, revenues as well as the other items in our consolidated profit and loss account include the effect of the consolidation of HidroCantábrico operations during the full year of 2005, the proportionate consolidation of Portgás in 2005 at and the discontinuation of activities of Edinfor in January 2005 and Comunitel in October 2005.

Sales of electricity

Our total electricity sales increased 31.3% to 8,584.4 million in 2005, representing 88.7% of our total turnover, from 6,539.4 million in 2004. This increase was mainly due to higher energy charges under the PPAs in Portugal, an increase in electricity wholesale prices in Iberia and our higher sale and distribution volumes in Portugal, Spain and Brazil. In 2005, electricity sales were also affected by the consolidation effects noted above.

Electricity sales in Iberia from our generation activities, which represented 35.3% of our total consolidated electricity sales, increased 77.1% to 3,034.3 million in 2005 from 1,713.8 million in 2004. This increase was mainly due to higher energy charges under the PPAs, an increase in electricity wholesale prices in Iberia and an increase in installed capacity in comparison with 2004. In Portugal, electricity sales increased 32.7% to 1,965.3 million in 2005. Approximately 72% of our Portuguese generation electricity sales are based on long-term PPAs between our power plants and REN. The PPAs provide for remuneration to our power plants in the binding sector for fuel consumed in producing electricity. Due to lower hydroelectricity levels in 2005 as compared to 2004 (a hydroelectric coefficient of 0.41 in 2005 compared with a hydroelectric coefficient of 0.81 in 2004), our thermal power plants bound by PPAs were utilized more, which, combined with an increase in international fuel prices, resulted in higher fuel costs and thus in higher revenues under the PPAs variable component that remunerates us for fuel consumption. Electricity sales from our Portuguese generation activity also benefited from a higher contribution of our power plants in the non-binding sector resulting from higher electricity wholesale prices and an increase in the average installed capacity in comparison with 2004. This increase in capacity resulted from the full year of operations of the first two 392 MW units of our Ribatejo CCGT plant, which started operations in February and November 2004, and from the start of operations of the third unit in the fourth quarter of 2005. In Spain, electricity sales increased 836.1 million to 1,069.0 million in 2005 from 232.9 million in 2004, primarily due to the consolidation of HidroCantábrico s 2005 annual profit and loss account, the increase in Spanish pool prices (to 62.4/MWh in 2005 from 35.7/MWh in 2004) and the increase in generation output from our power plants in Spain (to 15,198 GWh in 2005 from 14,298 GWh in 2004), as thermal output increased in a very dry year.

Electricity sales in Iberia from our distribution activities, which represented 44.9% of our total consolidated electricity sales, increased 5.4% to 3,855.9 million in 2005 from 3,656.9 million in 2004. In Portugal, electricity sales increased 3.5% to 3,737.6 million in 2005, mainly due to a 6.0% growth in electricity consumption (to 43,785 GWh in 2005 from 41,315

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GWh in 2004). This increase was primarily due to a 4.7% increase in low-voltage consumption, caused by a warm summer and a particularly cold winter, and to a 7.3% increase in high-voltage and medium-voltage consumption resulting from the fact that cogenerators opted to sell to the grid most of the energy they produced at special regime prices, later buying back any electricity needed at lower prices. In Spain, electricity sales in 2005 increased 71.5 million to 118.3 million, primarily due to the consolidation of HidroCantábrico s 2005 annual profit and loss account.

Electricity sales in Iberia from our supply activities, which represented 10.1% of our total consolidated electricity sales, increased 102.8% to 868.3 million in 2005 from 428.1 million in 2004, primarily due to the consolidation of HidroCantábrico s 2005 annual profit and loss account, and following a 36% increase in the electricity sold to liberalized clients in the Iberian market (to 12,240 GWh in 2005 from 9,028 GWh in 2004). Volumes sold in Portugal increased 44% to 6,314 GWh in 2005, while volumes sold in Spain increased 28% to 5,926 GWh in 2005.

Electricity sales from our Brazilian operations, which represented 18.3% of our total consolidated electricity sales, increased 40.4% to 1,572.3 million in 2005 from 1,119.8 million in 2004, primarily due to higher electricity sales in the distribution activity and to the appreciation of the Brazilian real against the euro. Electricity sales from the distribution activity in Brazil, which represented 88% of total electricity sales in Brazil, increased 38.0% to 1,383.3 million in 2005 due to the 3.0% growth in electricity consumption in our concession areas and the 2004 and 2005 tariff adjustments in our distribution companies. These adjustments consisted of a 15.95% average tariff increase for Bandeirante in October 2004, a 20.69% average tariff increase for Enersul in April 2005 and a 4.93% average tariff increase for Escelsa in August 2005. Electricity sales from our Brazilian operations were also positively affected by a 32% increase in electricity sales from our supply activity, to 6,379 GWh in 2005 from 4,849 GWh in 2004.

Other sales

Our other sales activities, including sales of natural gas, steam, ash, telecommunications equipment, information technology products, and sundry materials, generated revenues of 664.3 million in 2005 compared with 249.0 million in 2004, due primarily to the consolidation effects noted above, especially the consolidation of HidroCantábrico s 2005 annual profit and loss account and its subsidiary for carrying out gas activity in Spain, Naturgás. Other sales were also affected by the discontinuation of activities noted above.

Other sales from our gas activities in Iberia, which represented 91.8% of our total consolidated other sales, increased 433.6 million to 610.0 million in 2005 due to the consolidation of HidroCantábrico s 2005 annual profit and loss account, to the proportional (59.6%) consolidation of Portgás in 2005 and to an increase of gas sales in Spain. This increase in gas sales resulted from higher regulated revenues from our distribution activity and a 19.7% increase in the gas volumes sold to liberalized clients (to 11,791 GWh in 2005 from 9,853 GWh in 2004).

Services rendered

Activities generating these revenues include electricity-related services, services related to telecommunications, information technology systems and engineering, as well as laboratory, training, medical assistance, consulting, multi-utility and other services. Our revenues from services rendered decreased 18.0% to 428.3 million in 2005 from 522.3 million in 2004, primarily due to the discontinuation of the activities of Edinfor in January 2005 and Comunitel in October 2005, noted above.

Services rendered from our generation activities in Iberia decreased to 22.8 million in 2005 from 55.0 million in 2004. Our generation activity in Portugal guarantees the purchase price to our supply activity in Portugal, shielding the supply activity from short-term market price volatility. In 2004, the difference between the market price and the fixed price contracted with the supply activity in Portugal had a positive impact on the services rendered line, whereas in 2005 this had a negative impact and was accounted for as raw materials and consumables used. The negative result in 2005 is due to the effect of high wholesale prices in 2005 on the electricity purchase service provided by our generation activity in Portugal to our supply activity in Portugal. Our generation activity in Portugal guarantees the purchase price to our supply activity in Portugal, shielding the supply activity from short-term market price volatility but exposing the generation activity to the adverse impacts from wholesale prices that exceeded the guaranteed price. Services rendered by our distribution activities in Iberia increased 68.1% to 61.5 million in 2005, primarily due to the consolidation of HidroCantábrico s 2005 annual profit and loss account, and the increased number of liberalized clients in Spain connected to our distribution network. The liberalized clients must make payments for the use of the distribution grid, which are accounted for as services provided. Services rendered by our gas operations in Iberia increased to 46.8 million in 2005, primarily due to the consolidation of HidroCantábrico s 2005 annual profit and loss account and the increase in liberalized clients in Spain connected to our distribution network, who must pay for the use of the distribution grid. Services rendered by our operations in Brazil increased 34.1% to 34.3 million in 2005

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from 25.6 million in 2004 partly due to the appreciation of the Brazilian real against the euro. Telecommunications services, which represented 34.2% of our total consolidated services rendered, decreased 3.3% to 146.4 million in 2005 from 151.4 million in 2004, mainly due to a decrease in residential voice services from indirect access clients following the decision to focus on direct access clients, the effects of which were not felt immediately.

Raw materials and consumables used

Our total consolidated cost of raw materials and consumables used increased 47.4% to 5,813.2 million in 2005 from 3,943.5 million in 2004, due partially to the consolidation effects noted above, especially the consolidation of HidroCantábrico s 2005 annual profit and loss account. In addition, raw materials and consumables used were also affected by the increase in electricity volumes purchased and sold by our supply and distribution activities in Iberia, the rise of wholesale prices in Spain and generation costs in Portugal, which affected the electricity purchases of our supply and distribution activities, higher fuel costs at the generation activity in Iberia resulting from a dry year, in which thermal generation was increased at the expense of hydroelectric power, and a rise in fuel prices.

Cost of consumed electricity

Our total consolidated cost of consumed electricity increased 26.6% to 4,222.0 million in 2005 from 3,335.8 in 2004 primarily due to the consolidation of HidroCantábrico s 2005 annual profit and loss account, the increase in electricity volumes purchased by our supply and distribution activities in Iberia combined with higher wholesale costs and an increase in the cost of consumed electricity in Brazil, which resulted from the appreciation of the Brazilian real against the euro and from higher system costs paid by our distribution companies.

Cost of consumed electricity in Iberia from our generation activities, which represented 5.6% of our total consolidated cost of consumed electricity, increased to 237.9 million in 2005 from 61.8 million in 2004, primarily due to the electricity purchases made by the energy management unit within our Portuguese generation activity, in the Spanish pool at higher prices, and to provide electricity to our Portuguese supply activity.

Cost of consumed electricity in Iberia from our distribution activities, which represented 61.9% of our total consolidated cost of consumed electricity, increased 11.9% to 2,613.8 million in 2005 from 2,336.1 million in 2004. In Portugal, the cost of consumed electricity increased 11.0% to 2,580.2 million, mostly due to a 6.0% increase in electricity distributed and a rise in wholesale costs, related to an increase in the Global Use of the System Tariff (mainly higher costs from special regime generation) and in fuel costs. The Global Use of the System Tariff and fuel costs are passed through to the end-use regulated tariff. In Spain, the cost of consumed electricity in 2005 increased 21.7 million to 33.6 million, primarily due to the consolidation of HidroCantábrico s 2005 annual profit and loss account.

Cost of consumed electricity in Iberia from our supply activities, which represented 25.7% of our total consolidated cost of consumed electricity, increased by 163.8% to 1,083.9 million in 2005 from 410.8 million in 2004. In Portugal, the cost of consumed electricity increased by 86.4% to 581.0 million in 2005, mainly due to a 44% increase in volumes sold and an upward revision of the fixed price contracted with our energy management unit to source electricity. In Spain, the cost of consumed electricity increased by 403.8 million to 502.9 million in 2005, mostly resulting from a 28% increase in volumes sold and higher pool prices in Spain, where this activity purchases electricity.

The cost of consumed electricity from our operations in Brazil, which represented 23.0% of our total consolidated cost of consumed electricity, increased by 31.7% to 971.9 million in 2005 from 738.0 million in 2004, mainly due to the higher cost of consumed electricity in the distribution activity and to the appreciation of the Brazilian real against the euro. The cost of consumed electricity from the distribution activity, which represented 87% of the total cost of consumed electricity in Brazil, increased 28.7% to 846.2 million, following higher system costs paid by our distribution companies. These system costs are, nevertheless, a pass-through to the end-user tariff. The cost of consumed electricity from our operations in Brazil was also affected by the increase in electricity volumes sold by our supply activity.

Fuel costs

Our fuel costs increased 100.1% to 1,103.7 million in 2005 from 551.6 million in 2004, mainly due to the consolidation of HidroCantábrico s 2005 annual profit and loss account and an increase in thermal generation by our Iberian generation activities, together with a rise in international fuel prices.

Fuel costs in Iberia from our electricity generation activities, which represented 98.6% of our total consolidated fuel costs, increased by 101.5% to 1,088.5 million in 2005 from 540.1 million in 2004. In Portugal, fuel costs increased by 68.1% to 710.6 million in 2005, reflecting an increase in fuel utilization by our power plants, associated with a higher recourse to thermal generation due to a very dry year and an increase in fuel prices.

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In order to account for the variability of hydrological conditions in Portugal and its impact on generation costs in the binding sector, we use a hydrological correction account, or hydro account, which is recorded on our balance sheet. The hydro account is an accounting mechanism established by Portuguese law. Because tariffs in Portugal are computed based on the assumption of conditions in an average hydrological year, the purpose of this account is to correct for the short-term effect of hydro variability on binding sector generation costs. In years with favorable hydrological conditions, there is an increase in hydroelectric generation, whereas in years with unfavorable hydrological conditions, there is a decrease in hydroelectric generation. We cannot modify the tariff we charge to take into account the changes in variable costs incurred due to hydrological conditions. In years of favorable hydrological conditions, the hydro account is added using cash payments by REN, and in years of unfavorable hydrological conditions, we draw from the hydro account and make cash payments to REN in order to compensate for increased generation costs in the PES. These upward or downward adjustments to the hydro account are made based upon the economic reference cost calculated on the basis of an average hydrological year and observed fuel prices.

As of December 31, 2005, the hydro account amounted to 170.0 million, reflecting a decrease of 194.2 million compared to December 31, 2004. This decrease primarily reflects 200.2 million paid to REN, partially offset by 6.0 million of interest. In 2004, the hydro account decreased 23.3 million to 364.2 million. The difference between the hydro account decreases in 2005 and 2004 is primarily a result of 2005 having been an exceptionally dry year (hydro coefficient of 0.41 in 2005 compared with 0.81 in 2004).

The Portuguese government determines a level of reference for the hydro account, based upon the least favorable period of hydrological conditions during the previous 30 years, which it expects to be adequate to withstand unfavorable hydrological conditions that may occur in the future. The government has determined that the hydro account must not exceed the level of reference. The level of reference of the hydro account was 387.5 million for 2005 and 2004.

We record as an annual expense deemed interest credited to the hydro account corresponding to the average interest rate paid on our euro-denominated borrowings for the applicable year. For more information on the hydro account, you should read note 31 to our consolidated financial statements.

Fuel costs from our generation activity in Spain increased by 260.6 to 378.0 million in 2005 from 117.4 million in 2004, primarily due to the consolidation of HidroCantábrico s 2005 annual profit and loss account, a higher utilization of our thermal power plants caused by a very dry year and by the high increase in natural gas costs for our CCGT following the rise in prices of oil and its derivates, to which the prices in our gas sourcing contracts are indexed.

Other materials

The major components of our costs for other materials are the cost of gas, cables, meters, transformers and other goods for resale. These costs increased to 487.5 million in 2005, primarily due to the consolidation of HidroCantábrico s 2005 annual profit and loss account.

Costs for other materials from our gas activities in Iberia, which represented 93.2% of our total consolidated costs for other materials, increased to 454.2 million in 2005 from 123.1 million in 2004. In 2005, this reflected the change to the consolidation of HidroCantábrico s 2005 annual profit and loss account, the proportional consolidation of Portgás in 2005 and higher costs of gas for resale in Spain, which was caused by the increase of the wholesale costs for the distribution and supply activities and higher gas volumes sold in the liberalized market.

Operating Expenses

Our total consolidated operating expenses, which consist of supplies, services and personnel costs, decreased by 4.0% to 1,563.1 million in 2005 from 1,628.7 million in 2004, primarily due to the effects of the Human Resources Restructuring Program, or HRRP, restarted in 2003 at the Portuguese electricity business, which was partly offset by the negative impact of the higher costs associated with supplies and services at the electricity generation and distribution activity in Iberia and electricity activity in Brazil.

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Personnel costs

Total consolidated personnel costs, which consist mainly of wages, salaries, social security and employee benefits expenses, decreased 22.9% in 2005 to 746.3 million from 967.8 million in 2004, due primarily to the effects of the HRRP restarted in 2003 at the Portuguese electricity business. In 2004, the HRRP an effect of approximately 337 million in distribution activity costs, while in 2005 this program only had an impact of 30 million, following its conclusion.

Personnel costs in our generation activity in Iberia, which represented 21.5% of our total consolidated personnel costs, increased 20.9% to 160.4 million in 2005 from 132.6 million in 2004 primarily due to the consolidation of HidroCantábrico s 2005 annual profit and loss account and costs related to an early-retirement program and negotiated dismissals at HidroCantábrico.

Personnel costs of our electricity distribution activity in Iberia, which represented 45.8% of our total consolidated personnel costs, amounted to 346.8 million in 2005 from 639.7 million in 2004. In Portugal, personnel costs decreased to 311.7 million in 2005 from 630.3 million in 2004, since the HRRP cost approximately 337 million in 2004 and 30 million in 2005. In Spain, costs increased by 25.7 million in 2005 to 35.1 million from 9.4 million in 2004, primarily due to the consolidation of HidroCantábrico s 2005 annual profit and loss account and personnel restructuring costs.

Personnel costs in our gas activity in Iberia, which represented 3.4% of our total consolidated personnel costs, increased by 17.9 million to 25.1 million in 2005. This increase was primarily due to the consolidation of HidroCantábrico s 2005 annual profit and loss account, the proportional consolidation of Portgás in 2005 and personnel restructuring costs at Naturgás in 2005.

Personnel costs in the Brazilian electricity business, which represented 11.2% of our total consolidated personnel costs, increased 23.3% to 83.4 million in 2005 from 67.6 million in 2004, which primarily reflects the appreciation of the Brazilian real against the euro in 2005.

Personnel costs in our telecommunication activities, which represented 3.5% of our total consolidated personnel costs, decreased 11.4% to 25.9 million in 2005 from 29.3 million in 2004, reflecting a reduction in the number of employees and lower bonuses paid.

Supplies and services

These costs consist of supplies and services provided to us by external suppliers, including external maintenance and repairs, specialized services, communication, rentals, insurance and other services. External maintenance and repairs consist of work on our power plants, substations and transmission and distribution networks that we subcontract. Other specialized services include technical services such as auditing, legal, consulting and revenue collection services. Communication services include telecommunications, post, delivery and courier services. The total consolidated cost of external supplies and services increased 23.6% to 816.8 million in 2005 from 660.9 million in 2004, mainly affected by higher costs in the electricity distribution and generation activity in Iberia and Brazil.

Supplies and services in our electricity generation business in Iberia, which represented 19.7% of our total consolidated supplies and services, increased by 53.0% to 161.3 million in 2005 from 105.4 million in 2004. In Portugal, these costs rose in both conventional generation and renewable generation activities. The increase in expenses related to generation activity was provided by EDP Group companies as the result of higher charges from EDP Valor, our services company, while the increase provided by companies outside of the EDP Group are related to higher maintenance costs following a higher utilization of fuel-oil power stations and the start of operations of Ribatejo s second 392MW unit. Costs in Portugal also rose due to costs incurred in 2005 in our renewable generation activity related to research on new technologies relating to solar thermal and wind. For wind, we carried out measuring tests to evaluate the potential of some sites for new wind farms. In Spain, supplies and services increased by 43.3 to 58.2 million in 2005 from 14.9 million in 2004, reflecting the consolidation of HidroCantábrico s 2005 annual profit and loss account, higher overhead costs and higher O&M costs relating to repair work at Aboño II and a programmed stoppage at Soto II.

Supplies and services in our electricity distribution business in Iberia, which represented 37.4% of our total consolidated supplies and services, increased by 26.6% to 305.7 million in 2005 from 241.4 million in 2004. In Portugal, these costs rose 13.1% to 256.7 million in 2005 from 226.9 million in 2004, primarily due to an increase in management fees invoiced by EDP S.A., our holding company, following the new group policy of allocating to the business units the costs of services rendered by the holding company, and by EDP Valor for new services rendered, the accounting of supplies and services provided by Edinfor and an increase of commercial costs (mostly advertising and meter readings). In Spain, supplies and services increased 34.5 million to 49.0 million in 2005 from 14.5 million in 2004, primarily due to the consolidation of HidroCantábrico s 2005 annual profit and loss account, higher overhead costs allocated to this activity and higher costs associated with commercial management services.

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Supplies and services in our electricity supply business in Iberia, which represented 4.4% of our total consolidated supplies and services costs, increased 113.0% to 36.3 million in 2005 from 17.0 million in 2004. This increase in 2005 was primarily due to the Consolidation of HidroCantábrico s 2005 annual profit and loss account, higher commercial costs related to marketing promotions and improvement of call center services.

Supplies and services in our gas business in Iberia, which represented 4.7% of our total consolidated supplies and services costs, increased 29.0 million to 38.3 million in 2005. This increase was primarily due to the consolidation of HidroCantábrico s 2005 annual profit and loss account, the proportional consolidation of Portgás in 2005, the promotion of Naturgás commercial image and the launch of a successful marketing campaign to promote Naturgás dual electricity and gas service offering to liberalized clients in Spain.

Supplies and services costs in the Brazilian electricity business, which represented 13.3% of our total consolidated supplies and services costs, increased 46.5% to 109.0 million in 2005 from 74.4 million in 2004, primarily reflecting the appreciation of the Brazilian real against the euro and higher costs at the distribution activity. The increase in distribution activity costs resulted from annual contractual adjustments with external entities, higher maintenance costs due to the extension of the network made by the universal connection program, intensification of the program to reduce technical and commercial losses at the distribution grid and higher consulting costs due to company restructuring and IT services.

Other income and other expenses

Concession and power-generation rents

Concession and power-generation rental costs, which consist mainly of rents paid by our distribution activity in Portugal to municipalities for concessions to distribute low-voltage electricity, increased to 209.0 million in 2005 from 190.2 million in 2004. In the Portuguese distribution activity, the amount of rents payable to municipalities for concessions is set by government regulation and is calculated by multiplying the amount of low-voltage electricity and public lighting invoiced in the respective municipal areas in the previous year by an average concession fee. This concession fee was 7.5% in both 2004 and 2005. The 9.9% increase in concession and power-generation rental costs for 2005 compared to 2004 was primarily due to an increase in the electricity sales of low voltage and public lighting in the Portuguese distribution activity in 2004 compared to 2003.

Other operating (expenses)/income

This item primarily includes taxes other than income taxes, impairment losses on doubtful debts and other assets and other operating expenses and income. Other operating (expenses)/income decreased to a 38.4 million expense in 2005 from a 417.4 million expense in 2004. This decrease is explained by the fact that in 2004 we recorded a full valuation allowance against an asset recorded in our accounts, in the amount of 315.6 million. During 2004, the Portuguese government issued Decree law no. 240/2004 to regulate the early termination of the PPAs. As the hydrological correction mechanism will likely be terminated, the liability recorded for the hydro account, including the balance relating to pre-1994 activity, will be payable to a third party to be nominated by ERSE. Moreover, since this regulation can only be introduced simultaneously with the effective liberalization of the energy market in the Iberian Peninsula, our board of directors and management consider that the accrued income accounted as an asset ceased to have any future economic benefits in 2004.

Other operating (expenses)/income from our generation activities in Iberia improved by 29.7 million in 2005 to 34.7 million in income from 5.0 million in income in 2004, mainly as a result of the recognition, in 2005, of the 2002 Spanish system s tariff deficit, attributable to HidroCantábrico.

Other operating (expenses)/income from our distribution activities in Iberia decreased by 9.5 million in 2005 to 18.4 million in income from 27.9 million in income in 2004, primarily due to the change in the overhead costs allocation criteria within the HidroCantábrico Group.

Other operating (expenses)/income in the Brazilian business improved by 12.5 million in 2005 to a 9.6 million expense from a 22.0 million expense in 2004, mainly due to the reversion of an impairment loss booked in 2003, which was related to the Lajeado project.

We record impairment losses on doubtful accounts receivable from third parties and municipalities based on the age of the receivables and our collection history. We do not record an impairment loss with respect to accounts receivable from other public entities, since historically we have not experienced a problem in collecting these receivables. Accounts receivable are

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written off only when a customer is declared bankrupt by a court of law, because we receive the tax benefit of the write-off only when the customer is actually declared bankrupt. Consequently, we have a significant amount of accounts receivable that are fully provided for but have not been written-off. For more information on this you should read note 22 to the consolidated financial statements.

Provisions, depreciation and amortization expenses

Provisions

Total consolidated provisions decreased to 12.4 million in 2005 from 64.3 million in 2004, primarily due to a provision booked in 2004 for the 40 million tax credit booked in 2002, related to the sale of OniWay to Vodafone.

Depreciation and amortization

These charges have been presented net of income related to the compensation for depreciation of partially funded fixed assets. This income is primarily related to new electricity connections made in prior years that were financed largely with customer payments, which are recorded as deferred income and, as these assets are depreciated, a portion of the amount is recorded as income and offset by a corresponding depreciation charge. The compensation for depreciation of partially funded fixed assets increased to 97.6 million in 2005 from 85.9 million in 2004. This line item is discussed in note 11 to our consolidated financial statements. Total consolidated depreciation and amortization increased 19.3% to 996.5 million in 2005 from 835.2 in 2004.

Depreciation and amortization charges net of the compensation for depreciation of partially funded fixed assets in the generation business increased 32.6% to 329.4 million in 2005 from 248.4 million in 2004, primarily due to the consolidation of HidroCantábrico s 2005 annual profit and loss account, a reduction in the hydroelectric power plants useful life and investments in our Castejón CCGT. These costs also rose due to our renewable generation activities following the entry into service of six new wind farms, three in Portugal and three in Spain.

In the distribution business, depreciation and amortization charges net of the compensation for depreciation of partially funded fixed assets was 282.8 million in 2005 compared with 265.9 million in 2004. This year-on-year change reflects an increase of 25.8 million in depreciation and amortization due to the consolidation of HidroCantábrico s 2005 annual profit and loss account and the rise in operating investment at the distribution network, which was partly offset by the compensation for depreciation of partially funded fixed assets, which increased to 82.0 million in 2005 from 73.1 million in 2004.

Depreciation and amortization charges net of the compensation for depreciation of partially funded fixed assets in the Brazilian electricity business increased 13.4 million to 67.4 million in 2005 from 54.0 million in 2004, mainly due to the appreciation of the Brazilian real against the euro and following an increase in operating investments in the distribution grid.

Depreciation and amortization charges relating to telecommunication activities increased 71.3% to 72.8 million in 2005 from 42.5 million in 2004, mainly due to an impairment loss on utilization rights of optical fiber on telecommunications business in the amount of 30 million.

Operating Results

As a result of the factors discussed above, our consolidated operating results increased 824.6 million to 1,141.9 million in 2005 from 317.2 million in 2004. Operating results from our energy activities in Iberia increased 42.8% to 1,081.5 million in 2005, primarily due to the consolidation of HidroCantábrico s 2005 annual profit and loss account. Operating results from our generation activity in Iberia increased 54.9% to 1,068.3 million in 2005 from 689.7 million in 2004, mainly due to the large increase in the Spanish pool prices. In our distribution activities in Iberia, operating results increased to 172.3 million in 2005 from 42.1 million in 2004, primarily due to lower costs related to conclusion in 2005 of the HRRP in the Portuguese distribution activity. Operating results from our supply activity decreased to a 250.8 million loss in 2005 from a 8.1 million loss in 2004, mainly due to the large increase in wholesale prices. In our gas activities in Iberia, operating results increased to 91.7 million in 2005 from 33.6 million in 2004, mainly due to the consolidation of HidroCantábrico s 2005 annual profit and loss account. Operating results from Brazilian electricity activities increased 99.5% to 350.8 million in 2005, mainly as a result of the 3.0% increase in electricity distributed, the 2004 and 2005 tariff increases, lower electricity purchase costs than those recognized in the tariffs and the higher electricity sales in the supply activity. Brazilian activities also benefited from the improvement of the Brazilian macroeconomic environment, which resulted in a 24.1% appreciation of the Brazilian real against the euro. Operating results from telecommunication activities improved by 25.0 million to a 56.5 million loss in 2005 from an 81.5 million loss in

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2004, following a provision of 40 million accounted in 2004. In 2004, the operating margin included the accounting of a full valuation allowance against an asset recorded in our accounts relating to the hydrological correction account in the amount of 315.6 million as of December 31, 2004.

Gains and losses from the sale of financial assets

Gains and losses from the sale of financial assets increased to 440.7 million in 2005 from 10.0 million in 2004. The 2005 gains include a 12.7 million gain from the transfer of a 2.0% stake in BCP to EDP Group s pension fund, a 19.3 million gain from the sale of HidroCantábrico s 3.0% stake in REE, a 397.5 million gain from the sale of a 14.3% stake in GALP and a 3.1 million gain from the sale of a 4.9% stake in Efacec.

Financial income/(expenses)

Financial income/(expenses) consist of interest and related income and expenses. These net expenses increased to 399.3 million in 2005 from 268.5 million in 2004 (and increased as a percentage of our total revenues to 4.1% in 2005 compared to 3.7% in 2004). This line item is discussed in note 13 to the consolidated financial statements.

Net interest expenses increased 14.8% to 316.6 million in 2005 from 275.7 million in 2004, reflecting the consolidation of HidroCantábrico s 2005 annual profit and loss account. Investment income increased 5.6 million to 36.1 million in 2005 following the receipt of 23.7 million in dividends distributed by GALP, almost doubling its 13.3 million dividend in 2004. This increase was accompanied, however, by lower dividends received from our stake in BCP following the transfer of a 2.0% stake to EDP Group s pension fund in June 2005. Net exchange differences moved from a net favorable 13.9 million difference in 2004 to a net favorable 68.7 million difference in 2005, mainly due to a 13% annual appreciation of the Brazilian real against the dollar in 2005 (compared to a 9% annual appreciation in 2004), which affected the dollar-denominated debt of the Brazilian subsidiaries. Derivative financial instruments (net) decreased to negative 154.4 million in 2005 from positive 7.9 million in 2004, following a 118.0 million negative impact of a mark-to-market relating to the fair value of a derivative contracted by EDP to hedge the effect of interest rate changes on the net present volume calculation of the value of the CMEC.

Share of profit of associates

Contributions from equity method investments increased 31.5 million to 35.3 million in 2005, following the increase of EDP s stake in Turbogás from 20% to 40% (March 2005), an increase in the contribution from our 30% stake in REN, as in 2005 it included the dividends received from GALP (18.3% owned by REN), and higher contributions from EEGSA, Edinfor and HidroCantábrico s equity affiliates.

Income tax expense

Our income taxes provision is determined on the basis of the estimated taxable income for the period. This line item is discussed in note 14 to the consolidated financial statements.

Current income taxes provided for in 2005 were 111.1 million compared with 259.7 million in 2004. The reference income tax rate in Portugal was 25% in 2005, the same as in 2004. In addition, a municipal surcharge of up to 10% of the base rate is typically levied by the municipality in which the income is earned.

Deferred income taxes are recognized in our consolidated financial statements in accordance with local accounting standards. Our provision for deferred income tax is determined, using the balance sheet liability method, based on the temporary differences between the book values of assets and liabilities and their respective taxable bases. The taxable base of assets and liabilities is determined so as to reflect the consequences of taxation resulting from the way in which we expect, on the balance sheet date, to recover or to pay the recorded amount of our assets and liabilities. In determining deferred tax, the rate used is the one in effect or otherwise applicable on the balance sheet date. Recognized deferred tax assets are reduced to the recoverable amount that can be compensated against future expected profits.

In 2005, our provision for deferred income taxes amounted to a 41.1 million expense, compared with a 243.3 million benefit in 2004. This difference is mostly explained by the fact that, in 2004, deferred income taxes included a 73.6 million benefit related to the costs of the HRRP, an 86.8 million benefit related to the accounting of a full valuation allowance against the asset recorded in our accounts that related to the hydrological correction mechanism, a 21.6 million benefit related to changes in the fair value of our securities portfolio and a 21.0 million benefit related to asset revaluations.

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Our effective tax rate is different from the reference income tax in Portugal each year, due to permanent differences arising mainly from differences between tax and accounting gains and losses, non-deductible provisions for tax purposes, tax exempt dividends, unrecognized deferred tax assets related to tax losses, tax benefits and autonomous taxation. Our effective tax rate was 12.5% in 2005, compared with 26.2% in 2004. In 2005, the effective tax rate was affected by the capital gain on the sale of the 14.3% stake in GALP, which was not taxed, and by tax savings from the corporate restructuring of our investments in Brazil. For more information on provision for deferred income taxes, you should read note 14 of our consolidated financial statements.

Consolidated net income

As a result of the factors discussed above, our consolidated net income for 2005 increased to 1,071.1 million in 2005 from 42.8 million in 2004.

LIQUIDITY AND CAPITAL RESOURCES

We believe that cash generated from operations and existing credit facilities is sufficient to meet present working capital needs. We currently expect that our planned capital expenditures and investments will be financed from internally generated funds, existing credit facilities and customer contributions, which may be complemented with medium or long term debt financing and equity financing as additional capital expenditure requirements develop.

We manage and control our funding and treasury activities centrally at the EDP, S.A. holding company level, except with respect to ONI and our businesses in Spain and Brazil. At EDP, S.A., the account balances of our subsidiaries are netted in EDP, S.A. s accounts, and centralized payments are made for the entire EDP Group. In Portugal, there are no legal or economic restrictions on the ability of our subsidiaries to transfer funds to EDP, S.A. Our subsidiaries in Portugal do not enter into their own financing arrangements, with the exception of ONI and Soporgen, a cogeneration company in our group.

Our primary source of liquidity is cash generated from operations. Net cash provided from operating activities was 1,652.8 million in 2005 and 1,643.3 million in 2004.

Total cash and cash equivalents as of December 31, 2005 amounted to 585.5 million compared with 230.7 million as of December 31, 2004.

Net cash used in investing activities was 2,039.1 million in 2005, compared with 2,311.2 million in 2004, representing a 10.2% decrease. See Item 4. Information on the Company History and Business Overview Group capital expenditures and investments for further information on our capital expenditures and investments.

Net cash from financing activities in 2005 was 707.1 million, compared with net cash from financing activities of 636.3 million in 2004. The increase in net cash from financing activities in 2005 was primarily due to additional debt raised by EDP S.A. and EDP Finance BV.

As of December 31, 2005, EDP, S.A. had available committed credit facilities of 1,477.4 million and a fully underwritten 350 million commercial paper program. The credit facilities include a 1,300 million revolving credit facility, maturing in 2009, to be used for general corporate purposes. This credit line permits drawings of one, two, three and six months at agreed margins over the euro interbank offered rate, or Euribor, based on a rating grid. We believe that the combination of this negotiated credit line and our commercial paper program provides an adequate source of liquidity for our operations. Our credit facility agreements do not impose financial ratio requirements and events of default clauses are not based on credit rating, so that their availability is not impacted by downgrades or declines in financial ratios or other measures of financial performance.

Our consolidated indebtedness, including bonds, long-term bank loans, commercial paper and bank overdrafts, was 10,584.3 million at December 31, 2005 compared with 9,141.9 million at December 31, 2004. During 2005, in line with our objective of extending the average life of our debt portfolio, we entered into a 15 year loan contract with European Investment Bank in the amount 100 million and issued a Eurobond in the amount of 300 million maturing in 2020. In addition, we executed an exchange offer of part of our Eurobonds maturing in 2008 and 2011 for a new 500 issue maturing in 2015. This exchange transaction reduced our 2008 Eurobond by 145 million and our 2011 Eurobond by 253 million. As of December 31, 2005, debt at EDP, S.A. and EDP Finance B.V. amounted to 7,844.7 million, corresponding to 74.1% of our total debt. Our debt management guidelines continue to be focused on controlling financial costs and reducing our exposure to foreign exchange risk.

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As of December 31, 2005, the weighted average interest rate of our indebtedness at EDP, S.A. and EDP Finance B.V. was 3.33%, compared with 3.58% at December 31, 2004. At December 31, 2004, total debt held by EDP s Group was denominated in euros (or hedged using cross currency swaps), and we therefore do not have currency exchange rate risk relating to this debt. At December 31, 2005, approximately 75% of our total long-term indebtedness at EDP, S.A. and EDP Finance B.V. carried a floating rate, but 7.7% of it was hedged against interest rate risk through collar structures. For more information on our interest rate risk, see Item 11. Quantitative and Qualitative Disclosures About Market Risk Interest Rate Risk. At December 31, 2004, approximately 78% of our total long term indebtedness carried a floating rate.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

Our contractual obligations and commercial commitments consist primarily of credit facilities, described above, and purchase obligations. The following table provides details regarding our contractual and commercial obligations subsequent to December 31, 2005:

Payments due by expiration period	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
		(thousands of EUR)			
Long-term and short-term debt obligations	10,584,300	1,983,579	3,966,227	1,788,926	2,845,568
Capital (finance) lease obligations	5,598	67	4,555	976	0
Purchase obligations[(1)]	21,291,462	1,959,367	3,325,412	3,486,865	12,519,818
Other long-term liabilities[(2)]	1,898,432	250,533	381,658	369,286	896,955
Total	33,779,792	4,193,546	7,677,852	5,646,053	16,262,341

(1) *Includes mainly payments under long-term supply contracts within our normal operating activities, which are satisfied through the delivery of physical goods or services. Forward market prices, when available, are used to calculate or estimate the purchase obligations.*

(2) *Principally payment obligations in relation to personnel restructuring programs that occurred in previous years, as well as payment responsibilities related to pension and medical care benefits, which are accounted as provisions on our balance sheet.*

Contractual obligations set forth in this table reflect mainly those agreements and commitments that in the ordinary course of our business are necessary to carry on the activities in which we are engaged. Moreover, most of the obligations set forth above are put in place to ensure the adequate supply of fuel or other energy within our operations or otherwise to seek medium- to long-term success of the business through medium- to long-term investments or contractual obligations to be able to supply energy to our customers in the Iberian Peninsula and Brazil. We believe that our operating revenues will be sufficient to satisfy both the obligations set forth above, as well as operating costs and dividends to our shareholders. For more information on our planned capital expenditures you should read Item 4. Information on the Company History and Business Overview Group capital expenditures and investments.

We believe that cash generated from operations and existing credit facilities is sufficient to meet present working capital needs. We currently expect that our planned capital expenditures and investments will be financed from internally generated funds, existing credit facilities and customer contributions, which may be complimented with medium- or long-term debt financing and equity financing as additional capital expenditure requirements develop.

PENSIONS AND BENEFITS

We maintain a defined benefit pension plan for all our active and retired employees included in the Collective Labor Agreement, or the A.C.T., for Portuguese group companies created in 1994 with the restructuring of EDP. Pension benefits are based on the employees years of service and the compensation level at the end of their employment period, less Portuguese social security benefits. The normal retirement age is 65. However, employees at least 60 years of age with 36 years of service, or employees of any age with 40 years of service, may elect early retirement. Employees electing early retirement are entitled to full pension benefits that are calculated on the same basis as that for employees retiring at the normal retirement age. Our policy has been to make contributions to the plan based on the availability of funds while making the minimum annual contributions required by applicable regulations. Some companies not a part of the A.C.T, such as the Brazilian and Spanish companies, also have complementary social benefits to their own social security systems, either as a defined benefit plan (Bandeirante, for example) or a defined contribution plan (Escelsa and HidroCantábrico, for example).

We also provide comprehensive medical coverage, in addition to that provided by the Portuguese national health system, for retired employees, including those who have taken early retirement, and their dependents. Additionally, we provide a death benefit to retirees survivors. We administer the program internally and assume the full cost of funding the program net of employee contributions, amounting to approximately

10% of the total medical expenses covered.

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At December 31, 2005, our provisions for pension and medical benefit liabilities were 1,768.1 million compared with 1,919.9 million at December 31, 2004. The provisions for medical benefits and pensions in 2005 were 743.6 million and 1,024.5 million, respectively, compared with 725.6 million and 1,194.3 million, respectively, in 2004. We expect to fund pension liabilities from our internal resources.

INFLATION

Inflation in Portugal, as measured by changes in the Portuguese CPI, averaged 2.1%, 2.3% and 3.3% in 2005, 2004 and 2003, respectively. During the period from 1995 through 2005, changes in the Portuguese CPI averaged 3.1% per annum, ranging from a high of 4.4% in 2001 to a low of 2.1% in 2005.

Inflation in Spain, as measured by changes in the Spanish CPI, averaged 3.4%,3.1% and 3.1% in 2005, 2004 and 2003, respectively. During the period from 1995 through 2005, changes in the Spanish CPI averaged 3.1% per annum, ranging from a high of 4.7% in 1995 to a low of 1.8% in 1998.

Inflation in Brazil, as measured by changes in the Brazilian CPI, averaged 1.21%,12.41% and 8.71% in 2005, 2004 and 2003, respectively. During the period from 1995 through 2005, changes in the Brazilian CPI averaged 11.1% per annum, ranging from a high of 25.3% in 2002 to a low of 1.2% in 2005.

During the 1990 s, to reflect the impact of inflation, Portuguese GAAP and regulations permitted companies to revalue their fixed assets. Accordingly, we revalued our assets in 1992 based on an assessment of the remaining useful life and modern equivalent asset value of the assets at December 31, 1992. In accordance with Portuguese GAAP, depreciation of fixed assets is computed on the revalued amounts, with depreciation in respect of the original acquisition cost and 60% of the revaluation increment being deductible for corporate income tax purposes.

Under IFRS and as allowed by IFRS 1, we have elected to consider as deemed cost of individual items of property, plant and equipment at January 1, 2004, the date of transition to IFRS, their revalued amount as determined in accordance with our previous accounting policies, which is broadly similar to depreciated cost measured under IFRS adjusted to reflect changes in a specific price index.

Under U.S. GAAP, fixed assets may not be stated at more than their historical acquisition cost.

IFRS COMPARED WITH U.S. GAAP

Our financial statements have been prepared in accordance with IFRS, which varies in certain significant respects from U.S. GAAP. The principal differences between IFRS GAAP and U.S. GAAP as they relate to us concern:

- revaluation of fixed assets;
- PPAs;
- equity accounting for investments;
- depreciation of goodwill;
- hedge accounting;
- accounting for employee retirement benefits and additional minimum pension liability;

regulatory assets and liabilities;

accounts receivable   municipalities; and

income taxes.

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Revaluation of fixed assets

In accordance with U.S. GAAP, property and equipment are carried at historical acquisition cost less depreciation. Depreciation charges are calculated on the basis of the acquisition cost of the asset and revaluations are not permitted.

In our transition to IFRS, we elected to follow the deemed cost exemption allowed by IFRS 1. This exemption permits a first time adopter of IFRS to measure the cost of property and equipment based on the deemed cost determined as the fair value at the date of transition or the previous revaluation amount recorded under local GAAP. This exemption can be applied to individual items of property and equipment.

We applied the previously revaluation amount recorded under Portuguese GAAP as the deemed cost of property and equipment, which is broadly comparable to depreciated cost adjusted for changes in a price index.

On this basis, the difference between the historical acquisition cost and the deemed cost, determined at the date of transition to IFRS, will need to be reversed for U.S. GAAP purposes.

PPAs

We are a party to several contracts with REN, the PPAs, which are treated as leases under U.S. GAAP. The evaluation of whether an arrangement contains a lease within the scope of Statement 13 and EITF 01-8 is based on the substance of the arrangements. These contracts include agreements that, although not nominally identified as leases, are classified as leases because they transfer substantially all of the benefits and risks related to the property to the lessee. In substance, these contracts explicitly identify the group of assets under which we produce power exclusively to be provided to the lessee and prohibit us from using any other power plant to supply the required power to the lessee. Additionally, these contracts convey the right to use the power plants and require that the total production is acquired by REN, who is the lessee.

As permitted under IFRS, we classify these assets as tangible fixed assets and amortize them on a straight-line basis at rates, which reflect the economic useful lives of each category of fixed assets. On December 2, 2004 IFRIC 4 Determining whether an arrangement contains a lease as defined in IAS 17 was published, effective January 1, 2006. Under IFRIC 4 an arrangement that contains a lease will be the same under IFRS and U.S. GAAP.

On January 27, 2005 in accordance with Decree law 240/2004, of December 27, 2004 we signed early termination contracts relating to the PPAs. The effectiveness of the termination agreement is suspended until certain conditions are met, including the start up of the spot market that assures the sales of generated electricity and the attribution of non-binding production licenses. When the required conditions are met allowing for the termination of the PPAs, we will reassess the accounting of these agreements under U.S. GAAP.

Under IFRIC 4, in accordance with the transition regime set by this rule, the PPAs should be analyzed based on information and facts as they exist at the date of such transition to determine whether in substance the contracts are a financial lease. We considered Decree law 240/2004 that established the early termination of the PPAs and the terms of the termination agreements signed in January 2005 relating to the electric generation facilities in PES, in the assessment of the adoption of IFRIC 4 effective January 1, 2006.

Equity accounting on investments

Our equity investments, namely our 30% shareholding in REN, are affected by certain accounting differences between U.S. GAAP and IFRS. The main differences are related to the revaluation of fixed assets, PPAs (from EDP Group, Turbogás and Tejo Energia), the tariff adjustment, other regulatory assets and deferred income taxes related to those adjustments.

Depreciation of goodwill

In our transition to IFRS, we elected to follow the exemption allowed by IFRS 1 regarding business combinations and have not restated past business combinations. Therefore, the purchase accounting used for Portuguese GAAP purposes as of January 1, 2004 remains unchanged.

Under IFRS, goodwill, including previously existing goodwill, is not amortized but is tested for impairment at least annually.

Until December 31, 2001, under U.S. GAAP, goodwill arising on acquisitions was reclassified as an intangible asset to be amortized over its estimated useful life. On January 1, 2002, we adopted SFAS 142, which establishes that goodwill, including

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previously existing goodwill, and intangible assets with indefinite useful lives, are not amortized but rather tested for impairment at least annually. We review the value of the goodwill periodically for other than temporary impairment. If such an impairment is indicated, a loss is recognized in the year.

There is a permanent difference related to the amortization of goodwill of 2002 and 2003, since under IFRS, goodwill continued to be amortized until December 31, 2003, whereas under U.S. GAAP, after the adoption of SFAS 142, effective on January 1, 2002, goodwill is no longer amortized.

Hedge accounting

Under the transition rules defined by IFRS 1, as of January 1, 2004, we were able to demonstrate that we had the documentation and tests required to prove the hedging purposes of the transactions that were contracted to hedge interest rate and exchange rate risks transactions, which were considered as hedging at the transition date.

For U.S. GAAP purposes, these transactions did not qualify for hedge accounting criteria up to December 31, 2003 because we did not have the documentation and tests required to prove the hedging purposes of these transactions. However, after January 1, 2004, since we had all the documentation and tests required to prove the hedging purposes of these transactions, we applied hedge accounting under U.S. GAAP prospectively.

Consequently, there will be a difference between IFRS and U.S. GAAP regarding the transition adjustment to IFRS until the maturity of those transactions. The most significant difference arises from derivatives which under IFRS have been formally documented prior to the transition date as at January 1, 2004, but since their inception were not assigned and documented as a hedge instrument under U.S. GAAP.

Employee retirement benefits and additional minimum pension liability

We and some of our subsidiaries have pension obligations, in connection with both defined benefit and defined contribution plans, and also have medical benefits for retired employees. Costs for defined contribution plans are expensed when incurred.

Under IFRS, and in accordance with IFRS 1, we elected to recognize at the date of transition, January 1, 2004, the unrecognized value of the actuarial losses against reserves. Actuarial gains and losses determined annually and resulting from the differences between financial and actuarial assumptions used and real values obtained and changes in the actuarial assumptions are recognized against equity, in accordance with the alternative method defined by IAS 19, revised on December 16, 2004, which was early adopted by us. The increase in past service costs arising from early retirements (retirements before the normal age of retirement) is recognized in the income statement when incurred.

Under U.S. GAAP, unrecognized actuarial gains and losses are amortized under the corridor method. The corridor method determines that the net cumulative actuarial gains and losses at the end of the previous reporting period which amount to up to 10 percent of the greater of the projected benefit obligation and the value of plan assets are not recognized or amortized as part of the net pension cost for the year. The amount of the unrecognized actuarial net gains or losses that exceeds the referred 10 percent must be amortized over the average remaining service period of the employees.

Additionally, under U.S. GAAP an additional minimum liability is required to be recognized, and charged to intangibles or other comprehensive income, when plan assets are less than employees accumulated benefits. When the accumulated benefit obligation exceeds the fair value of the plan assets, as it is the case with us, the excess is immediately recognized as an additional liability. The cost of this is capitalized as an intangible up to the amount of any unrecognized net transition obligation plus the unrecognized prior service costs, and the remainder is charged through OCI. Under IFRS (IAS 19), no such requirement exists, consequently a GAAP difference arises.

Regulatory assets and liabilities

In accordance with the IFRS conceptual framework, regulatory assets and liabilities, including tariffs adjustments, are not recognized and on that basis, at the transition date, these assets and liabilities were adjusted against reserves at the transition date. Under IFRS, regulatory assets and liabilities which relates to deferred costs and deferred income, respectively, defined

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and regulated by ERSE, being recoverable or payable through tariff adjustments to be charged to customers in future years were also adjusted against reserves at the transition date. These future tariffs adjustments are recorded as income in the period when they are charged to costumers.

Under U.S. GAAP, tariff adjustments for the regulated activity in Portugal are eliminated because in substance, management believes, that the tariff adjustments regulation does not meet in full the criteria set out in SFAS 71. Even though the scope criterion of SFAS 71 is met with respect to the regulated activities in Portugal, due to the uncertainty in relation to future income being in an amount at least equal to the capitalized cost or a situation of a permanent roll forward of cost with current year costs being deferred and prior cost being recovered in each period, the asset recognition criteria as defined in SFAS 71 is not met. As a result, tariff adjustments related to Portuguese activities, consistently with the accounting treatment under IFRS, are not also reflected in U.S. GAAP accounts.

However, the regulatory assets and liabilities including the tariff adjustments mechanism set out by the regulator ANEEL regarding our activities in Brazil meets the requirements of SFAS 71 and therefore are accounted for on that basis. Eligible costs are specifically determined by ANEEL and are recoverable through the recovery rates. Resulting from measures taken by the Brazilian government and by ANEEL in 2001, our companies in Brazil are subject to the application of SFAS 71.

Accounts receivable Municipalities

From 1998 to 2000, we reached agreements with several municipalities on the terms of the future settlement of outstanding debts and for Portuguese GAAP maintained at balance sheet the corresponding bed debts provision. In connection with the transition to IFRS, no adjustment was made considering the actual recoverable amount of those receivables.

Under U.S. GAAP the collection of the receivables had previously been considered not probable and consequently had been fully provided. Therefore, at December 31, 2004, under U.S. GAAP the provision for doubtful debts was written back based on the actual collection and on the estimated recoverable amount of outstanding receivables.

Our net profit in 2005 under U.S. GAAP amounted to 1,108.9 million and 238.6 million in 2004 compared with 1,071.1 million in 2005 and 42.8 million in 2004, respectively, under IFRS. Our shareholders equity attributable to equity holders of EDP under U.S. GAAP was 5,557.8 million at December 31, 2005 and 4,582.9 million at December 31, 2004, compared with 4,823.4 million and 4,037.9 million, respectively, under IFRS.

See note 48 to our consolidated financial statements for the significant adjustments to net income and shareholders equity that would have been required if U.S. GAAP rather than IFRS had been applied in the financial statements.

IMPACT OF RECENTLY ISSUED U.S. ACCOUNTING STANDARDS

STANDARDS ADOPTED IN THE YEARS COVERED BY THE FINANCIAL STATEMENTS

Equity method of accounting EITF No. 02-14

On July 16, 2004, the FASB ratified the Emerging Issues Task Force (EITF) consensus on Issue No. 02-14, Whether the Equity Method of Accounting Applies When an Investor Does Not Have an Investment in Voting Stock of an Investee but Exercises Significant Influence through Other Means (EITF 02-14). The consensus concludes that an investor should apply the equity method of accounting when it can exercise significant influence over an entity through a means other than holding voting rights. The consensus is effective for reporting periods beginning after September 15, 2004. The adoption of EITF 02-14 did not have a material impact on our financial position, results of operations or cash flows.

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Accounting for Preexisting relationships between the Parties to a Business Combination (EITF 04-1)

In October 2004, the EITF reached a consensus on EITF 04-1, Accounting for Preexisting relationships between the Parties to a Business Combination. EITF 04-1 addresses various elements connected to a business combination between two parties that have a pre-existing relationship and the settlement of the pre-existing relationship in conjunction with the business combination. We applied the provisions of EITF 04-1 to business combinations consummated and goodwill impairment tests performed beginning January 1, 2005.

Determining Whether to Report Discontinued Operations (EITF 03-13)

In November 2004, the EITF reached a consensus on EITF 03-13, Applying the Conditions in Paragraph 42 of FASB No. 144 in Determining Whether to Report Discontinued Operations. EITF 03-13 addresses how an ongoing entity should evaluate whether the operations and cash flows of a disposed component have been or will be eliminated from the ongoing operations of the entity, and the types of continuing involvement that constitute significant continuing involvement in the operations of the disposed component. If continuing cash flows are determined to be direct, then the cash flows have not been eliminated and the operations of the component should not be presented as discontinued operations. If continuing cash flows are determined to be indirect, then the cash flows are considered to be eliminated and the operations of the component should be presented as discontinued operations. In order to determine the significance of the continuing involvement, consideration must be given to the ability to influence the operating and or financial policies of the disposed component, as well as the retention of risk or the ability to obtain benefits. We applied the provisions of EITF 03-13 to a component of an enterprise that is either disposed of or classified a held for sale beginning January 1, 2005.

Accounting for Conditional Asset Retirement Obligations (FIN No. 47)

In March 2005, the FASB issued FASB Interpretation (FIN) No. 47 Accounting for Conditional Asset Retirement Obligations, which clarifies that a liability (at fair value) must be recognized for asset retirement obligations when it has been incurred if the amount can be reasonably estimated, even if settlement of the liability is conditional on a future event. FIN No. 47 is effective as of December 31, 2005. The adoption of FIN No. 47 did not have a material impact on our financial position, results of operations or cash flows.

Accounting Changes and Error Corrections

In May 2005, the FASB issued Statement No. 154, Accounting Changes and Error Corrections, or SFAS No. 154, replacing APB Opinion No. 20 and FASB Statement No. 3. SFAS No. 154 requires retrospective application to prior periods financial statements of changes in accounting principles, unless impracticable. The statement defines retrospective application as the application of a different accounting principle to prior accounting periods as if that principle had always been used and redefines restatement as revising previously issued financial statements to reflect the correction of an error. SFAS No. 154 also requires that retrospective application of a change in accounting principle be limited to the direct effects of the change. Indirect effects of a change in accounting principle should be recognized in the period of the accounting change. The new standard is effective for accounting changes made in fiscal years beginning after December 15, 2005. The adoption of this rule will not have a material effect on our financial position, results of operations or cash flows.

STANDARDS TO BE ADOPTED IN FUTURE YEARS

Share-Based Payment (SFAS 123R)

In December 2004, the FASB issued SFAS No. 123 (Revised 2004), Share-Based Payment (SFAS 123R), SFAS 123R is effective for interim or annual reporting periods beginning after June 15, 2005. The adoption of SFAS 123R will not have a material impact on our financial position, results of operations or cash flows.

Exchanges of Nonmonetary Assets (SFAS 153)

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets, which becomes effective for financial statements for fiscal years beginning after June 15, 2005. According to Accounting Principles Board Opinion No. 29 (APB 29), exchanges of nonmonetary assets are generally measured based on the fair value of the assets exchanged, with

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certain exceptions. SFAS 153 amends APB 29 to eliminate the exception for nonmonetary exchanges of similar productive assets, which were exchanged at carrying values, and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The adoption of SFAS 153 will not have a material impact on our financial position, results of operations or cash flows.

Determining the Amortization Period for Leasehold Improvements Purchased after Lease Inception or Acquired in a Business Combination

In June 2005 and September 2005, ETIF discussed Issue 05-6, Determining the Amortization Period for Leasehold Improvements Purchased after Lease Inception or Acquired in a Business Combination, (EITF 05-6), and concluded on the appropriate amortization periods for leasehold improvements either acquired in a business combination or which were not preexisting and were placed in service significantly after, and not contemplated at, the beginning of the lease term. This Issue is effective for leasehold improvements (that are within the scope of this Issue) that are purchased or acquired in reporting periods beginning after June 29, 2005. The Company will not have a material effect on its financial position, results of operations or cash flows.

Inventory Costs (SFAS No. 151)

In November 2004, the FASB issued SFAS No. 151, Inventory Costs, which is an amendment of Accounting Research Bulletin No. 43, Inventory Pricing. SFAS No. 151 clarifies that abnormal amounts of idle facility expense, freight, handling costs and wasted materials (spoilage) should be recognized as current period charges. The provisions of SFAS No. 151 are effective for inventory costs incurred beginning January 1, 2006, and are applied on a prospective basis. The adoption of SFAS No. 151 will not have a significant impact on the Company s consolidated financial statements.

Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140

In February 2006, the FASB issued SFAS No. 155 Accounting for Certain Hybrid Financial Instruments, which is an amendment of FASB Statements No. 133 and 140 that amends FASB Statements No. 133, Accounting for Derivative Instruments and Hedging Activities, and No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. This Statement resolves issues addressed in Statement 133 Implementation Issue No. D1, Application of Statement 133 to Beneficial Interests in Securitized Financial Assets. This Statement permits fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement 133, establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives and amends Statement 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This Statement is effective for all financial instruments acquired or issued after the beginning of an entity s first fiscal year that begins after September 15, 2006. Earlier adoption is permitted as of the beginning of an entity s fiscal year, provided the entity has not yet issued financial statements, including financial statements for any interim period for that fiscal year. The Company does not anticipate that the adoption of this new statement at the required effective date will have a significant effect in its results of operations, financial position or cash flows.

The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments

In November 2005, the FASB issued Financial Staff Position (FSP) FAS 115-1 and FAS 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments, which nullifies certain requirements of Emerging Issues Task Force (EITF) Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments and supersedes EITF Abstracts Topic No. D-44, Recognition of Other-Than-Temporary Impairment Upon the Planned Sale of a Security whose Cost Exceeds Fair Value. The guidance in this FSP will be applied to reporting periods beginning after December 15, 2005. The Company did not have a material effect on its financial position, results of operations or cash flows.

Accounting for Servicing of Financial Assets

Summary of Statement No. 156 Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140 This Statement amends FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, with respect to the accounting for separately recognized servicing assets and servicing

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liabilities. This Statement requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in certain situations, requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable and permits an entity to choose either of subsequent measurement methods for each class of separately recognized servicing assets and servicing liabilities. An entity should adopt this Statement as of the beginning of its first fiscal year that begins after September 15, 2006. Earlier adoption is permitted as of the beginning of an entity s fiscal year, provided the entity has not yet issued financial statements, including interim financial statements, for any period of that fiscal year. The Company does not anticipate that the adoption of this new statement at the required effective date will have a significant effect in its results of operations, financial position or cash flows.

Item 6. Directors, Senior Management and Employees

EXECUTIVE BOARD OF DIRECTORS

At our general shareholders meeting on March 30, 2006, none of the members of the former board of directors during the term of 2003-2005 were reelected. At this meeting, a resolution was passed to elect a board of directors that would serve until June 30, 2006. During this interim period, we kept in place a one-tier corporate governance structure consisting of a board of directors and an executive committee that was made up of directors.

In addition, at our general shareholders meeting of March 30, 2006, our shareholders passed a resolution amending our articles of association to change our corporate governance model to a two-tier system. These amendments were introduced following a reform to the Portuguese Company Law enacted by Decree law no. 76-A/2006, of March 29, 2006. The amendments to our articles of association became effective as of June 30, 2006, the date on which Decree law no. 76-A/2006 became effective. On June 30, 2006, the members of the executive committee that were elected to the board of directors on March 30, 2006 became the members of the new executive board of directors and the remaining members of the board of directors, and additional elected candidates, became the members of a new general and supervisory board.

Under the two-tier corporate governance system provided for in our amended articles of association, the management of EDP is the responsibility of an executive board of directors, which activity is overseen by a general and supervisory board.

Our executive board of directors manages our affairs and monitors the daily operation of our activities in accordance with Portuguese law and our articles of association. Our operating companies are each managed by their respective boards of directors who report ultimately to our executive board of directors.

Under Portuguese law, the executive board of directors has the power to perform any and all acts necessary or desirable for the furtherance of our purposes, with the exception of any acts that under Portuguese law or our articles of association are subject to the express approval of shareholders at a general meeting or to the prior favorable opinion of our general and supervisory board. Currently, the executive board of directors consists of a Chairman and six other executive directors elected by a simple majority of the votes cast at a general meeting.

The executive board of directors has the exclusive authority to represent us in transactions with third parties, but may delegate these powers. The executive board of directors has no power to amend or repeal the articles of association, which may only be amended or repealed by the shareholders in a general meeting by a resolution adopted by two-thirds of the votes cast, representing, on a first call, a quorum of at least one-third of our share capital, as set forth in Portuguese law.

Pursuant to our articles of association, our executive board of directors is responsible for:

- setting the objectives and management policies of EDP and the EDP Group;
- preparing our annual operating and financial plans;
- managing our business affairs and performing all the acts and operations relating to our corporate purpose that do not fall within the duties attributed to other bodies of EDP;

representing EDP in or out of court, as plaintiff or defendant, in which capacity it may discontinue, reach a compromise or accept liability in any legal proceedings, and execute arbitration agreements;

acquiring, selling or by any manner transferring or creating encumbrances over rights or real estate assets;

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- incorporating companies and subscribing for, acquiring, creating encumbrances over and transferring stakes;
- adopting resolutions regarding the issuance of bonds and other securities in accordance with the law and our articles of association, in compliance with the annual quantitative limits set by the general and supervisory board;
- establishing our technical and administrative organization and the standards for our internal operation, notably concerning personnel and their remuneration;
- granting powers of attorney, as deemed appropriate, including those of sub-delegation;
- appointing our secretary and the respective substitute;
- engaging the external auditor nominated by the general and supervisory board in accordance with our articles of association and removing him from such office upon indication from our general and supervisory board;
- performing any other duties conferred on it by law or by the general shareholders meeting; and
- establishing a specific regulation that sets out the rules for its internal operation.

However, our executive board of directors can only resolve on the following actions to the extent that the general and supervisory board gives its previous favorable opinion:

- purchases and transfers of assets, rights and stakes with a significant economic value;
- execution of financial agreements with a significant value;
- opening and closing of establishments or important parts of establishments and important expansions or reductions of activity;
- other businesses or operations with a significant economic or strategic value;
- setting up or terminating strategic partnerships or any other forms of enduring cooperation;
- merger, demerger or transformation plans;
- amendments to the articles of association, including moving the registered office and increasing the share capital, when the initiative is conferred to our executive board of directors.

In this respect, our articles of association provide that the chairman of the general and supervisory board shall, pursuant to a request from the chairman of the executive board of directors, set the parameters to measure the economic or strategic value of operations that should be submitted to the previous favorable opinion of the general and supervisory board.

The term of office of the executive board of directors is three calendar years, with the year of election or appointment considered a full calendar year. Directors may be removed at any time, with or without cause, by the general meeting of shareholders, and their mandate is renewable. The general and supervisory board may propose the removal of any member of our executive board of directors to our general shareholders meeting. Vacancies that occur on the executive board of directors may be filled by the general and supervisory board, with the term of the new director being coterminous with that of the substituted director. Directors filling board vacancies pursuant to designation by the general and supervisory board must be submitted for ratification at the first general meeting of shareholders subsequent to the substitution. Our directors do not have service contracts with us or our subsidiaries that provide for benefits upon termination of employment. According to the articles of association, the executive board of directors must convene bi-monthly, and a majority of directors must be present to constitute a quorum. A director may be represented at a meeting only by another director by proxy given in writing for the meeting in question, and no more than one director can be represented by proxy at a particular meeting. Directors have equal voting rights, and all resolutions of the executive board of directors are adopted by a majority of the votes cast. The Chairman has the deciding vote in the event of a tie.

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The current executive board of directors was appointed in March 2006 and became effective on June 30, 2006. Although its composition may change in order to fill vacancies, the current executive board of directors is composed of the following seven directors: Mr. António Luís Guerra Nunes Mexia, Mrs. Ana Maria Machado Fernandes, Mr. António Martins da Costa, Mr. António Manuel Barreto Pita de Abreu, Mr. João Manuel Manso Neto, Mr. Jorge Manuel Pragana da Cruz Morais, Mr. Nuno Maria Pestana de Almeida Alves.

For the year ended December 31, 2005, the former board of directors met 21 times (11 ordinary meetings and 10 extraordinary meetings) and the former executive committee met 50 times (45 weekly meetings and 5 extraordinary meetings). Generally, since the beginning of the former mandate in 2003, both of these bodies met with the participation of all its members, rarely holding meetings without any one director. In such cases the practice was to delegate on the chairman, with an adequate proxy for that specific meeting.

The members of our executive board of directors, effective from June 30, 2006, their principal past affiliations, information on their business experience and principal business activities outside of us and selected other information are set forth below:

Name	Age	Position	Year originally elected
Mr. António Luís Guerra Nunes Mexia	49	Chief Executive Officer	2006
Mrs. Ana Maria Machado Fernandes	43	Executive Director	2006
Mr. António Martins da Costa	51	Executive Director	2006
Mr. António Manuel Barreto Pita de Abreu	56	Executive Director	2006
Mr. João Manuel Manso Neto	48	Executive Director	2006
Mr. Jorge Manuel Pragana da Cruz Morais	48	Executive Director	2006
Mr. Nuno Maria Pestana de Almeida Alves	48	Chief Financial Officer	2006

Mr. António Luís Guerra Nunes Mexia was appointed our Chief Executive Officer in March 2006. Between July 2004 and March 2005 he served as Minister of Public Works, Transportation and Communications of Portugal s 16th Constitutional Government. Mr. António Mexia was CEO of GALP between 2001 and 2004 and Chairman and CEO of Gas de Portugal and of Transgás between 1998 and 2001. In 1990, he joined Banco ESSI, the investment bank of the Espírito Santo group, and served as a member of the Executive Board of Directors in charge of the equity capital markets and project finance divisions until 1998. Previously, he was Vice-chairman of ICEP, the Portuguese board of external trade and foreign investment between 1988 and 1990 and Assistant to the Secretary of State for Foreign Trade between 1986 and 1988. Mr. Mexia holds a degree in Economics (1980) from the University of Geneva. During his career he acted as a Professor in Economics at University of Geneva, Lisbon s Universidade Católica Portuguesa and Universidade Nova de Lisboa.

Mrs. Ana Maria Machado Fernandes was appointed to our executive board of directors in March 2006. Previously she was a board member of GALP (2004-2005), responsible for strategy, portfolio management, sustainable development, Chairman and CEO of Galp Power (2002-2005) in charge of launching the electrical business within GALP as a new business, a non-executive board member of Transgás (2001-2002), director of strategy and portfolio management at GALP and Director of Strategy and Planning at Gás de Portugal. From 1995 until 1998, Mrs. Fernandes was a board member of several companies of Banco de Fomento e Exterior, and, after it was acquired by Banco Português de Investimento, she assumed responsibilities at the corporate finance department as leader of an investment banking team and director of the bank. From 1989 until 1994 she was a senior financial analyst and director at Efisa Sociedade de Investimento, S.A., the Portuguese arm of SG Warburg, later Banco Efisa. From 1986 until 1990, Mrs. Fernandes was a teacher at the economy faculty of Universidade do Porto and Universidade Portucalense, secretary general at the Portuguese Association of the Tanning Industry and a financial analyst at Banco Português do Atlântico (currently absorbed by BCP). Mrs. Fernandes holds a degree in economics and a post-graduate degree in international finance both from the economy faculty at Universidade do Porto. She has a MBA from Universidade do Porto/Universidade Nova de Lisboa.

Mr. António Martins da Costa was appointed to our executive board of directors in March 2006. He is also the CEO and Vice-Chairman of the board of directors of Energias do Brasil and Chairman of the board of directors of its subsidiaries in Brazil. He started his professional career in 1976 as a lecturer at the Superior Engineering Institute of Porto, joined EDP in 1981 and in 1989 moved to the financial sector, assuming the position of General Manager and Executive Board Member of insurance companies, pension funds and asset management operations of BCP and director of Eureko BC (Holland). Since 1999, he was also deputy CEO and vice-president of the executive board of PZU (Poland), the biggest insurance company and asset manager in Central and Eastern Europe. He holds a degree in Civil Engineering and an MBA from the University of Oporto, and has completed executive education studies at INSEAD (Fontainebleau), AESE (University of Navarra) and the AMP of the Wharton School (University of Pennsylvania).

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Mr. António Manuel Barreto Pita de Abreu was appointed to our executive board of directors in March 2006. He is also Chairman of Edinfor and of EDP Powerline and a member of the board of HidroCantábrico, EDP Serviner, EDP Estudos e Consultoria, CEM Companhia de Electricidade de Macau and of EDA Electricidade dos Açores. Previously at EDP he was a member of the board of directors (Executive Director from 2000-2003), general manager (2003-2006), general secretary, company secretary, Chairman of EDPP, EDPD, REN (2000), CPPE, TER, TERGEN and EDP Cogeração, Onitelecom (1998-2000), Oni Açores, Onisolutions (1999-2000), Edinet (1997-1999), ACE, MRH (2000-2001), Sãnvida (2000-2001), ENAGAS and NQF Gás, a member of the board of Optep (1997-1998), NQF PTE and NQF Energia, 093x (2000-2002), Vice President of Turbogás, S.A., executive director of REN (1994-1997), a director of DORE-Direcção Operacional da Rede Eléctrica (1991-1994) and had several roles in EDP s divisions in charge of the Portuguese National Grid (1977-1991). Mr. Pita de Abreu holds a degree in electrotechnical engineering from Instituto Superior Técnico de Lisboa.

Mr. João Manuel Manso Neto was appointed to our executive board of directors in March 2006. He joined EDP in July 2003 as a General Manager. He was previously president of the executive committee of EDP Produção and CEO of HidroCantábrico. Before joining EDP, he worked in banking since 1981, mainly in what is now the BCP Group (in Portugal and in Poland), where he was General Manager in charge of several areas, including Treasury and Capital Market and Large Corporate Clients. Mr. Neto holds a degree in economics from Instituto Superior de Economia de Lisboa, a post-graduate degree in European economy from Universidade Católica de Lisboa and the academic component of the masters degree in economics from Universidade Nova de Lisboa. Until 1993, he also taught economics in Universidade Nova de Lisboa.

Mr. Jorge Manuel Pragana da Cruz Morais was appointed to our executive board of directors in March 2006. He joined EDP in 1983. Since 2005, he was an executive board member at HC Energía, and a board member of Naturgás and Telecable (Telecommunication Company in Asturias). Additionally, he was the CFO of EDP Group for the Spanish EDP companies. From 2000 to 2005 he was an executive board member and CFO of ONI. Prior to that, he was in charge of the Corporate Planning Division, having been responsible for the re-structuring of EDP and for the two initial phases of the reprivatization process of EDP. Mr. Morais holds a degree in electrical engineering from Instituto Superior Técnico and a MBA from Universidade Nova de Lisboa.

Mr. Nuno Alves was appointed our Chief Financial Officer in March 2006. Previously he was an executive board member of Millennium BCP Investimento responsible for BCP Group Treasury and Capital Markets (2000-2006), Chairman and CEO of CISF Dealer, the brokerage arm of Banco CISF (1999), co-head of Investment Banking Division (1997) and head of the Capital Markets Division (1996) of Banco CISF (currently Millennium BCP Investimento). In 1991, Mr. Alves was appointed as the Investor Relations Officer for Millennium BCP and in 1994 joined the retail network as Coordinating Manager. He joined the Planning and Strategy Department of Millennium BCP (1988) and in 1990 became an associate director of the bank s Financial Investments Division. Mr. Alves holds a degree in Naval Architecture and Marine Engineering and an MBA from the University of Michigan.

GENERAL AND SUPERVISORY BOARD

According to the Portuguese Company Law, the general and supervisory board is responsible for the supervision of our affairs. Pursuant to our articles of association, our general and supervisory board has, in particular, the responsibility to:

- oversee on a permanent basis the activity of the management of our company and controlled companies and to, in such respect, advise and assist our executive board of directors, notably in relation to strategy, achievement of goals and compliance with the applicable legal rules;

- deliver its opinion about our management report and annual accounts;

- oversee on a permanent basis the activity of our statutory auditor and of our external auditor and, concerning the first, to pronounce itself about its respective election or appointment, its removal and its independence conditions and other relations with our company;

- oversee on a permanent basis and evaluate our internal procedures relating to accounting and auditing matters, as well as the efficacy of our risk management system, internal control system and internal audit system, including the receipt and processing of related complaints and queries, whether or not originating from employees;

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propose the removal of any member of our executive board of directors to our general shareholders meeting;

monitor the definition of criteria and necessary competencies in the structures and internal bodies of our company, or of the group, or convenient to be complied with and their consequences in the respective composition, as well as to draw up plans of succession;

provide for, in accordance with law, replacement of the members of our executive board of directors in the event of absence or temporary impairment;

issue, at its own initiative or when requested by the chairman of our executive board of directors, an opinion about the annual vote of confidence in our directors;

monitor and assess matters relating to corporate governance, sustainability, internal codes of ethics and their compliance and evaluation and resolution of conflicts of interests   systems, including in respect of our company   s relations with shareholders and to deliver opinions on these matters;

obtain financial or other means, which it reasonably believes are necessary for its activity and to request from our executive board of directors the adoption of measures or corrections that it considers appropriate, being allowed to engage the means required for its own independent advisory, if necessary;

receive periodic information from our executive board of directors about significant commercial relations between our company or controlled companies and shareholders with a qualified stake and related persons;

appoint the remuneration committee and the audit committee;

represent our company in its relations with the executive board of directors;

supervise the activities of our executive board of directors;

monitor compliance with the law and our articles of association;

select and replace our company   s external auditor, giving the executive board of directors instructions to engage and remove it;

monitor, when it deems appropriate and through the means considered appropriate, the correctness of the books, the account registers and supporting documents, as well as the status of any assets or values held by our company;

supervise the preparation and release of our financial information;

convene our general shareholders meeting when it deems convenient;

approve its internal regulation, which shall including rules regarding the relations between the corporate bodies and organs.

The members of our general and supervisory board, effective from June 30, 2006, their principal past affiliations, information on their business experience and principal business activities outside of us and selected other information are set forth below:

Name	Age	Position	Year originally elected
Mr. António de Almeida	69	Chairman	2006
Mr. Alberto Castro	54	Vice-Chairman	2006
Mr. Manuel Alves Monteiro	49	Member	2006
Mr. Eduardo de Almeida Catroga	63	Member	2006
Mr. Carlos Jorge F. Pereira Ribeiro	51	Member	2006
Mr. Vítor Franco	55	Member	2006
Mr. Vítor Gonçalves	51	Member	2006

Mr. Diogo Lacerda Machado	45	Member	2006
Mr. Vasco de Mello	49	Member	2006
Mr. Manuel Menéndez Menéndez	46	Member	2005
Mr. Vital Moreira	61	Member	2006
Mr. Jorge Maria Ricciardi	51	Member	2006
Mr. Carlos Jorge Ramalho dos Santos Ferreira	57	Member	2005
Mr. António Sousa Gomes	70	Member	2006
Mr. Paulo Teixeira Pinto	45	Member	2006
Mr. José Manuel Archer Galvão Teles	68	Member	2006

Mr. António de Almeida is the Chairman of the general and supervisory board of EDP. Mr. Almeida is also Chairman of the Audit Committee of the Angola Millennium Bank, the Mozambique International Bank, the Mozambique International Insurance and Lisgráfica. At EDP, António de Almeida was also CEO from October 1996 to April 1998 and Chairman of the Audit Committee from May 2003 to March 2004. He was previously CEO of OMIP Iberian Electricity Derivatives Exchange and Chairman of OMIClear Energy Derivatives Clearing Company. From 1998 to January 2004 he was a board member of the European Bank for Reconstruction and Development. From November 1978 to January 1980 and from June 1983 to November 1985 he was the Secretary of State Treasury. Mr. Almeida holds a degree in Economics, taught economics at the Mozambique University and was an invited Lecture of Business Administration at the Lisbon Autonomic University.

Mr. Alberto Castro was appointed to our general and supervisory board in 2006. Mr. Castro is currently the Dean of the School of Economics and Business Administration at the Portuguese Catholic University. He is also a non-executive member of the board of Douro Azul SGPS, president of Ciencinvest, a consultant for APICCAPS (Footwear Industrialists Association) and for Quaternaire Portugal, a member of the board of the Portuguese Business Association, a member of the board of the Oporto Trade Association, coordinator of Contacto@ICEP, an international internship program promoted by ICEP Portugal, a member of the board of the Association for the Museum of Transportation and Communications, a member of the board of the Association of the Universities of the North of Portugal (AURN), representing the Catholic University, a member of the steering committee of the International Working Party on Labor Market Segmentation and a member of the European Association of Research in Industrial Economics. Previously he was a member of the Advisory Board of PROINOV (Portugal Innovation Programme) and head of the management unit of RIS Norte Regional Innovation Strategy . Mr. Castro has several publications, academic and professional, in the areas of industrial economics, economics of the firm, labor economics, regional economics, international economics and business strategy. He holds a degree in Economics from the Universidade do Porto and a Ph.D. in Economics from the University of South Carolina.

Mr. Manuel Fernando Macedo Alves Monteiro was appointed to our general and supervisory board in 2006. Mr. Alves Monteiro is a non-executive board member of the listed companies CIN, NOVABASE and Jerónimo Martins, and unquoted companies Douro Azul - SGPS, PPH-Porto Património Mundial Emp. Imob., SA and Boats 4U Projectos Fabricação Embarcações, Lda. He is Chairman of IPCG Portuguese Corporate Governance Society. He is also an Advisory Board member of BPP Banco Privado Português and of FEP-Faculty of Economics of the University of Porto. Other current roles include Audit Committee member of NOVABASE, President of the Remuneration Committee of Douro Azul - SGPS and consulting services for public organisms and private companies; he is a graduated in Law and member of the Portuguese Bar Association. In the past he was Chairman of Euronext Lisbon (the Portuguese Stock Exchange) and held various senior managing positions as board member of Euronext Holding (Holland), Euronext Paris, Euronext Brussels, Euronext Amsterdam and Clearnet. He was also Chairman and CEO of Interbolsa (Portugal) as well as CEO of the Portuguese Futures and Options Exchange. Additionally he acted as Chairman of the Managing Board of Casa da Música / Porto 2001, S.A. Mr. Alves Monteiro performed different roles in the executive bodies of international organizations connected to capital markets issues (FIABV-Ibero-American Federation of Stock Exchanges, ECOFEX-Committee of Options and Futures Exchanges, IFCI-International Finance and Commodities Institute (Committee Founder), ECMI European Capital Markets Institute). He also took part in several organizations connected with the Portuguese financial market and Portuguese companies (President of the Board of Directors of APDMC-Portuguese Association for the Development of the Capital Market, Vice-President of the Board of Directors of FAE Company Administrators Forum, Council member of the National Capital Market (chaired by the Finance Minister) and was member of the Advisory Committee of CMVM-Portuguese Securities and Exchange Commission. In 2003 he was awarded with the distinction Chevalier de L Ordre Nacionale de la Legion d Honneur by order of the President of France.

Mr. Eduardo de Almeida Catroga was appointed to our general and supervisory board in 2006. Since 2002, Mr. Eduardo de Almeida Catroga has been the President of Sapec, a holding company with activities in Portugal and Spain where he was previously Vice-President (1996-2002) and CEO (1981-1993). He is also a board member of Banco Finantia (an investment bank) and of Nutrinveste (a consumer products company) since 1996. From 1993 to 1995 he was Minister of Finance of Portugal. He was Member of the Board of Directors of BP Portugal (Portuguese subsidiary of BP Group) (1983-1988), a

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Board Member of Cel-Cat (a cable manufacturer company) (1982-1993), President of the Portuguese Association of Chemical Companies (1982-1988), Vice-President of Quimigal (a chemical company) (1978-1980), Member of the Executive Committee of CUF (1975-1977), Executive Director of CUF (1974-1975), an Economist at Group CUF Holding company (the most important conglomerate group of companies in Portugal before 1974 revolution) (1968-1973) and a Consultant, Ministry of Finance (1967). He has been Professor of Business Strategy at ISEG Technical University of Lisbon since 1990 and was also Assistant Professor of General Management (1974-1986). Mr. Catroga holds a degree in Finance from the Instituto Superior de Ciências Económicas e Financeiras (ISCEF), Technical University of Lisbon (currently ISEG) and a PMD from Harvard Business School.

Mr. Carlos Jorge F. Pereira Ribeiro was appointed to our general and supervisory board in 2006. Currently he is also shareholder, Vice-Chairman and President of the executive board of directors of GEOCAPITAL, Investimentos Estratégicos, S.A., a company that has several investments in Portugal and Macau, China which is aimed at deepening the economic ties between China and the Portuguese speaking countries through strategic investments. He is also the Executive President of Guinor, S.A. and a director of Energy Finance. From 1990 to 1997 he was a director of the following financial holding Companies: Interfina, SA, FINAE, SA, Invest, SA, Finansol, SA, Credicapital, SA, Nam Van, SA and Admond, SA. These companies financial investments focus was on engineering (Empec, OPCA, Construções Técnicas), hospital management (Hospitália), industrial maintenance (Engigás), banking (Banco Comercial de Macau, Banco Crédito Predial Português, Banco Português do Atlântico), financial services (Moza Capital), insurance (Global, Global Vida), leasing (Geoleasing), telecommunications (Finacom, Radiomóvel), shipping (Portline), tourism (Estoril Sol), property development (SGAL Soc. Gestora da Alta de Lisboa, Nam Van Lakes), infrastructures (Hospital Conde S. Januário, Porto de Ká-Hó, Ponte de Macau-Taipa, Aeroporto Internacional de Macau), aeronautics (VARIG Engenharia), media (Jornal Comércia de Macau), Natural Resources (Zamcorp) and energy (EDP Energias de Portugal). Mr. Ribeiro holds a degree in Law from Lisbon s Classic University and from Gama Filho University in Rio de Janeiro, Brazil. He complemented his academic achievements by participating in various seminars, conferences and internships in the areas of Political Science, International Law and Diplomatic studies.

Mr. Victor Domingos Seabra Franco was appointed to our general and supervisory board in 2006. Mr. Franco is since 2005 the chairman of the Assembly of Instituto Superior de Ciências do Trabalho e da Empresa (ISCTE) and a partner in Victor Franco & Lisboa Nunes, SROC and in Grant Thornton & Associados, SROC, Lda, statutory auditors companies. From 1998 until 2005 he was chairman of the General Meeting of the Association for Statutory Auditors. From 1976/2006 he was a professor of financial accounting, cost accounting and management accounting in the management degree and masters and doctoral program in accounting at ISCTE, coordinator of management accounting in the management degree program at ISCTE (1988/2006) and of the masters and doctoral program in accounting at ISCTE (1999/2003) and chairman of the Masters Committee at ISCTE s Management School (2000/2001), of the Scientific Committee of the Management School (2002/2004). He is a registered statutory auditor, registered lawyer, registered manager and legal liquidator and registered economist. He graduated in finance from Instituto Superior de Economia da Universidade Técnica de Lisboa, graduate in law from the Lisbon Law Faculty, Universidade Clássica de Lisboa. Mr. Franco holds a Ph.D. in Economics and Business Sciences from Universidad Autónoma de Madrid and is a Full Professor of the Finance and Accounting Department at ISCTE. From 1977 to 1987 he was Inspector for the General Inspection of Finances Ministry of Finance.

Mr. Vítor da Conceição Gonçalves was appointed to our general and supervisory board in 2006. He is a Full Professor of Business Administration at ISEG Instituto Superior de Economia e Gestão, Universidade Técnica de Lisboa since 1994. He is the Dean of ISEG since 2003 and has been the President of the Executive Council of Idefe Instituto para o Desenvolvimento e Estudos Económicos, Financeiros e Empresariais since 2003 and the President of the General Meeting of CEGE Centro de Estudos de Gestão since 1996. He is currently the scientific director of several post-graduate programs in Management at ISEG. Mr. Gonçalves was a member of the Board of Directors of Promindustria Sociedade de Investimento SA (1994-1996) and a member of the board of the board of directors of IFEA Instituto de Formação Empresarial Avançada SA (1998-2003). He acted as a senior consultant to several Portuguese and international companies and also to several government organizations. He was the president of the international expert group that evaluated the European research area program for the European Commission (2001-2002). Mr. Gonçalves holds a degree in Management from ISEG / Universidade Técnica de Lisboa, a doctorate degree in Business Administration from Univerdidade de Sevilla and the Aggregate title from the Universidade Tecnica de Lisboa.

Mr. Diogo Lacerda Machado was appointed to our general and supervisory board in 2006. He was admitted to the Portuguese Bar Association in 1986. He was Secretary of State for the Justice Department of the Government of Portugal (1999-2002), adviser to the Secretary Assistant of the Administration and Justice Department of the Government of Macao (1988-1990), lecturer in the master degree program at the University of Coimbra, Law School, post-graduate of the Catholic University and High Institute of Education and Sciences and the Portuguese Bars of Lisbon and Coimbra and a member of the Judiciary Superior Council as Parliament Representative from 1997-1999, as well as of a number of organizations, including,

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AIDA Concordia Conciliation Centre and AMG Business Mediators. Mr. Machado is the author of a number of articles on justice, courts, alternative dispute resolution methods and complementary justice services published in several newspapers and publications and was the speaker at several national and international conferences on insolvency and corporate restructuring, business law, dispute resolution, telecommunications, computer software licensing, copyrights, corporate law, mergers and acquisitions, patents, litigation, arbitration and mediation. Mr. Machado holds a law degree from the University of Lisbon.

Mr. Vasco Maria Guimarães José de Mello was appointed to our general and supervisory board in 2006. He is Chairman and CEO of Brisa and Chairman and CEO of José de Mello, S.G.P.S., S.A., holding company of one of the major Portuguese groups, with significant interests in banking, chemical industry, healthcare, energy, technologies and highway toll concessions. He also serves as Vice-Chairman of the Advisory Board of BCP, Invited Member of the Supervisory Board of BCP, Member of the Supervisory Board of Millennium BCP Bank (Poland) and Member of the Board of Albertis, Infrastructuras, S.A. From 1992 to 2000, he was Chairman of Banco Mello, Chairman of Banco Mello de Investimentos, Chairman of Companhia de Seguros Império, Vice Chairman of José de Mello, S.G.P.S. and Director of UIF União Internacional Financeira. From 1985 to 2002 he was Managing Director of CUF Finance in Geneve, Switzerland. From 1978 until 1980 he was with Citicorp in New York and in Banco Crefisul de Investimento in São Paulo, Brazil. Mr. José de Mello holds a bachelor s degree in Business Administration from the American College of Switzerland.

Mr. Manuel Menéndez Menéndez was appointed to our general and supervisory board in 2006. At EDP he was a member of the board of directors since January 2005. He is currently Chairman of CajaAstur, of HidroCantábrico and of Naturgás, a board member of Neo Energia, of the Spanish Confederation of Savings Banks and of UNESA (Spanish Association for Electricity Industry) and a member of the Official Registry of Auditors of Accounts. He represents Peña Rueda S.L. (a 100%-owned subsidiary of CajAstur) on Enagas´ board of directors. He was previously a board member of CajAstur and HidroCantábrico, a member of the board, of the executive committee and audit and control committee of AIRTEL (now Vodafone), a board member of ENCE and LICO Corporación, Vice-Chairman of SEDES, S.A. and Executive Chairman of the Sociedad de Garantías Recíprocas de Asturias (Asturgar). Mr. Menéndez has been a professor in the Department of Business Administration and Accountancy at the University of Oviedo, where he earned his doctorate in economic sciences in 1985 (cum laude and with a Special Mention from the Board of Examiners). He earned degrees in economics and business administration in 1982.

Mr. Vital Moreira was appointed to our general and supervisory board in 2006. He is currently Professor of Public Law (Faculty of Law, University of Coimbra), Chairman of the Research Centre of Public Law and Regulation at the Faculty of Law in Coimbra University (Centro de Estudos de Direito Público e Regulação) and director of a postgraduate course on Public Regulation and Competition, available since 2001. Mr. Vital Moreira is co-editor of Journal of Public Law of the Economy (Revista de Direito Público da Economia) a Portuguese-Brazilian quarterly published in Belo Horizonte, Brazil, the author of several books and many articles on constitutional law and administrative caw, including The Economy and the Constitution (Economia e Constituição - Coimbra, 1974), Professional Self-Regulation and Public Administration (Auto-regulação Profissional e Administração Pública - Coimbra, 1997) and, together with Fernanda Maçãs, Independent Regulatory Authorities (Autoridades Reguladoras Independentes - Coimbra, 2003). Mr. Moreira is weekly columnist of the general daily newspaper Público (Lisbon) and monthly columnist of the business daily newspaper Diário Económico (Lisbon). He is a former Member of the Constituent Assembly (1975-76) and of Parliament (1976-1982, 1996-97) and former justice of the Constitutional Court (1983-1989).

Mr. Jorge Maria Ricciardi was appointed to our general and supervisory board in 2006. He is currently President and Chief Executive Officer of Banco Espírito Santo de Investimento, S.A., the merchant bank of the Espírito Santo financial group. He has been with the Espírito Santo Group since 1979 where he served as member of the board and executive committee of Banco Espírito Santo, S.A. with responsibility of global risk management, Vice-Chairman of the Executive Board of Banco Espírito Santo de Investimento, S.A. (ex. Espírito Santo Sociedade de Investimentos, S.A), Director of Espírito Santo Sociedade de Investimentos, S.A., General Manager of the Corporate Finance Department and Manager of the Merchant Banking - Capital Markets Department of Banco Internacional de Crédito, Co-Manager of Bank Espírito Santo International Limited and Financial Controller and Assistant to the General Financial Controller of Espírito Santo Group Worldwide. From 1978 to 1979 he worked for YTONG PORTUGUESA, a civil construction work equipment manufacturing corporation, as an Economist Consultant. Mr. Jorge Maria Ricciardi graduated with honors in Sciences Economiques Appliqués at the Institute of Business Administration of the Catholic University of Louvain Belgium, where he presented his graduation thesis on La Banque et la Prise de Décision d Octroi de Crédits d Investissement .

Mr. Carlos Jorge Ramalho dos Santos Ferreira was appointed to our general and supervisory board in 2006. He is currently Chairman of CGD. He was a member of the Tax Reform Commission (1984-1988), a member of the Portuguese Parliament, Vice-Chairman of the Parliamentary Commission for Health and Social Security (1976), a voting member of the Management Board of ANA (1977-1987) and Chairman of the Board of Fundição de Oeiras (1987-1989) and of the Macao

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Airport Company (1989-1991). He has been a director of the Champalimaud Group, and chaired the Board of Mundial Confiança and the General Meeting of Shareholders of Banco Pinto & Sotto Mayor. Between 1999 and 2003, at the BCP Group, he was a director of Servibanca, Vice-Chairman and a voting member of the Board of Director of Seguros e Pensões Gere, a Director and Chairman of Império Bonança, of Ocidental and Ocidental Vida Insurance companies, of Seguro Directo, of ICI-Império Comércio e Indústria, of Companhia Portuguesa de Seguros de Saúde, of Autogere, of Corretoresgest, and a director of Eureko B.V. He has also been Vice-Chairman of Estoril Sol, Vice-Chairman of Finansol, non-executive Chairman of Willis Portugal-Corretores de Seguros (2003-2005) and a director of Seng Heng Bank (2005).
Mr. Ferreira holds a law degree from the Universidade Clássica de Lisboa (1971).

Mr. António Sousa Gomes was appointed to our general and supervisory board in 2006. Previously he was Chairman and Executive President of CIMPOR Cimentos de Portugal, SGPS, SA. (1992-2001), Chairman and Executive President of IPE, SA, Chairman of the Board, SEFIS and EGF, Director at the Development Studies Institute (Instituto de Estudos para o Desenvolvimento), Portuguese Minister of Housing and Public Works (1978-1979) and Minister of Industry (1978), Minister of Economic Coordination and Planning (1976-1978), Member of the Portuguese Parliament (1976-1979), Economic consultant in industrial and strategic planning, Project manager in metallurgical and steel activities.
Mr. Gomes holds a degree in mechanical engineering from the Lisbon University and SEP, Graduate School of Business, Stanford University.

Mr. Paulo Teixeira Pinto was appointed to our general and supervisory board in 2006. He is currently Chairman of the board of directors of BCP. He joined the staff of BCP in November 1995 as head of the Legal Department of the Corporate Centre. He was appointed general manager and company secretary in March 2000. His duties also included responsibilities in institutional relations, with emphasis on his contacts with the regulatory authorities and with the unions. Since its constitution in 2003, he has been a member of the Corporate Governance Steering Committee, of the Social Relations Committee and of the Training and Vocational Development Committee, and, since 2004, he has been the CEO of the Banco Comercial Português Foundation. Since January 2004 he has been the coordinator of the Millennium Project, the refoundation project of the BCP Group. He was a member of the 12th Constitutional Government under Prime Minister Prof. Aníbal Cavaco Silva, having held the position of Under Secretary of State of the Presidency of the Council of Ministers from November 5, 1991 to March 18, 1992, and Secretary of State of the Presidency of the Council of Ministers from March 18, 1992, to October 28, 1995, a position he held in conjunction with that of Government spokesman. He was the Portuguese Government representative for the OECD Public Management program. He has written university studies and articles for newspapers and magazines and has spoken at numerous conferences. His publications include the following: Compêndio de Direito Económico e Financeiro (Compendium of Economic and Financial Law), joint author (1991); O Associativismo Empresarial (Business Associations) (1998); Um dever chamado futuro (A Duty Called Future) (2001) and Querer Crer (Wanting to Believe) (2002). Mr. Paulo Teixeira Pinto holds a degree in law, specializing in Juridical-Political Sciences at the University of Lisbon, and in Juridical Sciences from the Universidade Livre (1983); he took his Doctorate Course in History of Law at the Universidad Complutense de Madrid (1988), and attended the Corporate Strategy Programme, INSEAD at Fontainbleau (2000) and the Senior Company Management Programme, given by AESE School of Business Management (2003). From 1983 and 1988 he lectured at the Faculties of Letters and of Law of the University of Lisbon and at the Department of Law of Universidade Livre.

Mr. José Manuel Archer Galvão Teles was appointed to our general and supervisory board in 2006 and is President of the General Meeting of Shareholders of EDP. He is currently a partner at Morais Leitão, Galvão Teles, Soares da Silva & Associados Sociedade de Advogados.
Mr. José Manuel Galvão Teles has practiced law since 1961 (except during 1975-1976, when he served as the Portuguese Ambassador to the United Nations). He now handles Special Cases within the Litigation Department. Mr. Galvão Teles is widely experienced in mergers and acquisitions and as a consultant to some of the most important national and foreign companies established or operating in Portugal and focuses his professional activity in the areas of corporate law, general civil law, arbitration and litigation. He is President of the General Meeting of Shareholders of the largest companies with head offices in Portugal (banking, electricity, distribution, etc.). Throughout his career as an attorney, he has provided legal advice on some of the largest civil cases brought to trial in the Portuguese Courts. He was also successful as defense counsel, representing clients on some of the most important and notable criminal cases. Mr. Teles is a Member of the Portuguese Council of State and has been the Delegation Head of important political and economic-financial missions (addressing impacts on Angola of the nationalization of Portuguese banks; litigation with Frelimo during the decolonization of Mozambique, particularly related to Banco Nacional Ultramarino). He is Chairman of the Board of Directors of the Association for the Progress of Law and is consultant to several socio-cultural associations and foundations. During the 1970s and 1980s he was a member of the Presidency of the International Court for judging Apartheid Crimes and between 1976 and 1982 he was President of the Portugal-Spain Friendship Association. He is Member of the Portuguese Bar Association since 1963, Member of the International Bar Association and the author of several articles published in specialized reviews.
Mr. Teles holds a Law Degree from the University of Lisbon Law School.

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AUDIT COMMITTEE

In July 2003, our former board of directors created an audit committee composed of three directors. Mr. José Manuel Trindade Neves Adelino is the President of the audit committee. Mr. Luís Filipe Rolim de Azevedo Coutinho and Mr. António Afonso de Pinto Galvão Lucas are also members of the audit committee. The members of the audit committee were qualified as independent directors under CMVM Regulation no. 11/2003 of December 2, 2003.

On March 30, 2006, three of the directors elected to serve on the board of directors until June 30, 2006, António de Almeida (chairman), Carlos Jorge Ramalho dos Santos Ferreira and Eduardo de Almeida Catroga were appointed to the audit committee. Pursuant to the changes to our corporate governance model that became effective on June 30, 2006, our audit committee is now composed of three members of the general and supervisory board. Mr. Vítor Gonçalves is the Chairman of the audit committee. Mr. Manuel Fernando de Macedo Alves Monteiro and Mr. António Francisco Barrosa de Sousa Gomes are also members of the audit committee. According to our articles of association all of the members of the audit committee must be independent in accordance with the criteria set forth in Article 9 of our articles of association and Article 414, no. 5 of the Portuguese Company Law.

The audit committee has, among others, the following main functions delegated to it by the general and supervisory board:

- deliver its opinion about our management report and annual accounts;
- oversee on a permanent basis the activity of our statutory auditor and of our external auditor and, concerning the first, to pronounce itself about its respective election or appointment, its removal and its independence conditions and other relations with our company;
- oversee on a permanent basis and evaluate our internal procedures relating to accounting and auditing matters, as well as the efficacy of our risk management system, internal control system and internal audit system, including the receipt and processing of related complaints and queries, whether or not originating from employees;
- monitor, when it deems appropriate and through the means considered appropriate, the correctness of the books, the account registers and supporting documents, as well as the status of any assets or values held by our company; and
- supervise the preparation and release of our financial information.

REMUNERATION COMMITTEE

Our remuneration committee is composed of three members, who are members of the general and supervisory board, as provided for in Portuguese law and in Article 27 of our articles of association. The majority of the members of the remuneration committee must be independent in accordance with the criteria set forth in Article 9 of our articles of association. This committee has the capacity to determine the remuneration of our executive board of directors, including retirement plans. The current members of the remuneration committee are Mr. Alberto João Curanceiro de Castro (Chairman), Mr. Eduardo de Almeida Catroga and Mr. Paulo Jorge de Assunção Rodrigues Teixeira Pinto. Neither the law nor our articles of association impose or provide for a charter or regulation to be approved in relation to the organization or activity of the remuneration committee.

In addition, Article 11, no. 2, paragraph d) of our articles of association provides for the existence of an additional remuneration committee that is responsible for determining the remuneration of the members of our corporate bodies other than the executive board of directors. The majority of the members of the remuneration committee must be independent in accordance with the criteria set forth in Article 9 of our articles of association. The current members of the remuneration committee are Mr. Alberto João Curanceiro de Castro (Chairman), Mr. Eduardo de Almeida Catroga and Mr. Paulo Jorge de Assunção Rodrigues Teixeira Pinto.

Under Portuguese law, a director must act with due care, diligence and loyalty, always seeking to promote the company s interest while taking due account of the interests of other relevant stakeholders, such as shareholders, employees and creditors. A member of a supervisory board must act with due care, diligence and loyalty in accordance with the interest of the company. Each director and member of a supervisory board will be liable to the company, the company s shareholders and third parties for any damages caused by a breach of these duties. A member of a supervisory board will be jointly and severally liable with a director for the damages caused by an action or omission of a director if such damage would not have occurred if such member had performed his supervision duties.

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COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Aggregate compensation paid in 2005 by us to our directors was approximately 3.9 million. Our Portuguese annual report to shareholders includes individual compensation for the chairman of our board of directors and for our chief executive officer. During 2005, we paid 716,983.54 to Mr. Francisco Sánchez, Chairman of our board of directors, and 716,983.54 to Mr. João Talone, our Chief Executive Officer and Chairman of the executive committee of our board of directors.

SHARE OWNERSHIP

As of December 31, 2005, the members of the former board of directors as a group owned, in the aggregate, less than 1% of our outstanding shares (not including shares held by any entity with which any of the directors or executive officers are affiliated).

Members of the Board of Directors	Number of Shares[1]
Mr. Francisco de la Fuente Sánchez	12,654
Mr. João Ramalho Talone	2,324
Mr. António Afonso de Pinto Galvão Lucas	0
Mr. Arnaldo Pedro Figueirôa Navarro Machado	11,809
Mr. Carlos Jorge Ramalho dos Santos Ferreira	24,400
Mr. Jorge Manuel Oliveira Godinho	35,380
Mr. José Alfredo Parreira Holtreman Roquette	1,000,000
Mr. José Manuel Gonçalves de Morais Cabral	0
Mr. José Manuel Trindade Neves Adelino	1,091
Mr. José Pedro da Silva Sucena Paiva	10,060
Mr. Luís Filipe Rolim de Azevedo Coutinho	0
Mr. Manuel Menéndez Menéndez	0
Mr. Paulo Azevedo Pereira da Silva	7,304
Mr. Pedro Manuel Bastos Mendes Rezende	0
Mr. Rui Miguel de Oliveira Horta e Costa	4,589
	1,109,611

(1) *Reflects aggregate shares held by directors and the directors family members.*

As of December 31,2005, the members of the former board of directors have also been granted an aggregate of 2,043,144 stock options under our stock option plans that remain outstanding, of which 603,830 stock options are exercisable as of that date. There were two stock options plans outstanding as of December 31, 2005:

A plan granted until 2004 for members of the board of directors, initially comprising a total of 2,450,000 ordinary shares declared at the general shareholders meeting on May 10, 2000. This plan is managed by unrelated persons who are not employees of EDP or its subsidiaries. Under this plan, the exercise price of each option equals the market price of our stock on the date of grant and each option has a maximum term of 5 years.

A plan granted in 2005 concerning the board of directors, to be exercisable from 2006-2008. This new plan has maximum duration of 8 years and is divided in three parts: options are exercisable within 1 year of its attribution for the first part, 2 years for the second part and 3 years for the remaining options.

A summary of the status of our two fixed stock option plans as of December 31, 2004 and 2005, and changes during the years then ended on those dates presented below:

	Option activity	Weighted average exercise price
Balance December 31, 2003	2,422,258	3.36
Options forfeited[1]	(2,299,533)	
Options granted	490,000	
Balance December 31, 2004	612,725	2.44
Options forfeited	(262,391)	
Options granted	1,692,810	
Balance December 31, 2005	2,043,144	2.27

(1) *Options forfeited include options not exercised within the required period and option forfeited by departing plan participants.*

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The following table summarizes information about stock options outstanding and exercisable as of December 31, 2005.

Options outstanding	Weighted average exercise price	Weighted average remaining contractual life	Options exercisable
2,043,144	2.27	6.52 years	603,830

EMPLOYEES

The following table shows our number of employees by business areas and geographic area.

Employees	As of December 31 2003	2004	2005
Electricity Generation			
Portugal	1,992	1,800	1,687
Spain	471	595	586
Brazil	139	103	184
Energy Distribution and Supply			
Portugal	6,397	5,607	5,508
Spain	672	803	800
Brazil	3,514	3,361	3,233
Other	4,433	3,788	2,143
Permanent staff Fixed-term	17,261	15,653	13,918
Contract	357	404	223
Total	17,618	16,057	14,141

Approximately 59.8% of our employees are members of a union. Our non-management employees in Portugal are represented by 28 unions, of which six represent the majority of employees. Most of the unions are members of one of the two principal confederations in Portugal: CGTP-Intersindical and UGT. Our non-management employees in Spain are represented by nine unions and our non-management employees in Brazil are represented by seven unions. The unions assume responsibility for annually negotiating salary levels, negotiating the collective bargaining agreements and ensuring that the collective bargaining agreements are correctly applied. In May 2000, we reached agreement with all of the unions representing our employees in Portugal on a new collective bargaining agreement which provides for, among other things, higher entry level compensation across professional categories and greater opportunities for seniority-related compensation increases within individual professional categories. The May 2000 agreement and related agreements provide for certain salary increases for employees in Portugal determined on an annual basis. The weighted average salary increases for employees in our electricity business companies are 3.66% for 2005, 3.1% for 2004, 5.4% for 2003 and 4.3% for 2002. Future increases will be negotiated on an annual basis.

From 1988 through 2005, we experienced 17 strikes, six of which lasted only 24 hours each, and two of which lasted 48 hours each. Twelve of the 17 strikes concerned salary negotiations, our privatization or our restructuring.

In 2002, there were 3 strikes, concerning employee s rights, salary negotiations, the maintenance of the National Wealth Service and the public social security system, protests against the approval of new labor laws and against an installation closing. One of these strikes was a national strike. In all there were 2,639 workers involved and 25,530 hours of strike time (number of persons per strike multiplied by the number of hours of each strike).

In 2003, there were two strikes concerning salary negotiations, new labor laws and the defense of workers rights recognized in the Collective Work Agreement. These strikes involved 528 workers and 3,526 hours of strike time (number of persons per strike multiplied by the number of hours of each strike).

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In 2003, there were no strikes by our Spanish or Brazilian employees.

In 2004, there were two strikes concerning the disagreement against Portuguese government policy, a new labor law and the defense of workers rights recognized in the Collective Work Agreement. These strikes involved 181 workers and 1,056 hours of strike time (i.e., the number of persons striking multiplied by the hours of each strike). In 2004, there were no strikes by Spanish or Brazilian employees.

In 2005, concerning Portuguese companies, there were two strikes involving 81 workers and 341 hours of strike time, both of them defending the Public Energy Sector and against privatization, and also defending de Collective Work Agreement. Brazil has experienced one strike involving 800 workers and 6400 hours of strike time, attempting to get hire salary adjustments and more social benefits (strike time concerns the number of persons per strike multiplied by the number of hours of each strike).

EMPLOYEE BENEFITS

Our employees are entitled to participate in a profit sharing program. In 2005, approximately 29.4 million was distributed to our labor force as profit sharing. We maintain defined benefit pension plans for all employees of the companies that have subscribed to the Collective Labor Agreement in Portugal and Brazil. These pension plans are supplemental to the pension provided to retirees by the social security systems. As of December 31, 2005, the value of the underlying pension funds totaled 1,415.7 million, and the pension expense in 2005 was 62.8 million. For further information about our pension and benefit plans, see Item 5. Operating and Financial Review and Prospects Pensions and Benefits and note 33 to our consolidated financial statements. Our directors and senior officers are also eligible for stock option plans, described in Share Ownership.

Our employees are eligible to participate in a complementary health plan that supplements benefits from the Portuguese National Health Service. Currently, the health plan covers approximately 100% of our people among the existing labor force, retired people, pensioners and relatives. In addition, employees receive personal accident insurance that covers death and invalidity, as well as a death subsidy complement.

Item 7. Major Shareholders and Related Party Transactions

The Portuguese government, through Parpública, a corporation wholly-owned by the Portuguese government, which was formed in 1991 for the purposes of holding the Portuguese Republic s interest in a number of enterprises in various industries, as of May 31, 2006, owned approximately 20.49% of our outstanding share capital. Through CGD, a state-owned bank, the Portuguese government owns an additional 4.95% of our share capital. The Portuguese government s ownership of our share capital declined from approximately 70% in 1997 to the current level as a result of the offering of our ordinary shares in successive stages of our privatization, the last of which took place in November 2004.

The following table sets forth information concerning the ownership of our share capital as of May 31, 2006. Other than as set out in the following table, we are not aware of any shareholder owning more than 2.0% of our share capital.

Name of owner	Number of Ordinary Shares owned	Percentage of Outstanding Ordinary Shares
Parpública	749,323,856	20.49%
Iberdrola, S.A.	347,371,083	9.50%
Caja de Ahorros de Asturias (CajAstur)	202,250,158	5.53%
Caixa Geral de Depósitos, S.A.	181,085,442	4.95%
BCP - Banco Comercial Português, S.A.	106,396,579	2.91%
UBS AG	88,095,427	2.41%
The BCP Group s Pension Fund	81,615,161	2.23%
Banco Espírito Santo, S.A.	79,524,691	2.17%
Baltic - SGPS, S.A.	73,202,802	2.00%

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The Portuguese government or equivalent entities have special rights that all other holders of our ordinary shares do not have. To learn more about the special rights of the Portuguese government or equivalent entities, you should read Risk Factors Other Risks Restrictions on the exercise of voting rights, as well as special rights granted to the Portuguese government or equivalent entities, may impede an unauthorized change in control and may limit our shareholders ability to influence company policy.

As of May 31, 2006, approximately 4.7% of our shares were represented by ADSs that were held by three holders of record, including The Depository Trust Company. The number of ADSs outstanding was 17,310,009 as of May 31, 2006.

In the ordinary course of business, we enter into transactions with BCP, CGD and BES in the nature of customary commercial banking transactions, such as deposits and loans. We believe that all such transactions have been entered into on arms-length terms and conditions. We may also enter into transactions in the ordinary course of business with companies with which some of our directors hold positions of significant responsibility.

Mr. Paulo Teixeira Pinto, Chairman of the board of directors of BCP, is a member of our general and supervisory board. Currently, we and BCP have cross-shareholdings. We and the EDP pension fund together own 4.36% of BCP s share capital. BCP owns 2.91% of our share capital and BCP Group s pension fund owns 2.23% of share capital. In the ordinary course of business, we and BCP enter into customary commercial banking transactions, such as deposits and loans.

On May 9, 2001, we entered into an agreement for a strategic alliance in the telecommunications sector with BCP, GALP and Brisa. Brisa became a shareholder of ONI in exchange for its 100% stake in Brisatel, which owned 4% of ONI Way. As a result of the agreement, EDP holds 56% of the share capital of ONI and Brisa holds 17%, while BCP and GALP hold the remaining 22.8% and 4.2%, respectively. Within the context of the strategic alliance, Brisa proposed two members of ONI s board of directors and they were subsequently elected by the shareholders of ONI. Baltic, a company controlled by the José de Mello Group, currently owns 2.00% of our share capital that was previously owned by Brisa. Mr. Vasco Maria Guimarães José de Mello, Chairman and CEO of Brisa and a representative of Baltic, is a member of our general and supervisory board.

Mr. Manuel Menéndez Menéndez is the Chairman of HidroCantábrico, CajAstur and Naturgás, a member of the board of directors of Neo Energia and a member of our general and supervisory board. We are party to a shareholders agreement with CajAstur concerning HidroCantábrico. For more information on this shareholders agreement, see Item 4. Information on the Company Spain History and Business Overview Energy Iberian electricity.

Item 8. Financial Information

CONSOLIDATED STATEMENTS

Please refer to Item 18. Financial Statements and pages F-1 through F-82 of this annual report.

OTHER FINANCIAL INFORMATION

LEGAL PROCEEDINGS

We are subject to a number of claims and legal and arbitral proceedings incidental to the normal conduct of our business. Management does not believe that liabilities related to such claims and proceedings are likely to be, individually or in the aggregate, significant effects to our financial position or profitability.

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DIVIDENDS AND DIVIDEND POLICY

We have declared dividends each year since 1991, when we became a limited liability corporation. The following table shows our dividends per share based on 3,000,000,000 ordinary shares outstanding in the years through 2003, and 3,656,537,715 ordinary shares outstanding in 2004 and in 2005:

	2001	2002	2003	2004	2005
Dividends per ordinary share (in euro)(2)	0.11	0.09	0.09	0.09	0.10
Dividends per ordinary share (in U.S. dollars)(1) (2)	0.10	0.11	0.11	0.11	0.13

(1) *Translated at the prevailing rate of exchange on the date of payment, which for the 2005 dividend (paid in 2006) was $1.263 = 1.00.*
(2) *Actual dividend paid in 2004 was 0.09243 (U.S.$0.11923).*

The payment and amount of dividends are subject to the recommendation of our board of directors and the approval by our shareholders at a general meeting. It is the current intention of the board of directors, subject to our financial condition and 2005-2007 strategic business plan, to increase our annual total dividend distribution during the 2005-2007 period by 7% to 8% annually.

In 2005, the first year in which dividends were distributed after our share capital increase in 2004, the total amount of dividends was adjusted by the technical effect resulting from the increase. For this purpose, the total amount of dividends distributed by us, and future variations of that amount, is determined by taking into account the proportional impact of the share capital increase on our market capitalization, based on the closing price of our ordinary shares on Euronext Lisbon on the last day on which such shares were traded with rights.

Pursuant to Portuguese law, dividends are paid to shareholders of record as of the date established for payment. These payments are effected by means of Portugal s book-entry clearance and settlement system.

All dividends are paid in euro. Dividends received by a holder of ordinary shares or ADSs will, under current law and practice, be subject to taxation. The effective rate of Portuguese withholding tax has changed periodically in recent years and may change again in the future. For more information regarding taxation of dividends, you should read Item 10. Additional information Portuguese Taxation. Dividends received by holders of ADS will be paid in U.S. dollars, net of conversion expenses of the depositary.

SIGNIFICANT CHANGES

No significant change in our financial condition has occurred since the date of our consolidated financial statements included in this annual report.

Item 9. The Offer and Listing

TRADING MARKETS

In Portugal, our ordinary shares trade on the EUROLIST by Euronext Lisbon, or the Official Market. In the United States, our ordinary shares trade in the form of ADSs represented by ADRs issued by Citibank, N.A., as depositary. Our ADSs are listed on the NYSE and our ordinary shares are listed on Euronext Lisbon. Our ADSs and our ordinary shares are also listed on the Frankfurt Stock Exchange, and our ordinary shares are quoted on SEAQ International.

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MARKET PRICE INFORMATION

The tables below set forth, for the periods indicated, the reported high and low sales prices of our ADSs on the NYSE and of our ordinary shares on Euronext Lisbon, based on the 3,656,537,715 ordinary shares outstanding after giving effect to the 5-for-1 stock split approved at our May 12, 2000 general meeting and the 11-for-50 rights issue in November 2004:

	Per ADS		Per Ordinary Share	
	High	Low	High	Low
	(U.S. Dollars)		(Euro)	
2001	34.31	20.90	3.50	2.20
2002	22.19	14.56	2.40	1.41
2003	26.50	15.10	2.06	1.33
2004				
First Quarter	31.15	25.15	2.42	1.93
Second Quarter	29.49	26.17	2.34	2.07
Third Quarter	29.80	26.65	2.31	2.12
Fourth Quarter	31.15	28.60	2.40	2.16
Full Year	31.15	25.15	2.42	1.93
2005				
First Quarter	30.35	28.00	2.32	2.15
Second Quarter	28.87	24.84	2.22	2.05
Third Quarter	29.14	24.60	2.37	2.04
Fourth Quarter	31.67	26.97	2.68	2.25
Full Year	31.67	24.60	2.68	2.04
2006				
January	34.35	31.37	2.88	2.58
February	35.52	32.56	2.99	2.68
March	39.46	34.81	3.30	2.91
April	41.20	38.70	3.35	3.10
May	39.67	35.86	3.18	2.80
June	39.32	35.34	3.10	2.80

THE PORTUGUESE SECURITIES MARKET

The Portuguese equity market, which had experienced significant increases in liquidity and trading volumes until 2001, registered a slowdown in 2002 and 2003, consistent with the worldwide economic situation. In 2004, the Portuguese equity market registered a turnaround in line with the other European equity markets. Since November 1997, Portugal s status in the Morgan Stanley Capital International, or MSCI, indices has changed from emerging market to developed market. In particular, Portugal joined the MSCI Europe and World indices and left the MSCI Emerging Market index.

The integration of the former Lisbon and Oporto Stock Exchange in Euronext, N.V. (under the name Euronext Lisbon Stock Exchange, or Euronext Lisbon) on January 30, 2002, has allowed Euronext Lisbon to participate in a wider European capital market, which also includes Euronext Paris Stock Exchange, Euronext Amsterdam Stock Exchange and Euronext Brussels Stock Exchange. This integration process is intended to create a European common capital market, in order to allow investors to have access to a single equity and derivatives trading platform, common netting, clearing and settlement services and harmonized market rules and procedures.

A single equity and derivatives trading platform was recently implemented through migration of several platforms of the Euronext Stock Exchanges. The migration of both the equity and derivatives markets platforms managed by Euronext Lisbon SGMR to a single equity and derivatives trading platform common to all Euronext Stock Exchanges occurred in November 2003 for the equity market and in March 2004 for the derivatives market.

This migration involved the adoption by Euronext Lisbon Sociedade Gestora de Mercados Regulamentados, S.A., or Euronext Lisbon SGMR, of the Euronext Market Model, which consists of the harmonization of rules applicable to the markets, members and transactions of Euronext Stock Exchanges. For this purpose, Euronext Lisbon SGMR approved a number of rules, which entered into force on November 7, 2003, in order to accommodate the Euronext Market Model, respecting, where necessary, the requirements of Portuguese regulation on these matters. Currently, there are Harmonized Rules, accommodating the Euronext Market Model, and Non-Harmonized Rules, where the requirements of the Portuguese regulation are safeguarded.

As of December 31, 2005, the market capitalization of equity securities listed on Euronext Lisbon was 132,711 million, compared with 112,724 million as of December 31, 2004, representing 75.0% and 66.2%, respectively, of the total market capitalization of Portuguese listed securities. As of December 31, 2005, 111 Portuguese companies financial assets were listed

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on Euronext Lisbon (representing a total of 473 different issues), of which 51 were in the form of equity securities (56 issues), 45 in the form of bonds (148 issues), 8 in the form of warrants (238 issues) and 7 in the form of other listed funds and certificates (31 issues). On the basis of euro value, the ten most actively traded equity securities in ordinary sessions of Euronext Lisbon in 2005 represented approximately 92.2% of total trading volume of equity securities on Euronext Lisbon compared with 93.2% in 2004. Turnover of equity securities was 31,409 million in 2005 compared with 27,763 million in 2004.

In 2005, our ordinary shares represented approximately 18.7% of total trading volume of equity securities on the Euronext Lisbon. As of April 30, 2005, our ordinary shares accounted for 21.7% of total market turnover since January 1, 2006. As of May 4, 2006, our ordinary shares weighted 13.95% in the PSI General Index, 19.53% in the PSI 20 Index and 0.57% in the Euronext 100 Index, each as defined below.

The Official Market, created in July 1991, is the market on which most significant Portuguese equity and derivative securities are listed. The Official Market index, or the PSI General Index, published since February 1991, is a weighted average price of all shares listed on the Official Market, other than preferred shares without voting rights. The exact number of companies in the PSI General Index s portfolio may change each day as a result of new admissions, exclusions, suspensions and the absence of quotations. This index essentially reflects the Official Market s global profitability.

Euronext Lisbon calculates an index called the PSI 20, which includes the 20 largest and most actively traded stocks listed on the Official Market. This index was created for the purpose of acting as the Portuguese stock market benchmark and as an underlying reference for futures and options contracts. Market operators also use the PSI 20 as an underlying index for structured financial products whose performance depends on the performance of the Portuguese stock market. The methodology for the composition and calculation of this index was changed in May 2001 and was implemented on October 1, 2001. The weight of the index components, which before this revision was based on the 20 companies with the largest market capitalization listed in the Official Market, now also takes into consideration the free float of these companies and introduces a maximum limit of 20% of the weight that a given company can have in the index.

Pursuant to the integration of the former Portuguese stock market with Euronext, some Portuguese listed companies are now also included in Euronext indices. We, along with five other Portuguese companies, are included in the Euronext 100 Index, which is a market capitalization weighted price index comprised of the 100 largest and most actively traded stocks on Euronext Stock Exchanges. Each stock participating in the Euronext 100 Index must experience turnover of over 20% of its issued shares over the course of a rolling one-year analysis period.

Euronext Lisbon is supervised by the Ministry of Finance and the Portuguese Securities Market Commission, or CMVM, and operated by the Euronext Lisbon SGMR.

TRADING

Since March 1, 1999, all shares currently listed on the Official Market of Euronext Lisbon are traded through a continuous trading system, which is designed to provide automatic execution and trading through LIST, a computerized trading system. The principal feature of the continuous trading system is the computerized matching of buy and sell orders based, first, on matching sales price and, second, on the time of entry of the order. Each order is executed as soon as a matching order is entered, but can be modified or revoked up to its execution. Between 7:30 a.m. and 8:00 a.m. on each trading day, from Monday to Friday excluding public holidays, the daily opening market clearing price is established for each security on the continuous trading system based on the bids and offers outstanding. During the last five minutes of this pre-opening period it is possible to immediately present purchase and sale orders, which may not, however, be modified or revoked. On any trading day, the opening price may not change more than 15% from a reference price, which is the closing price of the last session or the price resulting from an automatic roll-call held during the session in order to reset the reference price. Computer-matched trading then proceeds on the continuous trading system from 8:00 a.m. until 4:30 p.m.

An automatic trading procedure by roll-call auction will be used if there is an interruption in the continuous trading system. In trading through a roll-call auction, all the orders to buy or sell the same security are processed together. Each roll-call auction originates one single price for the security and is followed by the matching of trades according to the priority of each of the orders, which is established according to the respective prices. Sell orders below and buy orders above the auction price will not be matched.

At present there are no official market makers or independent specialists in the continuous trading system, and therefore orders to buy or sell shares in excess of corresponding orders to sell or buy shares are not executed.

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According to the Portuguese Securities Code, which entered into force on March 1, 2000, transactions on Euronext Lisbon may only be performed by its members. There are two categories of members of Euronext Lisbon: negotiator members and clearance members. Negotiator members may perform stock exchange transactions but are not allowed to execute their clearance and are therefore required to enter into an agreement with one or more clearance members for clearance of the operations they negotiate. Only financial institutions authorized to buy and sell securities for their own accounts, such as banks and dealers, may become clearance members. Clearance members can clear stock exchange transactions and negotiate transactions.

Any trading of stocks listed on the continuous trading system that takes place off-market must be cleared through financial institutions and physically settled through the Portuguese Clearing House (Central de Valores Mobiliários), or CVM, where those stocks are registered or deposited. Stock prices are quoted in euro per share.

CLEARANCE AND SETTLEMENT

All securities traded on Euronext Lisbon, either in certificated form or in book-entry form, must be deposited or registered in the CVM. The CVM provides a system for the registration and control of securities, including custody of certificated securities and registration of book-entry securities. The CVM is managed by Interbolsa Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A., or Interbolsa, a company wholly-owned by Euronext Lisbon SGMR that also manages the Clearing and Settlement System for stock exchange transactions.

The Clearing and Settlement System is currently the most widely used clearing and settlement system in Portugal. Under this system, the member of the stock exchange inputs trade information on LIST, the nation-wide computerized trading system. The clearance member, which also has to be a participant of the Clearance and Settlement System, accepts the trade, at the latest, one day after the date of the trade, becoming the legal counterparty to the transaction until it settles. By the third business day after the trade, the electronic book-entry for the transfer of the securities takes place in the books of the CVM. This physical settlement is provisional until the financial settlement takes place after the end of the market daily process of the same third business day after the trade. In the business day following the settlement of the trade, the participants are informed of the volume of securities and cash amounts that were settled and those that failed to be settled.

Our ordinary shares have been accepted for trading on Euroclear and Clearstream and settle and trade with Euroclear and Clearstream in accordance with standard settlement procedures for internal clearances and with external counterparties through the CVM. Our ordinary shares are subject to such rules and regulations as Euroclear and Clearstream may from time to time determine.

Under Portuguese law, the acquisition of shares through a stock exchange transaction allows the owner to immediately sell those shares in the same market, without awaiting the physical and financial settlement of the transaction. However, the clearance member related to that transaction is primarily responsible for its physical settlement. In case of default in the physical settlement, Interbolsa must immediately initiate the substitution procedures necessary for good settlement of the transaction. These procedures involve an automatic lending and borrowing system, or if there are no securities available, an automatic buy-in system, in relation to the short positions on the closing date.

To hold our ordinary shares directly in book-entry form through the facilities of the CVM, an entity that is a non-resident of Portugal must, prior to the execution of the transaction, open a special share portfolio account with a financial intermediary located in Portugal and duly licensed to act as a financial intermediary pursuant to applicable legislation. The investor may then buy and sell listed securities with some restrictions and repatriate the proceeds. Persons who hold ordinary shares through Euroclear and Clearstream will not be required to open a special share portfolio account with a financial intermediary located in Portugal in order to hold the ordinary shares.

TRADING BY US IN OUR SECURITIES

Except in specified circumstances, under Portuguese law companies may not, at any time, hold more than 10% of their own share capital and may purchase or otherwise trade in their own equity securities only with shareholder authorization. Under our articles of association, the shareholders may, at a general meeting, grant us the authority to purchase our own shares.

At our general meeting held on March 30, 2006, the shareholders renewed the authorization for our board of directors and the management bodies of our subsidiaries to purchase our shares under the following conditions: (1) the number of shares to be acquired cannot exceed 10% of our share capital (a limit that already includes any shares to be acquired under the stock options plans); (2) the acquisition can only be done within the regulated markets where we are listed; and (3) the acquisition price must have as maximum and minimum limits 115% and 85%, respectively, of the weighted average of the closing quotations of our shares in the last ten sessions of Euronext Lisbon preceding the date of the acquisition.

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The shareholders also renewed the authorization for our board of directors and the management bodies of our subsidiaries to sell our shares under the following conditions: (1) the number of sales and shares to be sold will be defined by our board of directors and by the management bodies of our subsidiaries, which must include any shares to be granted under the stock options plans; (2) the sale of shares can only be done within the regulated markets where we are listed, without prejudice of obligations to be satisfied within the stock options plans whose creation has been duly approved by the general meeting; and (3) the sale price cannot be lower than 90% of the weighted average of the closing quotations of our shares in the last ten sessions of Euronext Lisbon preceding the date of the sale, except if the sale is executed to fulfill the stock options plans whose creation has been duly approved by the general meeting.

This general meeting resolution has renewed the authorization for our board of directors to purchase and sell our own shares for an additional period of 18 months, which had already been granted in previous identical resolutions passed at the general meetings held since 1999.

We buy and sell EDP shares on the market or otherwise as and when we believe it appropriate. As of June 26, 2006, we held 8,187,683 of our own ordinary shares, 1,750,000 of which we purchased in 1999, 650,000 of which we purchased in 2000, 9,326,209 of which we purchased in 2001, 5,702,717 of which we purchased in 2002, 4,002,038 of which we purchased in 2003, 7,143,307 of which we sold in 2004, 2,975,078 of which we purchased in 2005 and 9,075,052 of which we sold as of June 26, 2006. Ordinary shares held by us will be deemed to be outstanding under Portuguese law but are not entitled to any dividends, voting rights or preemptive rights, except the right to receive ordinary shares upon increases of share capital by incorporation of reserves.

PLAN OF DISTRIBUTION

Not applicable.

SELLING SHAREHOLDERS

Not applicable.

DILUTION

Not applicable.

EXPENSES OF THE ISSUE

Not applicable.

Item 10. Additional Information

SHARE CAPITAL

Not applicable.

ARTICLES OF ASSOCIATION

The following is a summary of both the rights of our shareholders and certain provisions of our articles of association. Rights of our shareholders are set out in our articles of association or are provided for by applicable Portuguese law. In this respect, Portuguese law has recently been extensively amended as a result of a reform of the Portuguese Company Law introduced by Decree law no. 76-A/2006, of March 29, 2006, which has entered into force on June 30, 2006. Because it is a summary, it does not contain all the information that may be important to you. For more complete information you should read our articles of association. Directions on how to obtain a complete copy of our articles of association are provided under Documents on Display below.

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GENERAL

We are registered at the Lisbon Commercial Registry Office under number 1805. Under Article 3 of our articles of association, we have as our company purpose the promotion, involvement and management, in a direct or indirect manner, of capital projects and activities in the energy sector, both at the Portuguese and the international level, with the aim of enhancing and streamlining the performance of the universe of companies comprising the EDP Group. We may also acquire participating interests as a limited liability member in companies having corporate missions that differ from our own, even if such companies are regulated by special laws, or participate in complementary company groupings, European economic interest groupings, consortia or in any other type of association, temporary or permanent.

TRANSACTIONS WITH DIRECTORS

According to the Portuguese Company Law, our general and supervisory board must previously authorize contracts between us or our affiliates, on one hand, and our directors or any person acting on behalf of them, on the other hand. Companies may not grant loans or extend any kind of credit to their directors, make payments on their behalf, guarantee their obligations or pay their remuneration more than one month in advance. Under article 425, no. 6 of the Portuguese Company Law, members of our executive board need not be shareholders, but they cannot be members of the general and supervisory board, nor members of a supervisory body of a company within EDP Group, nor a spouse or relative in the second degree of a person who is a member of any of such board or bodies. For more information on our executive board of directors, you should read Item 6. Directors, Senior Management and Employees Executive Board of Directors.

VOTING RIGHTS

Pursuant to our articles of association, any holder of 1 or more shares registered in its name at least 5 business days in advance of any meeting of shareholders is entitled to attend the meeting and to have one vote for each share owned. Shareholders must provide us, up to five business days prior to the date of the meeting, with a certificate from a financial intermediary confirming that the shareholder held the shares on the date 5 business days prior to the meeting and that the shares have been blocked from that date up to the date of the meeting.

Under Portuguese law, holders of shares entitled to vote may be represented by proxy at a meeting of shareholders. The proxy must be filed with us by the 5:00 p.m. of the second day before the date of the scheduled meeting of shareholders. Proxies must be hand signed and are only valid for a single meeting.

The voting rights exercised by a single shareholder, other than the Portuguese government or an equivalent entity, are limited to a maximum of 5% of our share capital. No single shareholder can exercise voting rights, in its name or on behalf of other shareholders, representing more than 5% of our share capital. For purposes of computing the percentage of the share capital held by a single shareholder, the votes corresponding to the following shares are aggregated:

- the number of shares held by the shareholder;
- the number of shares held by any other entity controlled directly or indirectly by the shareholder;
- the number of shares held by other persons or entities in their own name or in the name of another for the benefit of the shareholder;
- the number of shares held by an entity belonging to the same corporate group as the shareholder entity;
- the number of shares held by third parties with whom the shareholder has an option or any other right to buy our shares;
- the number of shares held by third parties with whom the shareholder has entered into a shareholder agreement related to a joint exercise of voting rights; and

the number of shares held as security by any person entitled to exercise the voting rights corresponding to our shares.

Holders of ADSs are treated as holders of the ordinary shares represented by the ADSs for purposes of determining the applicability of the 5% limitation on voting rights. Voting instructions of an individual ADS holder may not to be carried out by us as votes of ordinary shares to the extent that those votes, together with any votes cast by the ADS holder as a holder of ordinary shares, exceed 5% of our share capital.

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Under Portuguese law, a company may not vote its own shares that it holds as treasury stock, nor may any subsidiary that holds stock of its parent vote the treasury stock, and a company s treasury stock will not be counted towards a quorum or for purposes of determining a requisite percentage of votes cast. In accordance with Portuguese law, our shareholders must approve the acquisition by us of our own shares. Under Portuguese law, a Portuguese company may not, except under specified limited circumstances, purchase more than 10% of its nominal share capital as treasury stock.

Under Portuguese Company Law and our articles of association, we can create shares with special rights (e.g., priority rights over a company s profits) with the approval of two-thirds of the votes cast at a general meeting of shareholders.

SHAREHOLDERS MEETINGS

A general meeting of shareholders must be held annually within the first five months of the year following the close of the year for which the general meeting is convened at the request of the executive board of directors. Other general meetings of shareholders are convened by (i) the president of the general meeting whenever deemed appropriate or suitable and following a request by the executive board of directors, the general and supervisory board or the holders of at least 5% of our total share capital, or (ii) the general and supervisory board whenever it deems appropriate. Currently, notices of shareholders meetings must be given by an announcement published in the official website of the Ministry of Justice, at least 30 days before the scheduled date of the meeting.

Under Portuguese Company Law and our articles of association, the general meeting is constituted by the presence, in person or by proxy, of shareholders. There is no quorum requirement unless the meeting is called to vote on the extraordinary matters referred to below. In general, resolutions can be approved by a simple majority of votes cast. However, there are special quorum and majority requirements in cases where the general meeting is called to vote on extraordinary matters, which are amending our articles of association, approving a merger, break-up or transformation or dissolution of us, increasing our share capital and waiving pre-emptive rights. In these cases, the presence on a first call, in person or by proxy, of shareholders representing at least one-third of our share capital is required. There is no quorum requirement on a second call. Resolutions on these foregoing matters must be approved by at least two-thirds of the votes cast unless, on a second call, there are present, in person or by proxy, shareholders representing at least 50% of our share capital, in which case a simple majority of votes cast is required.

All resolutions adopted at a general meeting of shareholders are binding upon all shareholders.

PROXY REQUIREMENTS

In the event that any person requests a proxy from more than five shareholders, whether for that person or others, those proxies may be used for only one specified general meeting, and a proxy will be considered revoked if the shareholder granting the proxy attends the meeting. A proxy request must contain at least the following information:

- the date, time, place and agenda for the meeting for which the proxy is requested;
- identification of relevant documents that may be reviewed by shareholders;
- the identity of the person or persons who will act as the shareholder s proxy holder;
- a statement as to how the proxy holder will vote the related shares in the absence of instructions from the shareholder; and
- a statement that, in the event of circumstances unforeseen at the time the request was sent, the proxy holder will vote according to his or her evaluation of the shareholder s best interests.

Furthermore, pursuant to the Portuguese Securities Code, it is also required, in order for a person to represent more than five shareholders, that the proxy includes a description of the voting rights of the proxy holder and the voting instructions to the proxy holder.

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If a shareholder provides voting instructions with respect to a proxy request, the proxy holder must vote the related shares in accordance with those instructions except in the event of unforeseen circumstances as indicated above, in which case the proxy holder must inform the shareholder of how he or she has voted and the reasons for the vote. If a person requesting a proxy does not agree with the voting instructions received from the shareholder, he or she must reject the proxy and immediately inform the shareholder of the rejection.

Any person that has requested proxies is required to send, at that person s expense, to shareholders for whom that person was the proxy holder, a copy of the minutes of the related general meeting.

VOTING BY CORRESPONDENCE

According to our by-laws and the Portuguese Securities Code, our shareholders may vote by correspondence. Under the Portuguese Securities Code, public notices concerning shareholders meetings must indicate the possibility of voting by correspondence and must specify the procedures to follow in order to vote by correspondence, including a mailing address and deadline for receipt of the votes. We are obligated to verify the authenticity of each vote and ensure its confidentiality up to the time of voting at the general shareholders meeting. According to our articles of association, shareholders may cast their vote by correspondence for each item on the agenda, provided that they send a registered letter with recorded delivery addressed to the chairman of the general meeting board at our registered office in Portugal, signed in accordance with the signature on their identity card, at least five business days prior to the general meeting, enclosing a legible photocopy of the identity card of the person signing the letter.

DIVIDENDS AND DISTRIBUTIONS

Under Portuguese law, we are required to establish and maintain a legal reserve equal to 20% of the aggregate nominal value of our share capital and, if necessary to maintain this legal reserve, to contribute a minimum of 5% of our annual net income to the legal reserve. The legal reserve is distributable only upon our liquidation but it can be used to cover losses and be incorporated as our share capital. Currently, our total legal reserve is approximately 367 million, which is in compliance with Portuguese law. Net income in each fiscal year, as increased or decreased by any profit or loss carried forward from prior years, less any contribution to the legal reserve, is available for distribution to shareholders as dividends, subject to the requirements of Portuguese law and our articles of association. The payment and amount of dividends are subject to the recommendation of our executive board of directors and the decision by our shareholders at a general meeting.

If we have earned distributable profits since the end of the preceding fiscal year, as shown on an interim income statement certified by our auditors, our executive board of directors has the authority, with the prior approval of the general and supervisory board and subject to Portuguese law and regulations, without the approval of shareholders, to distribute interim dividends to the extent of these distributable profits.

Under Portuguese law, dividends are generally distributed to shareholders pro rata according to their respective holdings of shares. The payment of the dividend is due within 30 days of the date of the general meeting approving the dividend. The executive board of directors determines the actual dividend payment date within that period. You should read Portuguese Taxation below to learn about taxes on dividends we pay. According to Decree law no. 187/70 of April 30, 1970, dividend entitlement lapses in favor of the Portuguese Republic if not claimed by the shareholder within five years.

In the event that we are liquidated, our assets remaining after payment of our debts, liquidation expenses and all of our remaining obligations will be distributed first to repay in full the nominal value of our shares. Thereafter, any surplus will be distributed *pro rata* among the holders of shares based on the nominal value of their holdings.

PRE-EMPTIVE RIGHTS

Shareholders have a preferential, ratable right to subscribe for any new issue of shares for cash, except if a special resolution at the general meeting duly limits or waives these rights in furtherance of our best interests. These rights are separately transferable and may be traded on the Euronext Lisbon Stock Exchange, where our ordinary shares are listed, during the period when the rights may be exercised.

Unless they agree otherwise, holders of convertible bonds generally are granted rights equal to those of shareholders to subscribe for new issues of shares and subsequent issues of convertible bonds. Shareholders have a pre-emptive right to subscribe for convertible bonds unless the right is waived by special resolution at a general meeting.

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Portuguese law, except as mentioned above, requires a Portuguese company to grant preemptive rights to all of its existing shareholders to purchase a sufficient number of shares to maintain their existing percentage of ownership of the company whenever the company issues new shares for cash. Under this requirement, any preemptive rights in connection with any future issuance of ordinary shares for cash will be offered by us to the depositary as the registered owner of the ordinary shares underlying the ADSs. However, under current U.S. law, U.S. holders of ADSs or ordinary shares would not be entitled to exercise their preemptive rights unless a registration statement under the Securities Act is effective with respect to these rights and ordinary shares or an exemption from these registration requirements is available. We intend to evaluate at the time of any preemptive rights offering the costs and potential liabilities associated with a registration statement, as well as the indirect benefits to us of enabling U.S. holders of ADSs and ordinary shares to exercise preemptive rights and any other factors we consider appropriate at the time, and then to make a decision as to whether to file a registration statement.

No assurance can be given that a registration statement would be filed. If no registration statement is filed and no exemption from the registration requirements under the Securities Act is available, the depositary is required, pursuant to the terms of the depositary agreement between it, us and the owners and holders from time to time of ADSs, to sell U.S. holders preemptive rights and distribute the proceeds if a premium can be recognized over the cost of any sale.

BOOK-ENTRY REGISTRATION OF ORDINARY SHARES

Our articles of association require that each ordinary share be indivisible and in uncertificated, book-entry and registered form. In the case of joint or co-ownership of ordinary shares, a common representative must be designated by the joint or co-owners of those ordinary shares through whom all rights associated with the ordinary shares must be exercised. The ordinary shares must be registered in accounts opened with commercial banks or authorized dealers located in Portugal and authorized by the CMVM to act as custodians of securities. The banks are also obligated to be members of the CVM, through which all ordinary shares must be transferred.

SHAREHOLDERS REPORTING OBLIGATIONS

Under Article 15 of our articles of association, those shareholders who become the holders of a participating interest equal to or in excess of 5% of our voting rights or share capital pursuant to the rule contained in Article 20 of the Portuguese Securities Code, must communicate this fact to our executive board of directors within five business days following the date on which the 5% shareholding was acquired, and are barred from exercising voting rights until such time as they make this communication. For purposes of this provision, the shareholders are required to furnish to our executive board of directors, in writing and in a complete, objective, clear and accurate manner, and to the satisfaction of our executive board of directors, all the information that our executive board of directors requests from them and which refer to the provisions of Article 20 of the Portuguese Securities Code. Under Article 7 of our articles of association, a shareholder must notify our executive board of directors of any shareholders agreement into which the shareholder has entered relating to our shares. This information must be supplied within 30 days following the execution of the shareholders agreement in question. Under the Portuguese Securities Code, notification of these shareholders agreements must also be given to the CMVM within three days after execution.

Also, under the Portuguese Securities Code, any person or persons acting in concert, including companies and their affiliates, making a purchase or sale of our ordinary shares that results in that person either owning or ceasing to own specific threshold percentages, i.e., 2%, 5%, 10%, 20%, 1/3, 50%, 2/3 and 90%, of our voting rights must, within three business days, notify us, the Euronext Lisbon Stock Exchange and the CMVM. Upon receiving this notification, we must publish it in the Euronext Lisbon Stock Exchange bulletin or on its website, on the website of the CMVM and in a major newspaper.

PORTUGUESE REPORTING AND DISCLOSURE REQUIREMENTS

Under Portuguese law we are required to publish, among others:

- annual reports of operations and financial statements that include, among others:
  - a management report; and
  - audited financial statements.

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a report on corporate governance practices with information regarding the following matters:

measures for and a statement indicating the level of compliance with the CMVM recommendations on corporate governance and an explanation of the reasons for non-compliance with any of those recommendations;

organizational structure of the departments involved in the entrepreneurial decision process;

a list of specific committees created in the company such as ethic or governance commission;

description of the risk control system implemented by the company;

governance structure of the company,

number of members of the executive board of directors with specific distinction between the tasks performed by each member, as well as indication of independent directors;

remuneration of the members of the executive board of directors;

composition of the remuneration committee or equivalent body of the company;

description of codes of conduct and other internal regulations;

indication of the remuneration paid to auditors and persons in a group or domain relation, with separation of auditing, consulting and other services;

description of the evolution of our shares quotation;

description of our dividends policy;

description of the main characteristics of our stock option plans;

description of the main elements of transactions with economic relevance executed between the company group companies and controlled companies, on the one hand, and members of corporate bodies and holders of significant stakes, on the other hand, except if executed on arm s length terms and within the ordinary course of business of the company;

description of the new technologies used for disclosure of financial data and other data for the preparation of the annual general shareholders meeting;

information on the investor relations department, including its functions, the type of information provided, web site and representative for assistance to investors;

a report on the exercise of voting rights and on proxy requirements; and

a report on corporate rules, namely regarding to internal procedures applicable to conduct of business, management and control of activity risk.

semi-annual reports that include financial statements, material information on our activities and performance and factors that may potentially influence future performance;

quarterly reports that include material information on our activities;

specified information concerning the acquisition or sale by us of our shares;

non-public information that investors would consider relevant to an evaluation of us or the price of our shares; and

specified information concerning outstanding bonds and changes in the composition of our corporate bodies.

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LIMITATIONS ON THE PURCHASE AND TRANSFER OF ORDINARY SHARES; SPECIAL RIGHTS OF THE PORTUGUESE GOVERNMENT

There are no limitations on the rights to own our ordinary shares, and individual buying and selling decisions regarding our ordinary shares are not subject to consent from us or any Portuguese authority. On March 10, 2004, the government enacted Decree law no. 49/2004, revoking Decree law no. 380/93, which established the former requirement of approval of the Portuguese Ministry of Finance for a person to be able to acquire more than 10% of our ordinary shares.

According to article 10 of the Reprivatization Decree Law, special rights granted to the Portuguese government or equivalent entities by Decree law no. 141/2000, of July 15, 2000, are to be maintained for so long as the Portuguese government or an equivalent entity is an EDP shareholder. These rights provide that, without the favorable vote of the Portuguese government or an equivalent entity, no resolution can be adopted at our general meeting of shareholders relating to:

- amendments to our articles of association, including share capital increases, mergers, spin-offs or dissolution;
- authorization for us to enter into group/partnership or subordination agreements; or
- waivers of, or limitations on, our shareholders pre-emptive rights to subscribe to share capital increases.

The Reprivatization Decree Law also entitles the Portuguese government or an equivalent entity to appoint one member of our board of directors whenever it votes against the list of directors presented for election at our general meeting of shareholders.

LIABILITY IN RESPECT OF SUBSIDIARIES

Under Portuguese law, a company that wholly owns a subsidiary is ultimately liable for the debts of that subsidiary.

DISSOLUTION AND LIQUIDATION RIGHTS

Except as otherwise permitted by Portuguese law, we may be dissolved and liquidated by a resolution approved at a general meeting by the vote of at least two-thirds of the votes cast, subject to the requirements applicable to the adoption of amendments to the articles of association as described above. In this case, our executive board of directors will adopt and implement a plan for dissolution and liquidation, unless decided otherwise by our shareholders. The shareholders acting at the general meeting approving the proposal would retain full authority to direct the liquidation, including replacing liquidators, approving liquidation accounts and granting release to the liquidators. Any shareholder, the Portuguese government or a creditor of us may also resort to judicial dissolution in specific cases as provided for in the Portuguese law. Upon our liquidation, each shareholder is entitled to receive its *pro rata* share of any assets remaining after the payment of our debts and taxes and expenses of the liquidation.

NYSE CORPORATE GOVERNANCE STANDARDS

Pursuant to Section 303A.11 of the Listed Company Manual of the NYSE, we are required to provide a summary of the significant ways in which our corporate governance practices differ from those required for U.S. companies under the NYSE listing standards. Our corporate governance practices are described in greater detail in Item 6 of this annual report on Form 20-F. The table below discloses the significant differences between our corporate governance practices and the NYSE standards.

NYSE Standards	Our Corporate Governance Practice
Director Independence. *Majority of board of directors must be independent. §303A.01*	The composition of our executive board of directors and general and supervisory board is in compliance with relevant Portuguese laws, which only require that a majority of the members of the general and supervisory board are independent.

Executive Sessions. *Non-management directors must meet regularly in executive sessions without management. Independent directors should meet alone in an executive session at least once a year. §303A.03*	Our executive board of directors is only composed of management directors. However, our general and supervisory board, which is comprised of non-management members, meets regularly without management.

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NYSE Standards	Our Corporate Governance Practice
Audit committee. *Audit committee satisfying the independence and other requirements of Rule 10A-3 under the Exchange Act and the more stringent requirements under the NYSE standards is required. §§303A.06, 303A.07*	Under our previous one-tier corporate governance system, our audit committee complied with the independence requirements of Rule 10A-3, but the members were not required to satisfy the NYSE independence and other audit committee standards that are not prescribed by Rule 10A-3. Under our new two-tier corporate governance system, we rely on the general exemption to Rule 10A-3 provided by Rule 10A-3(c)(3). A majority of the members of our general and supervisory board, and all of the members of the audit committee of our general and supervisory board, meet the independence requirements prescribed by Portuguese law and our articles of association.
Nominating/corporate governance committee. *Nominating/corporate governance committee of independent directors is required. The committee must have a charter specifying the purpose, duties and evaluation procedures of the committee. §303A.04*	We do not have a nominating/corporate governance committee. Our shareholders elect all of our directors, in accordance with Portuguese law and our articles of association. Neither Portuguese law nor our articles of association provide for a formal procedure for nomination of directors.
Compensation committee. *Compensation committee of independent directors is required, which must approve executive officer compensation. The committee must have a charter specifying the purpose, duties and evaluation procedures of the committee. §303A.05*	Pursuant to our articles of association, we have a remuneration committee that determines the compensation of our executive board of directors. This committee is composed of members of our general and supervisory board. The remuneration committee does not have a written charter that addresses the responsibilities identified by the NYSE listing standards. Portuguese law provides the basic criteria for determining compensation of the members of the board of directors, including executive directors. We also have another remuneration committee that determines the remuneration of members of our corporate bodies other than the executive board of directors. A majority of the members of each remuneration committee must be independent in accordance with our articles of association.
Equity compensation plans. *Equity compensation plans require shareholder approval, subject to limited exemptions. §303A.08*	Shareholder approval is required under Portuguese law for the acquisition and sale of own or treasury shares, including for the purposes of the adopting and amending an equity-compensation plan or stock option plan. Our stock option plans currently in place have been approved our general shareholders meeting, which has also granted authorization for the acquisition and sale of our own shares for that purpose.
Corporate governance guidelines. *Corporate governance guidelines must be adopted and disclosed. §303A.09*	We have not adopted a separate set of corporate governance guidelines. The duties of our directors are set forth in our articles of association and under Portuguese law. In addition, each of our executive board of directors and our general and supervisory board has or will have specific regulations. The regulations of our executive board of directors govern, among other things: Functioning of the board; Power of the board; and

The decision-making process and other procedural matters.

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NYSE Standards	Our Corporate Governance Practice
Code of Ethics. *Corporate governance guidelines and a code of business conduct and ethics are required, with disclosure of any waiver for directors or executive officers. §303A.10*	Under Portuguese law, a director must act with due care, diligence and loyalty, always seeking to promote the company s interest while taking due account of the interests of other relevant stakeholders, such as shareholders, employees and creditors. A director may be liable to the company, the company s shareholders and third parties for any damages caused by a breach of these duties. Our senior executives and financial officers are bound by these standards, which we believe have a purpose and function that is substantially similar to a code of ethics.
	In addition, in early 2005, we adopted a code of ethics. While not strictly in accordance with Rule §303A.10, we believe that our code of ethics has a purpose and function that is substantially similar to the code of ethics described in Rule §303A.10. For more information on our code of ethics, see Item 16B. Code of Ethics.
CEO certification and disclosure of material non-compliance. *Each listed company CEO must certify to the NYSE each year that he or she is not aware of any company violations of NYSE corporate governance listing standards. In addition, each listed company CEO must promptly notify the NYSE in writing after any executive officer of the company becomes aware of any material non-compliance with any applicable provisions of these standards. §303A.12*	Our CEO certifies to the NYSE each year that he is not aware of any company violations of NYSE corporate governance listing standards will promptly notify the NYSE in writing after any executive officer becomes aware of any material non-compliance with any applicable provisions of the NYSE listing standards.

MATERIAL CONTRACTS

Our power plants in the Binding Sector are subject to binding licenses issued by DGE and such plants enter into PPAs with REN, as described in Item 4. Information on the Company Portugal Electricity System Overview The Public Electricity System or Binding Sector. In the Non-Binding Sector, EDP Comercial enters into contracts with Qualifying Consumers, as described in Item 4. Information on the Company Portugal Electricity System Overview The Independent Electricity System The Non-Binding Sector.

In June 2006, we issued a 1,500,000,000 bond under our MTN program with three tranches of 500,000,000 each, as follows: a 4 year floating rate note maturing in June 2010 with a quarterly coupon of 3 months Euribor + 0.15%; a 6 year fixed rate bond maturing in 2012 with a 4.25% annual coupon and a 10 year fixed rate bond maturing in 2016 with a 4.625% annual coupon.

In January 2006, we updated our MTN program to comply with the new EU prospectus directive and increased its total amount to 7,000,000,000. Our MTN program provides for the periodic issuance, by us and our wholly owned finance subsidiary EDP Finance B.V., of debt instruments on terms and conditions determined at the time the instruments are issued.

In June 2005, we issued a 300,000,000 bond under our MTN program maturing in June 2020, with a 4.125% annual coupon.

In June 2005, we issued a 500,000,000 bond under our MTN program maturing in June 2015, with a 3.75% annual coupon. This issue resulted partially from an exchange offer, which we launched in the beginning of June in respect of our bonds maturing in 2008 and 2011, described below. Pursuant to the exchange offer, the principal amount outstanding of the 500,000,000 bond maturing in 2008 was reduced by 144,976,000 and the principal amount outstanding of the 1,000,000,000 bond maturing in 2011 was reduced by 252,648,000.

In 2002, we issued two bonds under the MTN program: the first was a GBP 200,000,000 bond issued in August maturing in August 2017 with a 6.625% annual coupon and the second was a 500,000,000 bond issued in December maturing in March 2008 with a 5% annual coupon.

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In 2001, we issued a 1,000,000,000 bond under the MTN program maturing in 2011. This 1,000,000,000 bond issue pays a fixed interest rate of 5.875%. In 2005 we executed an exchange offer of part of this bond reducing the amount outstanding to 747 million.

In April 2001, we established an 1,000,000,000 commercial paper program that provides for the periodic issuance of notes by us and EDP Finance, B.V. The notes can have maturities of not less than 1 day and not more than 364 days and an interest rate determined at the time of issuance.

For more information on these programs and our other borrowings, you should read Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources.

EXCHANGE CONTROLS

Since January 1, 1993, there have been no foreign exchange controls imposed on the Escudo by the Portuguese Government. None of the member countries of the European Union or the EU that have adopted the Euro, including Portugal, has imposed foreign exchange controls on the Euro. There are currently no foreign exchange control restrictions in Portugal on remittances of dividends on our ordinary shares or on the conduct of our operations.

A non-resident of Portugal who wishes to invest in ordinary shares (but not ADSs) must open a special share portfolio account with a commercial bank located in Portugal and duly licensed to act as securities custodian pursuant to applicable legislation prior to the execution of the transaction. The investor may then buy and sell listed securities with some restrictions and repatriate the proceeds.

Dividends may be freely transferred to a foreign country. See Portuguese Taxation below for a summary of certain Portuguese tax consequences to holders of ordinary shares and ADSs, including the payment of dividends thereon and the realization of capital gains with respect thereto.

There are also limitations on voting that apply to our ordinary shares and our ADSs. For more information, you should read Articles of Association above.

TAXATION

The statements regarding Portuguese and U.S. tax laws set forth below are based on the laws in force on the date of this annual report, which are subject to change.

You should consult your own tax advisers as to the tax consequences of an investment in our shares in the light of your particular circumstances, including the effect of any state, local, or other national laws.

PORTUGUESE TAXATION

GENERAL

The following is a summary of the principal Portuguese tax considerations that are likely to be material to the purchase, ownership and disposition of ordinary shares or ADSs if a holder is a non-resident of Portugal for Portuguese tax purposes, does not hold 10% or more of any class of our stock and does not hold our ordinary shares or ADSs through a permanent establishment in Portugal.

Resident holders for purposes of Portuguese taxation include collective entities having their registered office or effective place of management in Portugal and individuals having remained in Portuguese territory more than 183 days in any given calendar year or having the use of a dwelling in Portuguese territory at the end of any given calendar year which may indicate their intention of using it as their habitual residence.

A non-resident holder may be broadly defined as any collective entity or individual not satisfying the above criteria. However, non-resident holders having a permanent establishment or a fixed installation in Portugal to which Portuguese-source income may be attributed will be taxed on such income under rules applicable to resident holders.

This summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to non-resident holders and does not address tax rules applicable to special classes of holders.

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Furthermore, this summary is based on the tax laws of Portugal in effect on the date of this annual report, including the Convention between the United States of America and the Portuguese Republic for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income that together with the related Protocol is referred to in this annual report as the Treaty, and is subject to changes to those laws and practices or the Treaty subsequent to that date, which changes could be made on a retroactive basis.

Prospective purchasers should consult their own advisers as to the tax consequences of the acquisition, ownership and disposition of ordinary shares or ADSs in light of their particular circumstances, including the effect of any other national laws.

For purposes of the Treaty and for Portuguese tax purposes, a U.S. person holding ADSs will be treated as a beneficial owner of our ordinary shares represented by such ADSs.

DIVIDENDS

Dividends paid in respect of shares or ADSs to non-residents generally are subject to a Portuguese withholding tax of 20% of the gross amount of the dividends.

Under article 59 of the Portuguese Tax Incentives Statute (Estatuto dos Benefícios Fiscais), only 50% of the dividends arising from shares acquired in a privatization process executed prior to December 31, 2002 or shares of companies undergoing a privatization process by virtue of a ministerial order of the Minister of Finance, including those resulting from share capital increases, are subject to taxation. This tax benefit is applicable up to five years after the date of the conclusion of the privatization process.

As a result, only 50% of dividends (net of other income tax benefits) that are paid with respect to EDP shares prior to the end of fiscal year 2007 will be subject to Portuguese tax.

Whenever a shareholder benefits from a total or partial exemption of income taxes, withholding at the source with respect to the exempted amount will not take place upon presentation of proof by the interested party, before the paying entity, of the exemption that they benefit from. However, under a recent tax law amendment, shareholders who benefit from a total or partial tax exemption on dividends are subject to an autonomous tax at the rate of 20% if those shares were not held for more than 12 months at the time that the dividends are made available to the shareholders or will not be held for the time required to fulfill such 12 months period afterwards. Nonetheless, the current legal interpretation of such a recent tax law amendment is that it only applies to shareholders which are for legal purposes tax exempt (*isenção total ou parcia*l) and not shareholders which benefit from a total or partial reduction of the applicable withholding tax (*dispensa total ou parcial de retenção na fonte*) such as shareholders claiming treaty benefits.

Under the Treaty, the rate of withholding tax on dividends distributed to U.S. residents eligible for Treaty benefits will not exceed 15%. Since Portuguese effective rates are at or below the Treaty rates, according to the Portuguese Tax Authority, at the present time it is not necessary for U.S. residents to claim Treaty benefits with respect to dividends paid on ordinary shares or ADSs.

CAPITAL GAINS

In general, capital gains realized by non-resident individuals on the transfer of ordinary shares or ADSs are subject to tax at the rate of 10% if those ordinary shares or ADSs were held for 12 months or less, and are not subject to tax if those ordinary shares or ADSs were held for more than 12 months. Capital gains realized by non-resident corporate holders on the transfer of ordinary shares or ADSs are subject to tax at the rate of 25%. Regardless of the length of time ordinary shares or ADSs have been held, however, non-resident corporate holders and non-resident individual holders of ordinary shares and ADSs are not subject to tax on capital gains in Portugal if the following three conditions are met:

- no more than 25% of the non-resident entity is owned, directly or indirectly, by resident entities;

- the non-resident entity does not have as its place of residence a state or jurisdiction identified in a list of tax havens published by the Portuguese Ministry of Finance; and the capital gains do not arise from the transfer for consideration of shares or other participations in a Portuguese resident company the assets of which primarily are comprised (more than 50%) of immovable property located in Portugal or in a Portuguese resident company that controls such a company (a Portuguese Real Property Holding Company).

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Under the Treaty, unless EDP is a Portuguese Real Property Holding Company, capital gains derived from the sale or other disposition of ordinary shares, including deposits of ordinary shares in exchange for ADSs, by an individual holder who is eligible for Treaty benefits will not be subject to Portuguese capital gains tax, regardless of the length of time our ordinary shares are held.

STAMP DUTIES

Transfers by a non-resident of ordinary shares or ADSs by gift or at death will not be subject to Portuguese Stamp Duty provided the beneficiary is also a non-resident or otherwise if the beneficiary is the respective spouse, parents or children.

PORTUGUESE TRANSACTION COSTS

Pursuant to Decree law no. 183/2003, of August 19, 2003, which revoked Regulation no. 1303/2001, of November 22, 2001, as amended by Regulation no. 323/2002, of March 27, 2002, both issued by the Ministry of Finance, and pursuant to Decree no. 913-I/2003, of August 30, 2003, as amended by Decree no. 1018/2004 of August 31, 2004, and Decree no. 712/2005 of August 25, 2005 also issued by the Ministry of Finance, fees applicable to securities transactions performed in a stock exchange, on other regulated securities markets or off-market were abolished and replaced by supervision fees that are paid by the entities subject to the supervision of the CMVM in connection with the performance of services in relation to securities, such as clearance and settlement services, registration or custodian services or portfolio management.

A stamp tax of 4.0% is payable on brokerage fees, bank settlement fees and bank commissions.

Under current laws and practice, no Portuguese transfer fees, taxes or other charges are levied on the transfer of ADSs, other than the deposit or the withdrawal of ordinary shares, unless the transfer is made through a financial intermediary domiciled or established in Portugal. If the transfer is made through a financial intermediary domiciled or established in Portugal, the transfer may be regarded as a transfer of ordinary shares over the counter with the consequences stated above.

The status of Portuguese law with respect to transfer fees, taxes and other charges applicable to deposits and withdrawals of ordinary shares for ADSs is uncertain. Under current law and practice, a negotiable bank settlement fee and a stamp tax of 4.0% of the fee may apply to deposits and withdrawals of ordinary shares. However, Portuguese brokerage fees, bank commissions and stock exchange fees will not be levied on a deposit of ordinary shares in exchange for ADSs or a withdrawal of ordinary shares in exchange for the cancellation of ADSs, unless the deposit or withdrawal is made through a financial intermediary domiciled or established in Portugal. If a deposit or withdrawal of ordinary shares is made through a financial intermediary, the deposit or withdrawal may be regarded as a transfer of ordinary shares over the counter with the consequences stated above. Current practice with respect to the applicability of Portuguese transfer fees, taxes or other charges to deposits and withdrawals of ordinary shares is subject to change.

UNITED STATES TAXATION

GENERAL

The following discussion summarizes certain U.S. federal income tax considerations that may be relevant to you if you are a U.S. holder. You will be a U.S. holder if you are an individual who is a citizen or resident of the United States, a U.S. domestic corporation, or any other person that is subject to U.S. federal income tax on a net income basis in respect of an investment in our securities.

This summary deals only with U.S. holders that hold our securities as capital assets. It does not address considerations that may be relevant to you if you are an investor that is subject to special tax rules, such as a bank, thrift, real estate investment trust, regulated investment company, insurance company, dealer in securities or currencies, trader in securities or commodities that elects mark to market treatment, person that will hold our securities as a hedge against currency risk or as a position in a straddle or conversion transaction, tax-exempt organization or a person whose functional currency is not the U.S. dollar.

This summary is based on U.S. tax laws, regulations, rulings and decisions currently in effect, all of which may change. Any change could apply retroactively and could affect the continued validity of this summary.

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You should consult your tax adviser about the tax consequences of the purchase, ownership and disposition of ordinary shares or ADSs in light of their particular circumstances, including the effect of any state, local or other national laws.

In general, for U.S. federal income tax purposes, holders of ADSs will be treated as the beneficial owners of our ordinary shares represented by those ADSs.

DIVIDENDS

The gross amount of any dividends received with respect to our ordinary shares or ADSs, including amounts withheld in respect of Portuguese withholding tax, generally will be subject to U.S. federal income taxation as foreign-source dividend income, and will not be eligible for the dividends received deduction allowed to corporations. Dividends paid in euros will be includible in your income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date of receipt by you or, in the case of ordinary shares held in ADS form, by the Depositary. If dividends paid in euros are converted into U.S. dollars on the date of receipt, you generally should not be required to recognize foreign currency gain or loss in respect of the dividend income. If you do not convert euros that are received by you into U.S. dollars on the date of receipt, you generally will have a basis in those euros equal to their U.S. dollar value on that date. You also generally will be required to recognize foreign currency gain or loss realized on a subsequent conversion or other disposition of the euros, which will be treated as U.S. source ordinary income or loss.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual prior to January 1, 2011 with respect to our ordinary shares or ADSs will be subject to taxation at a maximum rate of 15% if the dividends are qualified dividends. Dividends paid on our ordinary shares or ADSs will be treated as qualified dividends if (i) we are eligible for the benefits of a comprehensive income tax treaty with the United States that the IRS has approved for the purposes of the qualified dividend rules and (ii) we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a passive foreign investment company (PFIC). The income tax treaty between Portugal and the United States has been approved for purposes of the qualified dividend rules. Based on our audited financial statements and relevant market and shareholder data, we believe that we were not treated as a PFIC for U.S. federal income tax purposes with respect to our 2004 or 2005 taxable year. In addition, based on our audited financial statements and our current expectations regarding the value and nature of our assets, the sources and nature of our income, and relevant market and shareholder data, we do not anticipate becoming a PFIC for our 2006 taxable year. The U.S. Treasury has announced its intention to promulgate rules pursuant to which holders of ADSs or common stock and intermediaries through whom such securities are held will be permitted to rely on certifications from issuers to establish that dividends are treated as qualified dividends. Because such procedures have not yet been issued, it is not clear whether we will be able to comply with them. Holders of our ADSs and ordinary shares should consult their own tax advisers regarding the availability of the reduced dividend tax rate in light of their own particular circumstances.

Portuguese withholding tax on dividends should be treated as foreign income taxes that, subject to generally applicable limitations under U.S. tax law, are eligible for credit against your U.S. federal income tax liability or, at your election, may be deducted in computing taxable income. Foreign tax credits will not be allowed for withholding taxes imposed in respect of certain short-term or hedged positions in securities and may not be allowed in respect of arrangements in which the expected economic profit is insubstantial. U.S. Holders are urged to consult their own tax advisers to determine whether they are eligible for benefits under the Treaty, and whether, and to what extent, foreign tax credits will be available with respect to dividends paid by us.

Distributions of additional shares with respect to ordinary shares or ADSs that are made as part of a *pro rata* distribution to all of our shareholders generally will not be subject to U.S. federal income tax.

CAPITAL GAINS

Upon a sale or other disposition of ordinary shares or ADSs, a U.S. Holder will recognize gain or loss for United States federal income tax purposes in an amount equal to the difference between the U.S. dollar value of the amount realized and the U.S. Holder s tax basis, determined in U.S. dollars, in its ordinary shares or ADSs. Generally, such gain or loss will be capital gain or loss, will be long-term capital gain or loss if the U.S. Holder s holding period for such ordinary shares or ADSs exceeds one year and any gain will be income from sources within the United States for foreign tax credit limitation purposes. The net amount of long-term capital gain recognized by an individual U.S. Holder before January 1, 2011 generally is subject to taxation at a maximum rate of 15%. The deductibility of capital losses is subject to significant limitations.

As discussed in Portuguese Taxation Capital Gains, above, U.S. Holders could be subject to a tax on capital gains realized under Portuguese law on the sale or other disposition of ordinary shares or ADSs. In the event that such a Portuguese tax is imposed, U.S. Holders that do not receive significant foreign source income from other sources may not be able to derive effective U.S. foreign tax credit benefits in respect of such Portuguese tax.

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Deposits and withdrawals of ordinary shares in exchange for ADSs will not result in the realization of gain or loss for U.S. federal income tax purposes.

U.S. INFORMATION REPORTING AND BACKUP WITHHOLDING

Dividends and payments of the proceeds of a sale of ordinary shares or ADSs paid to a U.S. Holder within the United States or through certain U.S.-related financial intermediaries are subject to information reporting and may be subject to backup withholding unless the U.S. Holder is a corporation or other exempt recipient or provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. Holders that are not U.S. persons generally are not subject to information reporting or backup withholding. However, a non-U.S. person may be required to provide a certification to establish its non-U.S. status in connection with payments received within the United States or through certain U.S.-related financial intermediaries. Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a U.S. Holder s U.S. federal income tax liability. A holder may obtain a refund of any excess amounts withheld under the backup withholding rules by timely filing the appropriate claim or refund with the Internal Revenue Service and filing any required information.

DIVIDENDS AND PAYING AGENTS

Not applicable.

STATEMENT BY EXPERTS

Not applicable.

DOCUMENTS ON DISPLAY

Copies of our articles of association and by-laws may be examined at our principal place of business at Praça Marquês de Pombal, 12 1250-162 Lisbon, Portugal.

We also file reports, including annual reports on Form 20-F, periodic reports on Form 6-K and other information with the SEC pursuant to the rules and regulations of the SEC that apply to foreign private issuers. You may read and copy any materials publicly filed with the SEC at the SEC s public reference room at the following location:

Public Reference Room

100 F Street, N.E.

Room 1350

Washington, D.C. 20549

Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC filings are also available to the public from commercial document retrieval services.

As of November 2002 we file electronically with the SEC. Documents we have filed since November 2002 are available on the website of the SEC at http://www.sec.gov.

Our ADRs are listed on the New York Stock Exchange, or NYSE. Reports and other information concerning us are available for inspection at the offices of the NYSE, 20 Broad Street, New York, New York 10005.

SUBSIDIARY INFORMATION

Not applicable.

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Item 11. Quantitative and Qualitative Disclosures About Market Risk

CREATION OF THE RISK MANAGEMENT OFFICE

During the second half of 2003, we established a Risk Management Department whose mission consists of the definition implementation and upkeep of an Integrated Risk Management System, or SGIR, for the EDP Group. Use of the SGIR allows risk to be taken into account in our strategic and operational decisions. The SGIR will be implemented in stages. During 2004, we established the rules and the methodologies that implemented the risk function within the EDP Group. Efforts have been directed at adopting best practices and in creating a state-of-the-art infrastructure. In the first stage of implementation of the risk management function, we have addressed the finance and trading areas, as well as pension fund asset management and customer credit risk. The development of SGIR has been pursued using different risk modeling and aggregation methodologies. We are continuing to develop the means necessary to allow, in particular, quantitative analyses to be performed using a model for value at risk analysis. In performing its duties, the Risk Management Department has a functional relationship with the company s various business areas in which the risks are identified, so as to achieve an aggregate overview of risk within the EDP Group, taking into account the correlations between the several variables that cause risk.

BUSINESS UNIT RISK CONTROL

In addition to the consolidated control and management of group business risks, the processing and control of business risks at the level of the various business units is also of importance to us. At the business unit level we have implemented the following aspects of risk control:

- the Internal Audit Department monitors compliance of the internal operational procedures in accordance with our policies;
- the Financing Department manages the risk associated with financial markets and enters into financial instruments to reduce exposure to interest-rate and exchange rate risks. This is undertaken in accordance with defined risk management policies approved by the Board and on a prudent basis. Periodic evaluation is made of the financial instruments fair values;
- EDP Valor monitors the contracting of insurance at the EDP Group level in order to achieve the most adequate means of cover of insurable risks;
- EDP Produção has a risk board that monitors all risks associated with electricity generation, ranging from operation and maintenance to partnerships and outsourcing. The risk board performed a set of audits during 2003 of the electricity generating facilities; and
- EDPD, EDP Comercial and our trading activity, in close cooperation with various EDP departments, have characterized the risks and opportunities stemming from the progressive liberalization of the energy sector.

GENERAL

We are exposed to market risks, including foreign currency, commodity price and interest rate risk. We use financial derivative instruments to manage our exposure to interest rate fluctuations and, in the case of Energias do Brasil, to manage currency exposure. Management s guidelines with respect to the use of financial derivative instruments are that we do not engage in speculative derivative transactions and that all derivative transactions are solely for hedging purposes and must relate to a specific underlying asset, for example, cash flows of the derivative transaction must match those of the underlying asset being hedged. The negotiation of financial derivative transactions follows our internal procedures set by management, which require that for each transaction our financial department must submit to the executive committee of the Board of Directors for its approval a description of the hedging strategy that defines the objective of the hedge, the specific asset being hedged and the parameters of the proposed transaction. Following this approval, it is the responsibility of our financial department to negotiate with the counterparty and complete the transaction, which is then ratified by the executive committee of the Board of Directors. With respect to the management of our debt portfolio, our hedging strategies have mainly been limited to the debt at the EDP, S.A. level (including EDP Finance B.V.), and not at the level of any of our subsidiaries. However, HidroCantábrico manages its interest rate exposure, Energias do Brasil manages currency exposure and we have in the past acquired U.S. dollar-denominated bonds of Escelsa in order to manage currency risk at the consolidated level.

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The counterparties to our financial derivative transactions are major financial institutions and these transactions expose us to market and credit risk and, occasionally, may be concentrated with certain counterparties. Management believes the credit risk and interest rate risk arising from non-performance by the counterparties is not significant, based on the investment grade rating of the counterparties. We do not require collateral or other security to support the financial instruments with credit risk.

INTEREST RATE RISK

Management is aware of our exposure to market risks arising from our outstanding debt and derivative instruments. Our market risks result mainly from interest rate fluctuations. We estimate the sensitivity of the fair values of our financial instruments to changes in interest rates. The methods and assumptions used by us to determine fair values for financial instruments in our consolidated financial statements are the following:

Bonds the quoted market price at December 31 of the respective years.

Bank loans discounted cash flow analysis, based on our incremental borrowing rates for similar types of borrowing arrangements.

The fair value of interest rate and currency swap agreements is determined using discounted cash flow analysis based on zero-coupon yield curve rates. Zero-coupon rates used to discount cash flows are derived from market rates (mid bid-offer spread) quoted by market dealers. Interest rate swap agreements are used to manage the proportion of variable rate debt in our debt portfolio and to reduce the level of interest expense.

The debt and derivatives portfolio of EDP, S.A. and EDP Finance B.V. are managed together, and notional amounts of interest rate swap agreements and collars, including cross-currency interest rate swaps, outstanding as of December 31, 2005, decreased to 3,320.3 million from 4,240.2 million as of December 31, 2004, primarily due to the repayment of associated debt. The swap and collar agreements have remaining maturities between 1 year and 12 years. The fair value of these derivative financial instruments is the amount that would be paid or received upon termination of the agreement based on available market rates. Fair values are estimates that involve uncertainties and cannot be determined with precision. These agreements, if terminated, would result in receivables of 154.0 million at December 31, 2005.

Our main exposure is to euro interest rates. The fair value of all interest rate sensitive financial instruments at the EDP, S.A. and EDP Finance B.V. level amounted to a net liability of 8.781.4 million as of December 31, 2005. These include primarily long-term debt, interest rate and cross currency interest rate swaps and collars. As of December 31, 2005, in the event of a 100 basis point (1.00%)increase in interest rates for all maturities, this fair value would decrease to 8,657.1 million. A 100 basis point decrease would result in an increase of this fair value to 8,913.1 million. At December 31, 2005, outstanding long-term debt held at the subsidiary level was as follows: Energias do Brasil, 668.6 million and HidroCantábrico, 483.0 million.

As of December 31, 2004, the fair value of all interest rate sensitive financial instruments at the EDP, S.A. and EDP Finance B.V. level amounted to a net liability of 7,316.3 million. These include primarily long-term debt, interest rate and cross currency interest rate swaps and collars. At December 31, 2004, in the event of a 100 basis point increase in interest rates for all maturities, this fair value would increase to 7,447.6 million. A 100 basis point decrease would result in an increase of this fair value to 7,337.1 million. At December 31, 2004, outstanding long-term debt held at the subsidiary level was as follows: Energias do Brasil, 494.6 million and HidroCantábrico, 1,487.2 million.

HidroCantábrico manages interest rate risk with financial instruments. The notional value of interest rate swap agreements and collars outstanding at December 31, 2005 amounted to 1,235.0 million. These instruments have remaining maturities between 1 month and 3 years. The fair value of these derivative financial instruments is the amount that would be paid or received upon termination of the agreements based on available market rates. These fair values are estimates that involve uncertainties and cannot be determined with precision. These agreements, if terminated, would result in payment of 16.7 million as of December 31, 2005. The fair value of all interest rate sensitive financial instruments at the HidroCantábrico level outstanding as of December 31, 2005 amounted to 498.5 million. At December 31, 2005, in the event of a 100 basis point increase in interest rates for all maturities, this fair value would decrease to 496.8 million. A 100 basis point decrease would result in an increase of this fair value to 500.3 million.

At December 31, 2004, the notional value of interest rate swap agreements and collars outstanding amounted to 1,413 million. These agreements, if terminated, would result in payment of 20.4 million as of December 31, 2004. The fair value of all interest rate sensitive financial instruments at the HidroCantábrico level outstanding as of December 31, 2004 amounted to

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1,507.6 million. These include primarily long-term debt, interest rate swaps and collars. As of December 31, 2004, in the event of a 100 basis point increase in interest rates for all maturities, this fair value would decrease to 1,501.6 million. A 100 basis point decrease would result in an increase of this fair value to 1,513.6 million.

Given the floating-rate nature of the long-term debt of our Brazilian businesses and the lack of a medium or long-term yield curve in the Brazilian financial markets, the most accurate estimate of the fair value of our Brazilian businesses long-term debt is the notional value of such debt.

FOREIGN EXCHANGE RATE RISK

We are exposed primarily to two types of foreign exchange risk arising from our Brazilian investments: the impact of foreign exchange fluctuations on the value of our equity investment, which does not have an impact on our profit and loss account but is reflected in our balance sheet, and the impact of foreign exchange fluctuations on the non-Brazilian currency denominated debt of our Brazilian businesses which is reflected in their income statements and, in the case of consolidated subsidiaries, has a corresponding effect on our income statement. Management s policy with respect to the impact on the value of our equity investment is not to use financial instruments to hedge against this risk given the long-term nature of these investments and that short-term fluctuations in their value impacting our balance sheet are considered acceptable.

In respect of the impact of foreign exchange rate fluctuations on the non-Brazilian real denominated debt of our Brazilian businesses, it is our management s policy that all future debt be raised in Brazilian reais or, if this is not possible, debt denominated in non-Brazilian currency must be swapped to Brazilian reais. The Brazilian companies manage the impact of foreign exchange fluctuations of the U.S. dollar against the Brazilian real using cross-currency interest rate swaps. As of December 31, 2005, outstanding notional amounts amounted to 252.1 million, an increase from 156.2 million as of December 31, 2004. These agreements, if terminated, would result in payments of 73.3 million as of December 31, 2005 and 20.9 million as of December 31, 2004. The maturity profile of these swaps matches the maturity profile of the debt that it is hedging.

Of our Brazilian businesses, Escelsa had the largest amount of non-Brazilian real denominated debt, consisting of 113.1 million of senior notes outstanding, maturing in 2007. The principal of this debt is hedged through the use of cross currency interest rate swaps and the holding of Brazilian government dollar denominated bonds.

Currently all outstanding consolidated debt, with the exception of that held by our Brazilian companies, is raised in euro or immediately converted to euro at time of issuance. Management is also aware that foreign exchange rate risks may exist for us in the future if a material portion of our outstanding debt is denominated in a currency other than the euro.

COMMODITY PRICE RISK

As a result of our activities in the energy sector, we are exposed to different commodity-related risks that are managed by a specialized area within the EDP Group. These risks mainly relate to:

- the energy loads of our clients in the liberalized markets;
- the electricity generated by our coal, nuclear, CCGT, wind and hydroelectric power plants that are exposed to the liberalized markets; and
- the fuel consumed by power plants in the liberalized markets.

To mitigate risks relating to price and quantity, we operate in the electricity markets and have long-term fuel supply contracts. As the prices of these contracts are mainly in USD and indexed, we also enter into transactions in the derivative markets for electricity, fuel, shipping and foreign exchange.

In addition to our structural positions, we are also subject to commodity price risk due to our energy trading activity. This activity consists, principally, of exploring short term market opportunities leverage by our participation on the electricity Iberian market. The exposure derived from these type of transactions is not significant, on average for 2005, was less the 2% of the overall risk.

To manage and control the commodity price risk, we developed a framework to measure, control and analyze the Margin at Risk, or MaR, at any moment. A pillar of this framework is the risk policy statement that:

identifies risks and the corresponding measures;

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- sets limits in terms of MaR, complemented by quantitative restrictions on the different types of positions;

- defines the information and control procedures; and

- outlines the responsibilities to authorize transactions with a significant impact on risk.

The exposure originated by the risk positions is managed with a specific information technology system that: (1) captures the market deals; (2) simulates the power plants and costumer loads, for different market conditions; (3) calculates the portfolio margins generated by assets and transactions for different scenarios; (4) estimates the MaR for different time periods and levels of confidence; and (5) produces gap analysis for different risk factors.

The MaR for EDP s Iberian trading activities, considering a 95% confidence interval and a one-year time horizon, was less than 29.1 million at the end of 2005. The change from last year, more 30%, was determined by additional capacity on a CCGT plant and the increase volatility on the electricity markets.

The trading activity in Brazil has a methodology to evaluate the risk based on the open position Mark to Market value and the corresponding expected gross margin for the fiscal years: a limit of 20% of the variation of this value, when considering a 95% confidence level, was established as the limit beyond which the open position must be modified.

Item 12. Description of Securities Other Than Equity Securities

Not applicable.

GLOSSARY OF TERMS

Bar Gauge (barg):	A unit of measuring pressure equal to the number of bars above atmospheric pressure (1 bar). 1 bar = 100,000 pascals (Pa) = 1,000,000 dynes per square centimeter
Capacity charge:	Refers to the monthly charge payable by REN to the generators in the Binding Sector for each power plant, in respect of each PPA, based on contracted firm capacity, whether or not dispatched, payable by REN to such generators.
CCGT (Combined Cycle Gas Turbine):	A type of generating plant in which turbines, typically fueled by natural gas, are used to drive generators to produce electricity. The exhaust gases are then passed through a boiler to produce steam that in turn drives an additional turbine coupled to a generator.
Cogeneration:	The simultaneous generation of steam and electricity, typically where the need arises for industrial purposes.
Dry year:	A year in which hydrological conditions are unfavorable such that hydroelectric generation in that year is below average (10,600 GWh).
Energy charge:	Refers to the variable charge based on actual electricity delivered to the national transmission grid.
Generating unit:	An electric generator together with the turbine or other device that drives it.
Gigawatt (GW):	1,000,000,000 watts (1,000 megawatts).
Gigawatt hour (GWh):	One gigawatt of power supplied or demanded for one hour.
Hydroelectric unit:	A generating unit that uses water power to drive the electric generator.
Installed capacity:	The level of electric power which can be delivered from a particular generating unit on a full-load continuous basis to the transmission network under actual conditions.

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Kilovolt (kV):	1,000 volts.
Kilovolt ampere (kVA):	1,000 volts ampere.
Kilowatt (kW):	1,000 watts.
Kilowatt hour (kWh):	One kilowatt of power supplied or demanded for one hour.
Megawatt (MW):	1,000,000 watts (1,000 kilowatts).
Megawatt hour (MWh):	One megawatt of power supplied or demanded for one hour.
Megavolt ampere (MVA):	1,000,000 volts ampere.
NO_x:	Oxides of nitrogen.
SO_2:	Sulfur dioxide.
Substation:	An assemblage of equipment that switches and/or changes or regulates the voltage of electricity in a transmission and distribution system.
Technical cost:	The cost incurred in making a capital expenditure excluding the cost of financing the expenditure.
Terawatt (TW):	1,000,000,000,000 watts (1,000,000 mega watts)
Terawatt hour (TWh):	One terawatt of power supplied or demanded for one hour.
Thermoelectric unit:	A generating unit that uses combustible fuel as the source of energy to drive the electric generator.
Volt:	The basic unit of electric force analogous to water pressure in pounds per square inch.
Volt ampere:	The basic unit of apparent electrical power.
Watt:	The basic unit of active electrical power.
Wet year:	A year in which hydrological conditions are favorable such that hydroelectric generation in that year is greater than average (10,600 GWh).

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

Not Applicable.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

At our general meeting held on October 7, 2004, our shareholders approved an amendment to our articles of association granting authorization to the board of directors to increase our share capital. This authorization provided the board of directors with the ability to effect a one-time increase of our nominal share capital by a maximum of 1.2 billion on or before March 31, 2005. That capital increase occurred in connection with the rights offering in November 2004. Our nominal share capital is presently approximately 3.7 billion. The amendment was enacted by public deed dated October 21, 2004, and has been registered at the *Conservatória do Registo Comercial de Lisboa*.

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Following this amendment to our articles of association, our board of directors decided, with the prior favorable opinion of our Portuguese statutory auditor, on October 26, 2004, on the increase of our share capital pursuant to the rights offering. This increase reflects the fifth privatization phase of EDP, as contemplated by Decree law no. 218-A/2004, of October 25, 2004. Currently, the share capital is represented by 3,656,537,715 ordinary shares with a nominal value of 1.

Item 15. Controls and Procedures

We carried out an evaluation under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2005. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our chief executive officer and chief financial officer concluded that the disclosure controls and procedures as of December 31, 2005 were effective to provide reasonable assurance that information required to be disclosed in the reports we file and submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported as and when required.

There has been no change in our internal control over financial reporting during 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 16. [Reserved]

Item 16A. Audit Committee Financial Expert

Our general and supervisory board has reviewed the qualifications and backgrounds of its members, including the members of its audit committee, and determined that Mr. Vitor Gonçalves is an audit committee financial expert within the meaning of Item 16A of this annual report. Mr. Gonçalves meets the independence requirements prescribed by Portuguese law and our articles of association.

Item 16B. Code of Ethics

We have not adopted a code of ethics, as described in Item 16B of Form 20-F under the Securities Exchange Act of 1934. However, in early 2005, we adopted a code of ethics that is similar in many respects to the code of ethics as described in Item 16B. This code of ethics, which is applicable to all our employees, as well as our senior officers and directors, covers, among other things, the following:

- Compliance with laws;
- Ethics;
- Conduct in the workplace;
- Prevention of corrupt practices;
- Related party transactions;
- Misuse of company information;

Quality of information provided to shareholders;

Relationships with customers and suppliers; and

Disciplinary action for breaches of the code of ethics.

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In addition, under Portuguese law, a director must act diligently and with due care, always seeking to promote the company s interest while taking due account of the interests of shareholders and employees. A director will be liable to the company, the company s shareholders and third parties for any damages caused by a breach of these duties. Our senior executives and financial officers are also bound by these standards, which we believe have a purpose and function that is substantially similar to a code of ethics within the meaning of Item 16B.

Our code of ethics is available on our official website at http://www.edp.pt.

Item 16C. Principal Accountant Fees and Services

AUDIT AND NON-AUDIT FEES

The following table sets forth the fees billed to us by our principal independent auditors during the fiscal years ended December 31, 2004 and 2005:

	Year ended December 31,	
	2004	2005
	(in euros)	
Audit Fees	3,157,028	2,909,000
Audit-Related Fees	1,394,284	1,603,000
Tax Fees	846,606	458,000
Other Fees	0	0
Total Fees	5,397,918	4,970,000

Fees in the above table for 2004 are the aggregate fees billed by PwC and KPMG in connection with the audit of our consolidated annual and interim financial statements and audit work performed for our major subsidiaries in Portugal, Spain and Brazil. In October 2004, our principal independent auditor changed from PwC to KPMG.

Audit-related fees for 2004 in the above table are the aggregate fees billed by PwC and KPMG for work on this annual report, the implementation of provisions of the Sarbanes-Oxley Act of 2002 and due diligence related to the sale of 60% of Edinfor to LogicaCMG.

Tax fees in the above table are fees billed by PwC and KPMG for work on tax declaration revision, aid in the process of claims for 2001 and 2002, reporting on 2003 price-transfer at EDPD and revisions on tax procedures in the EDP Group.

AUDIT COMMITTEE PRE-APPROVAL POLICIES AND PROCEDURES

In order to safeguard the independence of the auditor and taking into account best domestic and international practices and standards, particularly the Sarbanes-Oxley Act of 2002, we have adopted pre-approval policies, which can be summarized as follows:

- Our principal auditor, currently KPMG, and those companies or corporate persons belonging to the same network may not provide us with any services that are considered prohibited under Section 201 of the Sarbanes-Oxley Act of 2002; and

- The hiring of other non-prohibited services by any of our divisions or subsidiaries requires the prior approval of our audit committee. Such approval has been specifically granted for a predefined number of services for a renewable period of twelve months. Specific approval by the audit committee is required for other services.

According to the internal regulations of our audit committee, this committee is required to provide a proposal to our board of directors in relation to the engagement of auditors and their fees.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Not applicable.

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Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The table below sets forth, for the periods indicated, the total number of shares purchased, the average price paid per share, the total number of shares purchased as a part of a publicly announced plan or program, and the maximum number (or approximate dollar value) of shares that may yet be purchased under our plans and programs, with respect to any purchase made by us or on our behalf, or by an affiliated purchaser or on behalf of an affiliated purchaser.

Period	(a) Total number of Shares (or Units) Purchased[1]	(b) Average Price Paid per Share (or Units) (In euros)	(c) Total number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
Month # 1 (January 1, 2005-January 31, 2005)	600,000	2.23	0	0
Month # 2 (February 1, 2005-February 28, 2005)	375,000	2.23	0	0
Month # 3 (March 1, 2005-March 31, 2005)	5,927,909	2.20	0	0
Month # 4 (April 1, 2005-April 30, 2005)	3,555,528	2.18	0	0
Month # 5 (May 1, 2005-May 31, 2005)	4,894,666	2.10	0	0
Month # 6 (June 1, 2005-June 30, 2005)	6,951,999	2.08	0	0
Month # 7 (July 1, 2005-July 31, 2005)	4,582,047	2.07	0	0
Month # 8 (August 1, 2005-August 31, 2005)	3,388,921	2.22	0	0
Month # 9 (September 1, 2005-September 30, 2005)	6,550,000	2.30	0	0
Month # 10 (October 1, 2005-October 31, 2005)	6,850,793	2.31	0	0
Month # 11 (November 1, 2005-November 31, 2005)	4,700,000	2.36	0	0
Month # 12 (December 1, 2005-December 31, 2005)	9,910,246	2.57	0	0

(1) *All shares were purchased in open-market transactions.*

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PART III

Item 17. Financial Statements

Our financial statements have been prepared in accordance with Item 18 hereof.

Item 18. Financial Statements

Index to Financial Statements and Schedules

Item 19. Exhibits

Index to Exhibits

1.1 Amended and restated Articles of Association of EDP, together with an English translation thereof.

2.1 Deposit Agreement dated June 16, 1997 among Citibank, N.A. EDP and the holders from time to time of American Depositary Receipts (ADR) (incorporated by reference to our registration statement on Form F-1 (file no. 333-6928) filed on May 16, 1997).

2.2 Amendment No. 1 dated September 8, 2000, to the Deposit agreement dated June 16, 1997 among Citibank, N.A., EDP and the holders from time to time of ADRs (incorporated by reference to our registration statement on Form F-3 (file no. 333-12620) filed on October 20, 2000).

2.3 Amended form of ADR (incorporated by reference to our Rule 424(b)(3) filing in respect of our registration statement on Form F-6 (file no. 333-119881) filed on October 26, 2004).

2.4 Certain documents relating to EDP Finance B.V. Programme for the Issuance of Debt Instruments (incorporated by reference to our annual report on Form 20-F for the fiscal year ended December 31, 1999).

2.5 Certain documents relating to amendment and increase of EDP Finance B.V. Programme for the Issuance of Debt Instruments (incorporated by reference to our annual report on Form 20-F for the fiscal year ended December 31, 2000).

2.6 Certain documents relating to EDP Finance B.V. Euro-Commercial Paper Programme (incorporated by reference to our annual report on Form 20-F for the fiscal year ended December 31, 2000).

2.7 Other than as provided in Exhibits 2.5 and 2.6, the total amount of long-term debt securities of EDP authorized under any instrument does not exceed ten percent of the total assets of the EDP Group on a consolidated basis. EDP agrees to provide to the Securities and Exchange Commission, upon request, copies of any instruments that define the rights of holders of long-term debt of EDP that are not filed as exhibits to this annual report.

4.1 License for Sines Power Plant, together with English translation thereof (incorporated by reference to our registration statement on Form F-1 (file no. 333-6928) filed on May 16, 1997).

4.2 Power Purchase Agreement, dated December 20, 1994, between REN and TURBOGÁS-Produtora Enérgica, S.A. (incorporated by reference to our registration statement on Form F-1 (file no. 333-6928) filed on June 16, 1997).

4.3 Energy Management Agreement, dated December 1993, between REN and Transgás-Sociedade Portuguesa de Gás Natural, S.A. (redacted version; subject to confidential treatment request; incorporated by reference to our registration statement on Form F-1 (file no. 333-6928) filed on June 12, 1997).

4.4 Supplemental Agreement to the Power Purchase Direct Agreement for the CCGT Power Station at Tapada do Outeiro (incorporated by reference to our annual report on Form 20-F for the fiscal year ended December 31, 1999).

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8.1	Subsidiaries of EDP.
12.1	Certification of Chief Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
12.2	Certification of Chief Financial Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
13.1	Certifications pursuant to 18 U.S.C. § 1350 as adopted by section 906 of the Sarbanes-Oxley Act of 2002.

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Signature

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

EDP Energias de Portugal

Date: July 14, 2006

/s/ António Luís Guerra Nunes Mexia
António Luís Guerra Nunes Mexia
Chief Executive Officer

Date: July 14, 2006

/s/ Nuno Maria Pestana de Almeida Alves
Nuno Maria Pestana de Almeida Alves
Chief Financial Officer

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KPMG & Associados - Sociedade de Revisores

Oficiais de Contas, S.A.

Edifício Monumental

Av. Praia da Vitória, 71 - A, 11º

1069-006 Lisboa

Portugal

Telefone: +351 210 110 000

Fax: +351 210 110 121

Internet: www.kpmg.pt

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of

EDP Energias de Portugal, S.A.

We have audited the accompanying consolidated balance sheet of EDP Energias de Portugal, S.A. and subsidiaries (collectively, the Company) as of December 31, 2005 and 2004 and the related income statements, consolidated statements of recognized income and expenses, consolidated statements of cash flows, and statements of changes in consolidated equity, for the years then ended. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of EDP Energias de Portugal, S.A. and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union.

International Financial Reporting Standards as adopted for use in the European Union vary in certain significant respects from U.S. generally accepted accounting principles. Information relating to the nature and effect of such differences is presented in note 48 to the consolidated financial statements.

Lisbon, Portugal

March 7, 2006

(Except for note 48 which is as of July 14, 2006)

/s/ KPMG & Associados, SROC

KPMG & Associados, SROC, S.A.

KPMG & Associados - Sociedade de Revisores Oficiais de Contas,

S.A., a portuguese company is a member firm of KPMG

KPMG & Associados - SROC, S.A.

Capital Social: 511.700 Euros

Pessoa Colectiva Nº PT 502 161

Matriculada na Conservatória do registo Comercial de Lisboa sob o nº 715, fls. 178 do Livro C - 2/3

International, a swiss cooperative. 078 Inscrito na O.R.O.C. Nº

189 Inscrito na C.M.V.M. Nº 9093

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EDP - Energias de Portugal, S.A.

Consolidated Income Statements

for the years ended December 31, 2005 and 2004

	Notes	2005 Total USD 000 (*)	2005 Continuing operations	2005 Discontinued operations	2005 Total	2004 Continuing operations	2004 Discontinued operations	2004 Total
			(Thousands of Euros)			(Thousands of Euros)		
Revenue	5	11,795,798	9,246,301	2,404	9,248,705	6,765,895	22,508	6,788,403
Cost of consumed electricity	5	-5,384,743	-4,222,003		-4,222,003	-3,335,803		-3,335,803
Changes in inventories and cost of raw material and consumables used	5	-2,029,402	-1,589,127	-2,062	-1,591,189	-584,206	-23,497	-607,703
Gross profit		4,381,653	3,435,171	342	3,435,513	2,845,886	-989	2,844,897
Other income								
Services rendered	5	546,279	302,752	125,568	428,320	314,489	207,796	522,285
Other income	6	262,968	205,658	527	206,185	55,950	20,771	76,721
		809,248	508,410	126,095	634,505	370,439	228,567	599,006
		5,190,901	3,943,581	126,437	4,070,018	3,216,325	227,578	3,443,903
Other expenses								
Supplies and services	7	-1,041,722	-714,482	-102,299	-816,781	-566,145	-94,749	-660,894
Personnel costs	8	-696,352	-528,723	-17,264	-545,987	-441,905	-85,790	-527,695
Employee benefits expense	8	-255,451	-200,291		-200,291	-438,837	-1,246	-440,083
Other expenses	9	-578,606	-449,757	-3,909	-453,666	-671,691	-12,671	-684,362
		-2,572,131	-1,893,253	-123,472	-2,016,725	-2,118,578	-194,456	-2,313,034
		2,618,770	2,050,328	2,965	2,053,293	1,097,747	33,122	1,130,869
Provisions	10	-15,909	-12,474		-12,474	-61,509	-2,780	-64,289
Depreciation and amortization expense	11	-1,270,986	-981,693	-14,846	-996,539	-787,410	-47,821	-835,231
Amortization of deferred income on partially funded properties received under concessions	11	124,479	97,600		97,600	85,863	28	85,891
		1,456,354	1,153,761	-11,881	1,141,880	334,691	-17,451	317,240
Gains from the sale of financial assets	12	562,107	440,647	83	440,730	9,837	125	9,962
Financial income	13	673,276	527,833	61	527,894	390,365	1,466	391,831
Financial expenses	13	-1,182,514	-924,997	-2,174	-927,171	-654,370	-5,948	-660,318
Share of profit of associates		45,015	35,295		35,295	3,697	50	3,747
Profit before tax		1,554,238	1,232,539	-13,911	1,218,628	84,220	-21,758	62,462
Income tax expense	14	-194,102	-157,108	4,919	-152,189	-28,625	12,254	-16,371
Profit after tax but before gain on discontinued operation		1,360,136	1,075,431	-8,992	1,066,439	55,595	-9,504	46,091

Gain on sale of discontinued operation, net of tax	42	58,059		45,522	45,522			
Profit for the year		1,418,195	1,075,431	36,530	1,111,961	55,595	-9,504	46,091
Attributable to:								
Equity holders of EDP		1,366,083	1,030,487	40,615	1,071,102	42,586	229	42,815
Minority interests	30	52,112	44,944	-4,085	40,859	13,009	-9,733	3,276
Profit for the year		1,418,195	1,075,431	36,530	1,111,961	55,595	-9,504	46,091
Earnings per share (Basic and diluted)	27	**0.38**	**0.28**	**0.01**	**0.29**	**0.01**	**0.00**	**0.01**

(*) Converted at 1.2754 USD

See the accompanying notes to the Consolidated Financial Statements

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EDP - Energias de Portugal, S.A.

Consolidated Balance Sheets as at December 31, 2005 and 2004

	Notes	2005 USD 000 (*)	2005 Euro 000	2004 Euro 000
Assets				
Property, plant and equipment	15	17,717,064	13,891,378	12,557,101
Intangible assets	16	1,864,639	1,462,003	893,395
Goodwill	16	2,610,519	2,046,824	2,070,909
Investments in associates	18	448,051	351,302	316,775
Available for sale investments	19	722,445	566,446	1,169,098
Deferred tax assets	20	1,138,490	892,653	852,181
Trade receivables	22	155,589	121,992	95,140
Other assets	23	477,766	374,601	153,693
Total Non-Current Assets		25,134,562	19,707,199	18,108,292
Inventories	21	279,560	219,194	156,806
Trade receivables	22	1,866,554	1,463,505	1,161,844
Other current assets	23	1,831,200	1,435,785	838,894
Income tax receivable	24	441,512	346,175	182,854
Financial assets held for trading	25	351,523	275,618	56,249
Cash and cash equivalents	26	746,745	585,499	230,700
Assets classified as held for sale	37			165,337
Total Current Assets		5,517,095	4,325,776	2,792,684
Total Assets		30,651,656	24,032,975	20,900,976
Equity				
Share capital	27	4,663,549	3,656,538	3,656,538
Treasury stock	28	-48,617	-38,119	-31,662
Share premium	27	640,241	501,992	472,955
Reserves	29	-2,124,476	-1,665,733	-1,612,848
Retained earnings		1,654,985	1,297,620	1,510,060
Consolidated profit attributable to equity holders of EDP		1,366,083	1,071,102	42,815
Total Equity attributable to equity holders of EDP		6,151,764	4,823,400	4,037,858
Minority interests	30	1,642,413	1,287,763	743,937
Total Equity		7,794,177	6,111,163	4,781,795
Liabilities				
Medium / Long term debt and borrowings	32	10,969,360	8,600,721	7,181,105
Employee benefits	33	2,350,876	1,843,246	1,985,230
Provisions for liabilities and charges	34	343,400	269,249	293,232
Hydrological correction account	31	216,776	169,967	364,197
Deferred tax liabilities	20	471,543	369,722	286,409
Trade and other payables	35	175,680	137,745	198,974
Total Non-Current Liabilities		14,527,635	11,390,650	10,309,147

Short term debt and borrowings	32	2,529,857	1,983,579	1,960,780
Trade and other payables	35	5,575,849	4,371,843	3,570,148
Income tax payable	36	224,139	175,740	210,379
Liabilities classified as held for sale	37			68,727
Total Current Liabilities		8,329,844	6,531,162	5,810,034
Total Liabilities		22,857,479	17,921,812	16,119,181
Total Equity and Liabilities		30,651,656	24,032,975	20,900,976

(*) Converted at 1.2754 USD

See the accompanying notes to the Consolidated Financial Statements

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EDP - Energias de Portugal, S.A.

Consolidated Statements of Recognized Income and Expense

for the years ended December 31, 2005 and 2004

	2005		2004	
	Equity holders of the parent	Minority Interests	Equity holders of the parent	Minority Interests
	Euro 000	Euro 000	Euro 000	Euro 000
Foreign exchange translation differences	113,027	72,013	936	5,217
Fair value reserve (cash flow hedge)	-16,066		-643	
Tax effect of fair value reserve (cash flow hedge)	3,931		177	
Fair value reserve (available for sale investments)	-69,250	-978	8,759	978
Tax effect of fair value reserve (available for sale investments)	14,577	171	-6,980	-171
Actuarial losses	-24,689	-5,563	-418,203	-190
Tax effect of actuarial losses	7,486	316		
Net income recognized directly in equity	29,016	65,959	-415,954	5,834
Profit for the year	1,071,102	40,859	42,815	3,276
Total recognized income and expense for the year	1,100,118	106,818	-373,139	9,110

See the accompanying notes to the Consolidated Financial Statements

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EDP - Energias de Portugal, S.A.

Consolidated Statements of Cash Flows

for the years ended December 31, 2005 and 2004

	2005 USD 000	2005 Euro 000	2004 Euro 000
Cash flows from Operating Activities			
Cash receipts from customers	11,990,630	9,401,466	7,225,893
Cash paid to suppliers	-8,600,335	-6,743,245	-4,492,771
Cash paid to employees	-965,635	-757,123	-744,398
Concession rents paid	-263,144	-206,323	-187,803
Other receipts/ (payments) relating to operating activities	279,949	219,499	71,725
Net cash from operating activities	2,441,465	1,914,274	1,872,646
Income tax received / (paid)	-333,464	-261,458	-229,332
Net cash from operating activities	2,108,002	1,652,816	1,643,314
From discontinued activities	5,522	4,330	38,506
From continuing activities	2,102,479	1,648,486	1,604,808
Cash flows from Investing Activities			
Cash receipts resulting from:			
Proceeds from sale of financial assets	662,441	519,399	60,940
Proceeds from sale of property, plant and equipment	33,256	26,075	43,480
Fixed assets subsidies received	101,177	79,330	88,036
Interest received	33,141	25,985	20,287
Dividends received	46,002	36,069	30,478
	876,019	686,858	243,221
Cash payments resulting from:			
Acquisition of financial assets	-1,555,159	-1,219,350	-1,389,573
Acquisition of property, plant and equipment	-1,921,550	-1,506,625	-1,164,842
	-3,476,709	-2,725,975	-2,554,415
Net cash from investing activities	-2,600,690	-2,039,117	-2,311,194
From discontinued activities	-1,014	-795	-34,270
From continuing activities	-2,599,676	-2,038,322	-2,276,924
Cash flows from Financing Activities			
Receipts/(Payments) from loans	1,941,995	1,522,656	187,799
Proceeds from issue of share capital	224,148	175,747	1,158,579
Interest and similar costs	-552,667	-433,328	-397,234
Dividends paid	-428,494	-335,968	-268,008

Treasury stock sale/(purchase)	-8,235	-6,457	17,358
Overdrafts	-274,960	-215,587	-62,184
Net cash from financing activities	901,788	707,063	636,310
From discontinued activities	-6,066	-4,756	-2,972
From continuing activities	907,854	711,819	639,282
Net increase in cash and cash equivalents	409,100	320,762	-31,570
Effect of exchange rate fluctuations on cash held	43,411	34,037	-25,232
Cash and cash equivalents at beginning of the year	294,234	230,700	287,502
Cash and cash equivalents at the end of the year (1)	746,745	585,499	230,700

(*) Converted at 1.2754 USD

(1) See note 26 to the Financial Statements, detailing the breakdown of Cash and cash equivalents balance

See the accompanying notes to the Consolidated Financial Statements

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EDP - Energias de Portugal, S.A.

Statements of Changes in Consolidated Equity

as at December 31, 2005 and 2004

(Thousands of Euros)

	Total Equity	Share capital	Share premium	Legal reserve	Reserves and retained earnings	Exchange Differences	Treasury stock	Equity attributable to equity holders of EDP	Minority interests
Balances as at January 1, 2004	3,864,682	3,000,000		326,391	264,625		-49,020	3,541,996	322,686
Transfer to Legal reserve				19,055	-19,055				
Dividends paid	-268,008				-268,008			-268,008	
Treasury stock	17,358						17,358	17,358	
Changes in the application of the consolidation method of HC	352,903								352,903
Other minority interests	59,238								59,238
Share Capital increase (issue of 656,537,715 new shares in Dec 2004)	1,208,029	656,538	551,491					1,208,029	
Expenses with share capital increase	-78,536		-78,536					-78,536	
Exchange differences arising on consolidation	6,153					936		936	5,217
Fair value reserve (cash flow hedge), net of deferred tax	2,586				1,779			1,779	807
Fair value reserve (available for sale investments), net of deferred tax	-466				-466			-466	
Actuarial losses, net of deferred tax	-418,393				-418,203			-418,203	-190
Other reserves arising on consolidation	-9,842				-9,842			-9,842	
Profit for the year	46,091				42,815			42,815	3,276
Balances as at December 31, 2004	**4,781,795**	**3,656,538**	**472,955**	**345,446**	**-406,355**	**936**	**-31,662**	**4,037,858**	**743,937**
Transfer to Legal reserve				22,008	-22,008				
Dividends paid	-335,968				-335,968			-335,968	
Treasury stock	-6,457						-6,457	-6,457	
Increasing capital and changes in the Group structure attributable to minority interest	437,008								437,008
Fair value reserve (cash flow hedge), net of deferred tax	-12,135				-12,135			-12,135	
Fair value reserve (available for sale investments), net of deferred tax	-55,480				-54,673			-54,673	-807
Reversal of tax effect of share capital increase	29,037		29,037					29,037	
Actuarial losses, net of deferred tax	-22,450				-17,203			-17,203	-5,247
Exchange differences arising on consolidation	185,040					113,027		113,027	72,013
Other reserves arising on consolidation	-1,188				-1,188			-1,188	

Profit for the year	1,111,961				1,071,102			1,071,102	40,859
Balances as at December 31, 2005	**6,111,163**	**3,656,538**	**501,992**	**367,454**	**221,572**	**113,963**	**-38,119**	**4,823,400**	**1,287,763**

See the accompanying notes to the Consolidated Financial Statements

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EDP Energias de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements

December 31, 2005 and 2004

1. The business operations of the EDP Group

The Group s parent company, EDP Energias de Portugal, S.A. (EDP, S.A.), was incorporated in 1976 as a result of the nationalization and merger of the major Portuguese companies in the electricity sector operating in mainland Portugal. The company head office is located in Lisbon at Praça Marquês de Pombal, 12, 6º. During 1994, as established by Decree-Laws 7/91 and 131/94, the EDP Group was set up (EDP Group or Group) following the split of EDP, S.A., which led to a number of subsidiaries wholly owned by EDP, S.A. itself, directly or indirectly.

The Group s businesses are currently focused on the generation, distribution and supply of electricity, distribution and gas supply and on telecommunications. Although complementary, the Group operates as well in related areas such as water, engineering, laboratory tests, vocational training and property management.

The EDP Group operates mainly in the Iberian and Brazilian markets in the electric and telecommunications sectors.

Activity in the Energy Sector on the Iberian Peninsula

In Portugal, the National Electricity System (SEN) is based on the coexistence of a Public Service Electricity System (SEP) and of an Independent Electricity System (SEI), the latter comprising the Non-binding Electricity System (SENV) and the Special Regime Producers (PRE).

The SEP comprises the National Transport Network (RNT), Binding Producers, Binding Distributors and Binding Customers. The RNT, under concession to REN - Rede Eléctrica Nacional, S.A., is responsible for providing electricity transport and the overall technical management of the SEP. Binding Producers are tied to RNT by long-term exclusive supply contracts (PPA s - Power Purchase Agreements). Binding Distributors are obliged to supply their customers in accordance with fixed prices, under the law, by the Energy Services Regulatory Entity (ERSE). Binding Customers are entities and individuals that cannot opt for a SENV supplier (currently low-tension consumers), or either those that are able to do so or opt to acquire electricity from their respective binding distributor under conditions determined by the ERSE.

The SENV essentially comprises Non-binding Producers and Non-binding Customers, the latter being entitled to use the SEP networks using fixed tariffs determined by ERSE under the terms of the law. Special Regime Producers operate in the renewable energies and cogeneration areas, delivering their electricity to the SEP networks under special legislation. In accordance with the law, ERSE is responsible for exercising the regulation of the sector, through the preparation, issue, and application of regulations, and also through the definition of the tariffs both for the use of infrastructure and for the supply of electricity to SEP customers. Through the generation and distribution companies, the EDP Group plays a fundamental role in the entire SEN, by having a relevant position within the SEP, and also owning generation companies that operate within the SEI both at the level of the SENV and at the level of the PREs.

In December 2004, the EDP Group increased its financial position in Spain in Hidroeléctrica del Cantábrico S.A. (Hidrocantábrico) to 95.7% of total share capital, achieving the exclusive control of the company. Hidrocantábrico is the parent company of an industrial Group that operates in the electric, gas and telecommunications sectors. In the electric sector, the activity is developed in the production, transportation and distribution and supply areas. The production infrastructure relies on classic coal thermal power stations and, secondly, on hydroelectric and nuclear power stations. The activity of transportation and distribution of electricity is regulated as well as the supply of energy to clients subject to tariffs, whereas in the supply activity the prices are subject without restraints to market conditions.

Hidrocantábrico increased its position in the distribution and supply of the gas sector following the acquisition of Naturcorp during the third quarter of 2003 and the subsequent integration in that company, of all gas related assets held by Hidrocantábrico. The gas distribution activity is also regulated. In the telecommunications sector, Hidrocantábrico holds a significant investment in cable communication concessions in Astúrias and Castilla-Leon regions (large bandwidth transmission of radio, cable and internet).

Activity in the Energy Sector in Brazil

In Brazil, the EDP Group operates in the electric sector namely in generation, distribution and supply.

During April 2005, EDP Energias do Brasil, S.A. signed an agreement concerning the reorganization of its subsidiaries Bandeirante Energia, S.A., Iven, S.A., Espírito Santo Centrais Eléctricas, S.A., Magistra Participações, S.A. and Empresa Energética de Mato Grosso do Sul, S.A., through the roll-up of the above-mentioned companies minority shareholders into Energias do Brasil share capital. Following the completion of the process, EDP Brasil now has full ownership of these companies and their minority shareholders became shareholders of EDP Energias do Brasil.

In the electricity generation sector, the EDP Group has holdings in Usina Hidroeléctrica (UHE), Lajeado (27.65%), and in partnership with Rede do Brazil Group won in 2001 the concession for the construction and operation of Peixe Angical and Couto Magalhães hydroelectric power stations.

In the supply business, in addition to the business carried on by the distribution companies, the EDP Group operates in the electricity trading market through Enertrade.

Activity in the Telecommunications Sector

In the telecommunications sector, the EDP Group holds 56.607% of the share capital of ONI SGPS (ONI), the remaining capital being held by Banco Comercial Português, GALP Energia and Brisa. ONI operates in fixed telecommunications, providing voice and data services in the Portuguese market (both corporate and residential customers) and operated in the Spanish market until September 2005 (in the corporate segment).

Price regime of Electric Energy

According to Portuguese law, ERSE is responsible for the sector regulation, preparing, issuing and monitoring the regulations, as well as defining the tariffs for the infrastructure utilization and electric energy supply to SEP clients. In Brazil, these functions are also assumed by a regulatory entity- Agência Nacional de Energia Electrica (ANEEL). In Spain, electric energy prices are established by the government after consultation or proposal of the regulatory entity Comissión Nacional de Energia .

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EDP Energias de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements

December 31, 2005 and 2004

Low-tension Electricity Distribution Concession Regime

In accordance with specific legislation (Decree-Law 344-B/82), the right to distribute low-tension electricity in Portugal is given to the municipalities (local authorities). However, EDP is allowed to carry on this activity, under concession, by celebrating concession contracts generally with a 20 years term, which can be revoked with 2 years previous notice. During the split process that took place in 1994 the revoking clauses were kept and still applied to the four electricity distribution companies set-up at that time and merged in 2000 into EDP Distribuição S.A. In respect to these concessions, a rent is paid to the concessor municipalities.

Public Domain Assets

In Portugal some fixed assets allocated to electricity generation and distribution within the SEP are subject to the public domain regime. These assets are connected to the Group s activity which can administrate them for that purpose without restrictions, but can not use them for private commerce purposes. In Brazil, the fixed assets used in the distribution and supply of electricity are tied to those services and cannot be withdrawn, sold, assigned or mortgaged without the prior express consent of the Regulator. ANEEL has already created regulations releasing the assets from the Public Electricity Service concessions, granting prior authorization for the release of assets of no use to the concession, provided they are to be sold, further determining that the cash resulting from the sale is to be deposited in a tied bank account, to be used in the concession.

2. Accounting policies

a) Basis of preparation

For all periods up to and including the year ended December 31, 2004, the EDP Group prepared its consolidated financial statements in conformity with generally accepted accounting principles in Portugal.

In accordance with Regulation (EC) no. 1606/2002 of July 19, 2002 from the European Council and Parliament, and its adoption into Portuguese Law through Decree-Law no. 35/2005, of February 17, EDP Group (the Group) is required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) from 2005. Therefore, from January 1, 2005 the consolidated financial statements of EDP Group are prepared in accordance with IFRS as adopted for use in the EU.

IFRS comprise accounting standards issued by the International Accounting Standards Board (IASB) and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and its predecessor body.

These consolidated financial statements for the year ended December 31, 2005 were prepared in accordance with the IFRS effective and adopted for use in the EU until December 31, 2005.

These consolidated financial statements are expressed in thousands of euros and have been prepared under the historical cost convention, except for the assets and liabilities stated at their fair value, namely derivative financial instruments, tangible fixed assets (Property, plant and equipment), financial assets at fair value through profit or loss, available-for-sale financial assets, and recognised assets and liabilities that are hedged, in a fair value hedge, in respect of the risk that is hedged.

The preparation of financial statements in conformity with IFRS requires the application of judgement and the use of estimates and assumptions by management that affects the process of applying the Group s accounting policies and the reported amounts of income, expenses, assets and liabilities. Actual results in the future may differ from those reported. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

At the end of 2004, EDP increased its holding in Hidroeléctrica del Cantábrico, from 39.5% to 95.7%, achieving the control of the company. On this basis under IFRS, the comparative figures for the income statement for 2004 are presented consolidating the investment in Hidroeléctrica del Cantábrico under the proportionate method and in 2005 they are presented in a full consolidation method (See note 48).

These financial statements were approved in the Board of Directors meeting held on March 7, 2006.

Transition to IFRS

In preparing these consolidated financial statements for the year ended December 31, 2005 and in determining the IFRS transition adjustments, the Group has elected to apply certain transition provisions within IFRS 1 First-time Adoption of International Financial Reporting Standards, namely the exemptions on comparative financial information and on the retrospective application of IFRS.

IFRS 1 grants certain exemptions from the retrospective application of IFRS. From the exemptions allowed, the Group has elected to adopt the following:

(i) Business combinations

The Group has elected not to apply IFRS 3 Business Combinations retrospectively. Therefore, business combinations that took place prior to January 1, 2004 are accounted for in accordance with the previous accounting policies of the Group. On this basis, the amount of goodwill arising from acquisitions that took place before January 1, 2004, was kept at its book value as previously determined.

(ii) Property, plant and equipment

As allowed by IFRS 1, the Group has elected to consider as deemed cost of individual items of property, plant and equipment at the date of transition to IFRS (January 1, 2004), their revalued amount as determined in accordance with the previous accounting policies of the Group, which is broadly similar to depreciated cost measured under IFRS adjusted to reflect changes in a specific price index.

(iii) Cumulative translation differences

The Group has set the cumulative translation differences for all foreign operations to zero at the date of transition, January 1, 2004.

(iv) Recognition of deferred actuarial losses

In accordance with IFRS 1, the Group decided to recognise at the date of transition, January 1, 2004, the unrecognised value of the actuarial losses against reserves.

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Besides the exemptions referred to above, the Group has adopted retrospectively the remaining IFRS.

An explanation of how the transition to IFRSs has affected the reported financial position and financial performance of the Group is provided in note 43.

b) Basis of consolidation

The consolidated financial statements of EDP Group comprise the assets, liabilities and results of EDP, S.A., and its subsidiaries (the Group or EDP Group), and the results attributable to the Group from its associated companies. These accounting policies have been consistently applied by all Group companies.

Subsidiaries

Subsidiaries are entities over which the Group exercises control. Control is presumed to exist when the Group owns more than one half of the voting rights. Control also exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of the entity, so as to obtain benefits from its activities, even if its shareholding is less than 50%. Subsidiaries are fully consolidated from the date on which control is transferred to the Group until the date that control ceases.

Accumulated losses of a subsidiary attributable to minority interest, which exceed the equity of the subsidiary attributable to the minority interest, are attributed to the Group and taken to the income statement when incurred. If the subsidiary subsequently reports profits, such profits are recognised by the Group until the losses attributable to the minority interest previously recognised have been recovered.

Associates

Associates are entities over which the Group has significant influence but not control. Generally when the Group owns more than 20% of the voting rights it is presumed that it has significant influence. However, even if the Group owns less than 20% of the voting rights, it can have significant influence through the participation in the policy-making processes of the associated entity or the representation in its executive board of directors. Investments in associates are accounted for by the equity method of accounting from the date on which significant influence is transferred to the Group until the date that significant influence ceases.

If the Group s share of losses of an associate equals or exceeds its interest in the associate, including any long-term interest, the Group discontinues the application of the equity method of accounting, except when it has a legal or constructive obligation of covering those losses or has made payments on behalf of the associate.

Jointly controlled entities

Jointly controlled entities are joint ventures that involve the establishment of an entity in which each venture has an interest and that a contractual arrangement between the ventures establishes joint control over the economic activity of the entity. Interest in a joint controlled entity is accounted for under the proportionate consolidation method.

Goodwill

The purchase method of accounting is used by the Group to account for the acquisition of subsidiaries and associated companies. The cost of acquisition is measured as the fair value, determined at the acquisition date, of the assets and equity instruments given and liabilities incurred or assumed plus any costs directly attributable to the acquisition.

Goodwill arising on the acquisition of subsidiaries and associated companies represents the difference between the cost of acquisition and the fair value of the Group s share of identifiable net assets acquired.

In accordance with IFRS 3 Business Combinations, goodwill is recognised as an asset at its cost and is not amortised. Negative goodwill is recognised directly in the income statement in the period the business combination occurs.

The recoverable amount of the goodwill recognised as an asset is reviewed annually, regardless of whether there is any indication of impairment. Impairment losses are recognised directly in the income statement.

Foreign currency translation

The financial statements of each of the Group entities are prepared using their functional currency which is defined as the currency of the primary economic environment in which that entity operates. The consolidated financial statements are prepared in euro, which is the Company s functional and presentation currency.

The financial statements of each of the Group entities that have a functional currency different from the euro are translated into euro as follows:

(i) Assets and liabilities are translated into the functional currency using the exchange rate prevailing at the balance sheet date;

(ii) Income and expenses are translated into the functional currency at rates approximating the rates ruling at the dates of the transactions;

(iii) All resulting exchange differences are recognised in equity until the entity is sold, in which case such exchange differences are recognized in the income statement as a part of the gain or loss on sale.

Balances and transactions eliminated on consolidation

Inter-company balances and transactions, including any unrealized gains and losses on transactions between group companies, are eliminated in preparing the consolidated financial statements, unless unrealized losses provides evidence of an impairment loss that should be recognized in the consolidated financial statements.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group s interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment loss.

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c) Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to euro at the foreign exchange rates ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to euro at the foreign exchange rates ruling at the dates the fair value was determined.

d) Derivative financial instruments and hedge accounting

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into (trade date). Subsequent to initial recognition, the fair value of derivative financial instruments is re-measured on a regular basis and the resulting gains or losses on re-measurement are recognised directly in the income statement, except for derivatives designated as hedging instruments. The recognition of the resulting gains or losses of the derivatives designated as hedging instruments depends on the nature of the risk being hedged and of the hedge model used.

The fair values of derivatives are obtained from quoted market prices, in active markets, if available or are determined, by external entities, using valuation techniques including discounted cash flow models and options pricing models, as appropriate.

Hedge accounting

Hedge accounting is used for derivative financial instruments designated as a hedging instrument provided the following criteria are met:

(i) At the inception of the hedge, the hedge relationship is identified and documented, including the identification of the hedge item and of the hedging instrument and the evaluation of the effectiveness of the hedge;

(ii) The hedge is expected to be highly effective, both at the inception of the hedge (prospectively) and on an ongoing basis (retrospectively);

(iii) The effectiveness of the hedge can be reliably measured, both at the inception of the hedge and on an ongoing basis;

(iv) For cash flows hedges, the cash flows are highly probable of occurring.

Fair value hedge

In a fair value hedge, the book value of the hedged asset or liability, determined in accordance with the respective accounting policy, is adjusted to reflect the changes in its fair value that are attributable to risks being hedged. Changes in the fair value of the derivatives that are designated as hedging instruments are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the risk being hedged.

If the hedge no longer meets the criteria for hedge accounting, the derivative financial instrument is transferred to the trading portfolio and fair value hedge accounting is discontinued prospectively. For hedged asset or liability debt instruments, the adjustment to the carrying amount for which the effective interest method is used, is amortised to the income statement over the period to maturity. For hedged equity instruments, the adjustment to the carrying amount remain in the balance sheet until the asset or liability is sold.

Cash flow hedge

Where a derivative financial instrument is designated as a hedge of the variability in highly probable future cash flows, the effective portion of changes in the fair value of the hedging derivatives is recognised in equity. Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect the income statement. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised in equity at that time is recognised in the income statement when the hedged transaction also affects the income statement. When a hedged transaction is no longer expected to occur, the cumulative gain or loss reported in equity is recognised immediately in the income statement.

e) Other financial assets

The Group classifies its other financial assets at initial recognition in the following categories:

Financial assets at fair value through profit or loss

This category includes: (i) financial assets held for trading, which are those acquired principally for the purpose of selling in the short term and (ii) financial assets that are designated at fair value through profit or loss at inception.

Available for sale investments

Available for sale investments are non-derivative financial assets (i) intended to be held for an indefinite period of time, (ii) designated as available for sale at initial recognition.

Initial recognition, measurement and derecognition

Purchases and sales of: (i) financial assets at fair value through profit or loss and (ii) available for sale investments, are recognised on trade-date the date on which the Group commits to purchase or sell the asset.

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Financial assets are initially recognised at fair value plus transaction costs except for financial assets at fair value through profit or loss, in which case these transaction costs are directly recognised in the income statement.

Financial assets are derecognised when (i) the contractual rights to receive their cash flows have expired, (ii) the Group has transferred substantially all risks and rewards of ownership or (iii) although retaining some but not substantially all of the risks and rewards of ownership, the Group has transferred the control over the assets.

Subsequent measurement

After the initial recognition, financial assets at fair value through profit or loss are subsequently carried at fair value and gains and losses arising from changes in their fair value are included in the income statement in the period in which they arise.

Available for sale financial assets are also subsequently carried at fair value. However, gains and losses arising from changes in their fair value are recognised directly in equity, until the financial assets are derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement. Foreign exchange differences arising from equity investments classified as available for sale are also recognised in equity, while foreign exchange differences arising from debt investments are recognised in the income statement. Interest, calculated using the effective interest method and dividends are recognised in the income statement. Realized gains and losses arising from sales of available for sale financial assets are based on the weighted averaged cost.

The fair values of quoted investments in active markets are based on current bid prices. For unlisted securities the Group establishes fair value by using (i) valuation techniques, including the use of recent arm s length transactions, discounted cash flow analysis and option pricing models and (ii) valuation assumptions based on market information. Financial instruments whose fair value cannot be reliably measured are carried at cost.

Reclassifications between categories

In accordance with IAS 39, the Group does not reclassify, after initial recognition, a financial instrument into or out of the fair value through profit or loss category.

Impairment

The Group assesses periodically whether there is objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence of impairment the recoverable amount of the asset is determined and impairment losses are recognised through the income statement.

A financial asset or a group of financial assets is impaired if there is objective evidence of impairment as a result of one or more events that occurred after their initial recognition, such as: (i) for listed securities, a significant or prolonged decline in the fair value of the security below its cost, and (ii) for unlisted securities, when that event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If there is objective evidence that an impairment loss on available for sale financial assets has been incurred, the cumulative loss recognised in equity measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement is taken to the income statement.

For debt instruments, if in a subsequent period, the amount of the impairment loss decreases, the previously recognised impairment loss is reversed through the income statement up to the acquisition cost if the increase is objectively related to an event occurring after the impairment loss was recognised. For equity instruments, the impairment reversal is recognised in equity.

f) Financial liabilities

An instrument is classified as a financial liability when it contains a contractual obligation to transfer cash or another financial asset, independently from its legal form. These financial liabilities are recognised (i) initially at fair value less transaction costs and (ii) subsequently at amortised cost, using the effective interest rate method.

g) Equity instruments

An instrument is classified as an equity instrument when it does not contain a contractual obligation to deliver cash or another financial asset, independently from its legal form, being a contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Transaction costs directly attributable to the issue of equity instruments are recognised under equity as a deduction from the proceeds. Consideration paid or received related to acquisitions or sales of equity instruments are recognised in equity, net of transaction costs.

Distributions to holders of an equity instrument are debited directly to equity as dividends, when declared.

Preference shares issued are considered as equity instruments if the Group has no contractual obligation to redeem and if dividends are paid only if and when declared by the Group. Preference shares issued by subsidiaries, classified as equity instruments and held by third parties are included under minority interest.

h) Property, plant and equipment

Property, plant and equipment are stated at deemed cost less accumulated depreciation and impairment losses. As referred to in Note 2 a), at the transition date to IFRS, the Group elected to consider as deemed cost, the revalued amount of property, plant and equipment as determined in accordance with the Group previous accounting policies, which was broadly similar to depreciated cost measured under IFRS adjusted to reflect changes in a specific price index. The value includes expenses directly attributable to the acquisition of the items.

Subsequent costs are included in the asset s carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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Land is not depreciated. Depreciation on the other assets is calculated using the straight-line method over their estimated useful lives, as follows:

	Number of years
Buildings and other constructions	8 to 50
Plant and machinery	
Hydroelectric generation	32 to 60
Thermoelectric generation	25 to 30
Aeolic generation	30
Electricity distribution	10 to 30
Other plant and machinery	5 to 10
Transport equipment	4 to 25
Office equipment and utensils	4 to 10
Other equipment	10 to 25

When there is an indication that an asset may be impaired, IAS 36 requires that its recoverable amount is estimated and an impairment loss is recognised when the net book value of the asset exceeds its recoverable amount. Impairment losses are recognized in the income statement.

The recoverable amount is determined as the greater of its net selling price and value in use. The value in use is based on the net present value of future cash flows arising from the continuing use and ultimate disposal of the asset at the end of its useful life.

Property and equipment allocated to the EDP Distribuição concessions

Under the terms of Decree-Law 344-B/82, low-tension electricity distribution concessions do not involve the sale of the assets by the entity that grants the concessions (Municipalities), who maintain the ownership of the property, without prejudice to their allocation to use by the Group. These assets are allocated to the concession and are recorded under Property and equipment, with an equivalent amount being recorded as medium and long-term liability under Creditors and other liabilities (DL 344-B/82 Regularization Account).

The Property and equipment allocated to the concession are stated at deemed cost less accumulated depreciation and impairment losses. Depreciation on these assets is calculated on the same basis and at the same rates as the Company s own Property and equipment, using the straight-line method over their estimated useful lives. The depreciation cost is compensated under partially funded fixed assets caption (Note 11), by the reduction, on an equal amount, of the medium and long-term liability recorded under Creditors and other liabilities.

The Group is responsible for the maintenance and repair of these assets during the period of the concession. Repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

i) Intangible assets

Acquisition and development of Software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on the basis of their expected useful lives.

Costs that are directly associated with the development of identifiable specific software applications by the Group, and that will probably generate economic benefits beyond one year, are recognized as intangible assets. These costs include employee costs directly associated with the development of the referred software.

Computer software development costs recognized as assets are amortized using the straight-line method over their useful lives. Costs associated with maintaining computer software programs are recognized as an expense as incurred.

Concession rights in Brazil

The concession rights related to the electricity distribution companies in Brazil, namely Bandeirante, Escelsa and Enersul are recorded as intangible assets and amortized over the concession period, not exceeding 30 years.

Operation rights and licences on aeolic generation

The operation rights and licences on aeolic generation in Spain, namely those related to the Nuon Spain investment, acquired in December 2005, are recorded as intangible assets, and amortized over the concession period not exceeding 20 years.

Other intangible assets

The remaining intangible assets are recognized at acquisition cost, less accumulated amortization and impairment losses. Other intangible assets are amortized using the straight-line method over their estimated useful lives, as follows:

	Number of years
Industrial property and other rights	6
Utilization rights on telecommunications business	10

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j) Leases

The Group classifies its lease agreements as finance leases or operating leases taking into consideration the substance of the transaction rather than its legal form, in accordance with IAS 17 Leases. A lease is classified as a finance lease if it transfers to the lessee substantially all the risks and rewards incidental to ownership. All other leases are classified as operating leases.

Operating leases

Payments made under operating leases are straight-lined over the lease term and are charged to the income statement in the period to which they relate.

Finance leases

Finance lease contracts are recorded at inception date, both under assets and liabilities, at the cost of asset leased, which is equal to the present value of outstanding lease installments. Installments comprise (i) an interest charge, which is recognized in the income statement and (ii) the amortization of principal, which is deducted from liabilities. Financial charges are recognized as costs over the lease period, in order to produce a constant periodic rate of interest on the remaining balance of liability for each period.

k) Investment property

The Group classifies as investment property the property held to earn rentals or for capital appreciation or both.

Investment property is recognised initially at cost, including transaction costs that are directly attributable expenditures. Subsequently investment properties are measured at its cost less any accumulated depreciation and any accumulated impairment losses, in accordance with the cost model determined by IAS 16.

Subsequent expenditure is capitalised only when it is probable that it will give rise to future economic benefits in excess of the originally assessed standard of performance of the asset.

l) Inventories

Inventories are stated at the lower of the acquisition cost and net realisable value. The cost of inventories comprises costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Inventories usage (consumption) is being value at the weighted average cost.

m) Accounts receivable

Accounts receivable are initially recognized at their fair value, subsequently accounts receivables are measured at the amortized cost less impairment losses.

Impairment losses are recorded based on the valuation of estimated losses from non-collection of accounts receivable at the balance sheet date. Impairment losses are recognized in profit or loss, and can be reversed if the estimated losses decrease, in a later period.

n) Employee benefits
Pensions

Some EDP Group companies attribute post-retirement plans to their employees under defined benefit plans and defined contribution plans, namely, pension plans that pay complementary old-age, disability and surviving-relative pension complements, and also early retirement pensions.

Defined benefits plans

In Portugal, the defined benefits plan is financed through a restricted Pension Fund complemented by a specific provision. This Pension Fund covers liabilities for retirement pension complements as well as liabilities for early retirement.

In Brazil, Bandeirante has two defined benefit plans managed by the CESP Foundation, a restricted complementary welfare entity with its own assets, segregated from those of the Sponsors with no common contributions or funding between these funds. Escelsa and Enersul have a defined benefit plan that grants a complementary benefit for retirement, disability and surviving pension. Escelsa also has a special complementary benefit plan for retirement of employees who served in the Brazilian army.

The pension plans of the Group are classified as defined benefit plans, since the criteria to determine the pension benefit to be received by employees on retirement are predefined and usually depend on factors such as age, years of service and level of salary.

In accordance with IFRS 1, the Group decided to recognise at the date of transition, January 1, 2004, the unrecognized value of the actuarial losses against reserves.

The liability of the Group with pensions is calculated annually, at the balance sheet date for each plan individually, by qualified actuaries using the projected unit credit method. The discount rate used in this calculation is determined by reference to interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liabilities.

Actuarial gains and losses determined annually and resulting from (i) the differences between financial and actuarial assumptions used and real values obtained and (ii) changes in the actuarial assumptions are recognized against equity, in accordance with the alternative method defined by IAS 19, revised on December 16, 2004, which was early adopted by the Group.

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The increase in past service costs arising from early retirements (retirements before the normal age of retirement) is recognized in the income statement when incurred.

Annually the Group recognizes as cost in the income statement, (i) the current service cost, (ii) the interest cost, (iii) the estimated return of the fund assets and (iv) the cost arising from early retirements.

Defined contribution plans

In Spain and Brazil, the companies Hidrocantábrico, Bandeirante, Escelsa and Enersul, have social benefit plans of defined contribution that complement those granted by the Social Welfare System to the companies employees, under which they pay a contribution to these plans each year, calculated in accordance with the rules established in each case.

Other benefits

Medical care plans

In Portugal and in Brazil (Escelsa) some EDP companies provide medical care during the period of retirement and of early retirement, through complementary benefits to those provided by the Social Welfare System. These medical care plans are classified as defined benefit plans. The total of the present value of the defined benefit obligation at the balance sheet date is recognised as a defined benefit liability. Measurement and recognition of the liability with healthcare benefits is similar to the measurement and recognition of the pension liability for the defined benefit plans, described above.

Bonus to employees

In accordance with the by-laws of certain Group entities, annually the shareholders approve in the annual general meetings a percentage of profits to be paid to the employees (bonus), following a proposal made by the Board of Directors. Bonus payments to employees are recognized in the income statement in the period to which they relate.

o) Provisions

Provisions are recognized when: (i) the Group has present legal or constructive obligation, (ii) it is probable that settlement will be required in the future and (iii) a reliable estimate of the obligation can be made.

p) Recognition of costs and revenues

Costs and revenues are recorded during the year to which they refer regardless of when paid or received, in accordance with the accruals concept. Differences between amounts received and paid and the corresponding revenue and expenditure are recorded under other assets and other liabilities.

Revenues comprises the amounts invoiced on the sale of products or of services rendered, net of value added tax, rebates and discounts, after elimination of intra-group sales. The invoicing of electricity sales is undertaken on a monthly basis. Monthly electricity invoices are based on real meter reading or on estimated consumptions based on the historical data of each consumer. In Portugal, the regulator (ERSE) establishes the SEP electricity tariffs.

Revenues regarding the energy to be invoiced based on actual consumption not yet metered as at the balance sheet date is accrued on the basis of recent average consumptions.

The revenues of telecommunications services are recognised during the period in which they occur. The invoice of these services is carried out on a monthly basis, and amounts not invoiced between the last invoicing cycle and the end of the month are recorded on the basis of an estimate of actual traffic. Differences between estimated amounts and the actual amounts, which are normally not significant, are recorded during the subsequent periods.

q) Financial results

Financial results comprise interest payable on borrowings, interest receivable on funds invested, dividend income, foreign exchange gains and losses, gains and losses on financial instruments and changes on fair value of the risk being hedged.

Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity s right to receive payments is established. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

r) Income tax

Income tax for the period comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Income tax recognised directly in equity relating to fair value re-measurement of available-for-sale investments and cash flow hedges is subsequently recognised in the income statement when gains or losses giving rise to the income tax are also recognised in the income statement.

Current tax is the tax expected to be paid on the taxable profit for the year, calculated using tax rates enacted or substantively enacted at the balance sheet date in any jurisdiction.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax basis, and is calculated using the tax rates enacted or substantively enacted at the balance sheet date in any jurisdiction and that are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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Deferred tax liabilities are recognized for all taxable temporary differences except for goodwill not deductible for tax purposes, differences arising on initial recognition of assets and liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. Deferred tax assets are recognized to the extent it is probable that future taxable profits will be available against which deductible temporary differences can be utilized.

s) Earnings per share

Basic earnings per share is calculated by dividing net income available to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, excluding the average number of ordinary shares purchased by the Group and held as treasury stock.

For the diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted to assume conversion of all dilutive potential ordinary shares, such as convertible debt and share options granted to employees. Potential or contingent share issuances are treated as dilutive when their conversion to shares would decrease net earnings per share.

t) Employee stock options

The stock options programme allows Group employees to acquire EDP Group shares. The options exercise price is equal to the shares market value at the grant date. The fair value of the attributed options, fixed at the grant date, is recognized in profit and loss against equity, during the vesting period, based on the market value calculated at the grant date.

If the option is exercised, the Group will acquire shares in the market to attribute them to employees.

u) Non-current assets held for sale

Non-current assets or disposal groups (group of assets to be disposed of together and related liabilities that include at least a non-current asset) are classified as held for sale when their carrying amounts will be recovered principally through sale and the assets or disposal groups are available for immediate sale and its sale is highly probable.

The Group also classifies as non-current assets held for sale those non-current assets or disposal groups acquired exclusively with a view to its subsequent disposal, that are available for immediate sale and its sale is highly probable.

Immediately before classification as held for sale, the measurement of the non-current assets or all assets and liabilities in a disposal group, is brought up to date in accordance with the applicable IFRS. After, these assets or disposal groups are measured at the lower of their carrying amount, determined annually in accordance with the applicable IFRS, and fair value less costs to sell.

v) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months maturity from the balance sheet date, including cash and deposits with banks.

w) Segmental reporting

A business segment is a group of assets and operations engaged in providing products or services that is subject to risks and returns that are different from those of other business segments.

A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and return that are different from those of segments operating in other economic environments.

x) Tariff adjustments

In regulated activities, the regulator establishes, through tariff adjustments, the criteria to recognise revenues or expenses in future financial periods, which are classified as regulatory assets or liabilities. In accordance with IFRS regulatory assets and liabilities are not recognised in the financial statements. Therefore tariff adjustments are recorded in the income statement in the financial period in which they are actually charged to customers.

3. Critical accounting estimates, and judgements in applying accounting policies

IFRS set forth a range of accounting treatments and require the Board of Directors to apply judgement and make estimates in deciding which treatment is most appropriate.

The most significant of these accounting policies are discussed in this section in order to improve understanding of how their application affects the Group s reported results and related disclosure. A broader description of the accounting policies employed by the Group is shown in Note 2 to the Consolidated Financial Statements.

Because in many cases there are other alternatives to the accounting treatment chosen by management, the Group s reported results would differ if a different treatment was chosen. The Board of Directors believes that the choices made by it are appropriate and that the financial statements present the Group s financial position and results fairly in all material respects. The alternative outcomes discussed below are presented solely to assist the reader in understanding the financial statements and are not intended to suggest that other alternatives or estimates would be more appropriate.

Impairment of available for sale equity investments

The Group determines that available for sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost.

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This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the normal volatility in share price. In addition, valuations are generally obtained through market quotation or valuation models that may require assumptions or judgment in making estimates of fair value.

Alternative methodologies and the use of different assumptions and estimates could result in a higher level of impairment losses recognised with a consequent impact in the income statement of the Group.

Fair value of derivatives

Fair values are based on listed market prices if available; otherwise fair value is determined either by dealer price quotations (both for that transaction or for similar instruments traded) or by pricing models, based on net present value of estimated future cash flows which take into account market conditions for the underlying instruments, time value, yield curve and volatility factors. These pricing models may require assumptions or judgements in estimating fair values.

Consequently, the use of a different model or of different assumptions or judgements in applying a particular model may have produced different financial results for a particular period.

Tariff adjustments

The Board of Directors determines the regulatory adjustments based on the estimated future tariff increases, which is determined by the regulator on an annual basis. In accordance with IFRS, regulatory assets and liabilities are not recognized in the financial statements. Therefore tariff adjustments are recorded in the income statement in the financial period in which they are actually charged to customers.

Impairment on long term assets

Impairment test are performed, when there is an indication that the recoverable amount of property, plant, equipment and intangible assets is less then the corresponding net book value.

The recoverable amount of the goodwill recognised as an asset is reviewed annually, regardless of whether there is any indication of impairment. The impairment tests considered the regulatory and contractual circumstances related to the Group s activity.

Considering that estimated recoverable amounts related to long term assets are based on the best information available, changes in the estimates and judgements, could change the impairment test results which could affects the Group s reported results.

Doubtful debts

Impairment losses related to Doubtful debts are estimated by the Board of Directors based on the estimated recoverable amounts, the date of default, debt write offs and other factors. Certain circumstances and facts may change the estimated impairment losses of Doubtful debts, namely changes in the economic environment, economic sector trends, client s credit risk and increases in the rate of defaults. The evaluation process in determining whether an impairment loss should be recorded in the income statement is subject to numerous estimates and judgement. Changes in the estimates and judgements could change the impairment test results which could affect the Group s reported results.

Recognition of costs and revenues

The invoicing of electricity sales is undertaken on a monthly basis. Monthly electricity invoices are based on real meter reading or on estimated consumptions based on the historical data of each consumer.

Alternative estimates could affect the Group s reported revenues and consequently the Group s reported results.

Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant interpretations and estimates are required in determining the global amount for income taxes.

There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Different interpretations and estimates would result in a different level of income taxes, current and deferred, recognized in the period.

The Tax Authorities are entitled to review the EDP, S.A., and its subsidiaries determination of its annual taxable earnings, for a period of four years or six years in case there are tax losses brought forward. Hence, it is possible that some additional taxes may be assessed, mainly as a result of differences in interpretation of the tax law. However, the Board of Directors of EDP, and those of its subsidiaries, are confident that there will be no material tax assessments within the context of the financial statements.

Pension and other employee benefits

Determining pension liabilities requires the use of assumptions and estimates, including the use of actuarial projections, estimated returns on investment, and other factors that could impact the cost and liability of the pension and medical plans. Changes in these assumptions could materially affect these values.

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4. Financial-risk management policies
Financial-risk management

The businesses of the EDP Group are exposed to a variety of financial risks, including the effects of changes in market prices, foreign exchange and interest rates. The Group s exposure to financial risks lies essentially in its debt portfolio, arising from the interest-rate risk, the exchange-rate risk and, and to a limited extent, the risk of non-compliance by the counterparty in each operation. The maturity of the financial markets is analysed on an ongoing basis in accordance with the Group s risk management policy. Financial instruments are used to minimise potential adverse effects on its financial performance.

The management of the financial risks of EDP S.A., EDP Finance, B.V. and other Group entities is undertaken by the Financial Department of EDP, S.A. in accordance with policies approved by the Board of Directors. The Financial Department of EDP, S.A. identifies, evaluates and submits to the Board for approval hedging mechanisms appropriate to each exposure. The Board of Directors is responsible for the definition of general risk-management principles and the establishment of exposure limits.

All transactions undertaken using derivative instruments require the prior approval of the Board of Directors, which defines the parameters of each transaction and approves the formal documents describing their objectives.

Exchange-rate risk management

The Group operates internationally and is exposed to the exchange-rate risk resulting from different currencies, mainly US Dollars (USD) and Brazilian Reais (BRL). Currently, the exposure to the USD/Euro currency fluctuation risk results from the Brazilian companies, that have financial debt expressed in USD. The debt contracted by the holding company is fully denominated in Euro. Bonds issued by EDP Finance BV under the Medium Term Notes Programmes in JPY and GBP were hedged against exchange-rate risk and interest-rate risk at the date of issue.

The Financial Department of EDP, S.A. is responsible for monitoring the evolution of the currencies referred above, seeking to mitigate the impact of currency fluctuations on the financial costs of the Group companies and, consequently on consolidated net profit, using exchange-rate derivatives and/or other hedging structures.

The Brazilian subsidiaries exposed to USD/BRL currency fluctuation through their debt in USD use forward rate agreements and currency swaps to hedge these risks. Additionally, investments in the Brazilian subsidiaries, whose net assets are exposed to exchange-rate risks, are monitored through analysis of the evolution of the BRL/Euro exchange-rate. Given the long-term nature determined for investments in the Brazilian subsidiaries, the Group has decided not to use financial instruments to hedge the exchange-rate risk inherent on the investment in these subsidiaries.

The policy implemented by the EDP Group consists of undertaking derivatives operations for the purpose of hedging risks with characteristics similar to those of the hedged liability. The operations are revalued and monitored throughout their useful life and, periodically, their effectiveness in controlling and hedging the risk that gave rise to them is evaluated.

Interest-rate risk management

The Group s operating and financial cash flows are substantially independent from fluctuation of the interest-rate markets. The Group has no substantial volume of interest-earning assets.

The aim of the interest-rate risk management policies is to reduce the financial charges and to reduce the exposure of debt cash flows from market fluctuations by the settlement of derivative instruments (swaps and collars) to fix the debt interest rates. Therefore, in floating-rate financing, the Group contracts interest-rate instruments to hedge cash flows associated with future interest payments, which have the effect of converting floating-interest rate loans into fixed-interest rate loans. Long-term loans contracted at fixed rates are, when appropriate, converted into floating rate loans through interest-rate instruments designed to reduce financial charges and to level them to market conditions. In addition to these operations, more structured collar operations are contracted, as necessary, to mitigate exposure of the debt cash flows to market rate fluctuations.

All these operations are undertaken on liabilities in the Group s debt portfolio and mainly involve effective hedging, through the effectiveness of changes in the fair value of the hedging instrument and the changes in fair value of the interest-rate risk or exchange-rate risk being covered. The Group has a portfolio of interest-rate derivatives with maturities between approximately 1 and 15 years. The Group s Financial Department undertakes sensitivity analyses of the fair value of financial instruments to interest-rate fluctuations.

Counter-party credit-rate risk management in financial transactions

The EDP Group policy in terms of the counter-party-risk of financial transactions is managed by an analysis of the technical capacity, competitiveness, credit notation and exposure of each counter-party, avoiding significant concentrations of credit risks. Counter-parties in derivatives and financial transactions are restricted to high-quality credit institutions, therefore, it is not considered that there is any significant risk of counter-party non-compliance. No collateral is demanded for these transactions.

At the Group level, all derivative operations are engaged under the ISDA Master Agreements, and bond issues are undertaken under a Debt Instrument Issue Programme.

Regarding the third-party debt generated by the Group s day-to-day business, the credit risks arise essentially from the legal obligation of providing continuous low-tension electricity supplies even when there are payment delays. This risk is considered to be mitigated by the large number of customers and by their diversity in terms of sectors of activity and by the large volume of residential customers.

Liquidity Risk

The EDP Group undertakes prudent management of the liquidity risk, contracting and maintaining credit lines and financing facilities with a firm underwriting commitment by national and international financial institutions of high credit rating notation, allowing immediate and flexible access to funds. These lines are used to complement and backup national and international commercial paper programmes, allowing the Group s short-term financing sources to be diversified.

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5. Turnover

Turnover by sector of activity, is analyzed as follows:

	Group	
	Dec 2005	**Dec 2004**
	Euro 000	**Euro 000**
Revenue by sector of activity/business:		
Electricity	8,584,375	6,539,384
Steam and ashes	24,113	23,961
Gas	601,164	191,800
Other	39,053	33,258
	9,248,705	6,788,403
Services rendered by sector of activity:		
Telecommunications	268,368	307,330
Associated with electricity sales	48,518	100,844
Information systems and technologies	531	43,602
Thermo/Hydro electricity engineering services	3,593	5,978
Consultancy and services	4,989	5,530
Gas	56,596	
Other	45,725	59,001
	428,320	522,285
	9,677,025	7,310,688
Total turnover by business:		
Electricity	8,632,893	6,640,228
Gas	657,760	191,800
Telecommunications	268,368	307,330
Steam and ashes	24,113	23,961
Consultancy and services	4,989	5,530
Thermo/Hydro electricity engineering services	3,593	5,978
Information systems and technologies	531	43,602
Other	84,778	92,259
	9,677,025	7,310,688

The breakdown of **Revenue** is as follows:

	Dec 2005	**Dec 2004**

	Iberian Market	Brazilian Market	Total	Iberian Market	Brazilian Market	Total
Electricity:						
To the National Transport network	1,404,506		1,404,506	1,193,236		1,193,236
To final customers:						
- Very high tension	57,222		57,222	51,505		51,505
- High tension	601,230	413,852	1,015,082	444,176	228,800	672,976
- Medium tension	521,079	267,188	788,267	558,509	334,228	892,737
- Low tension (>39,6 KVA)	319,609		319,609	304,252		304,252
- Low tension	3,047,666	659,431	3,707,097	2,951,132	423,604	3,374,736
Embedded generation	1,330,002		1,330,002	81,550		81,550
Discounts and tariff difference	-37,410		-37,410	-31,608		-31,608
	7,243,904	1,340,471	8,584,375	5,552,752	986,632	6,539,384
Other Revenue:						
- Steam and ashes	24,113		24,113	21,192	2,769	23,961
- Gas	601,164		601,164	191,800		191,800
- Other	39,053		39,053	33,258		33,258
	664,330		664,330	246,250	2,769	249,019
	7,908,234	1,340,471	9,248,705	5,799,002	989,401	6,788,403

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Gross profit is analyzed as follows:

	Group	
	Dec 2005	**Dec 2004**
	Euro 000	**Euro 000**
Revenue:		
Electricity	8,584,375	6,539,384
Steam and ashes	24,113	23,961
Gas	601,164	191,800
Other	39,053	33,258
	9,248,705	6,788,403
Cost of consumed electricity	4,222,003	3,335,803
Changes in inventories and cost of raw material and consumables used		
Fuel, steam and ashes	739,989	399,236
Gas	363,711	152,356
Own work capitalised	-114,679	-116,485
Other	602,168	172,596
	5,813,192	3,943,506
Gross profit	3,435,513	2,844,897

The breakdown of **Turnover** by geographic market is as follows:

	Dec 2005			
	Portugal	**Spain**	**Brazil**	**Group**
Electricity	5,613,744	1,534,446	1,484,703	8,632,893
Gas	48,992	608,768		657,760
Telecommunications	268,368			268,368
Steam and ashes	24,113			24,113
Thermo/Hydro electricity engineering services	3,593			3,593
Information systems and technologies	531			531
Other	41,432	29,384	18,951	89,767
	6,000,773	2,172,598	1,503,654	9,677,025

	Dec 2004			
	Portugal	**Spain**	**Brazil**	**Group**
Electricity	5,069,726	503,458	1,067,044	6,640,228
Gas		191,800		191,800

Telecommunications	307,330			307,330
Steam and ashes	21,192		2,769	23,961
Thermo/Hydro electricity engineering services	5,346		632	5,978
Information systems and technologies	43,602			43,602
Other	76,886	17,029	3,874	97,789
	5,524,082	712,287	1,074,319	7,310,688

6. Other income

This balance is analyzed as follows:

	Group	
	Dec 2005 Euro 000	**Dec 2004 Euro 000**
Supplementary income	10,763	10,994
Gains on fixed assets	7,939	5,460
Reversal of impairment losses		
- For trade debtors	35,661	7,127
- For debtors and other assets	8,040	2,834
- Other provisions	29,750	887
Excess values from customers contributions	8,165	10,306
Income arising from tariff revisions	40,272	
Other income	65,595	39,113
	206,185	76,721

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7. Supplies and services

This balance is analyzed as follows:

	Group	
	Dec 2005 Euro 000	Dec 2004 Euro 000
Subcontracts:		
Subcontracts	147,747	176,885
Other	9,280	16,648
Supplies and services:		
Water, electricity and fuel	11,559	11,711
Utensils and office material	5,671	4,942
Leases and rents	86,904	48,636
Communications	30,011	27,525
Insurance	23,465	22,086
Transportation, traveling and representation	14,170	13,697
Commissions and fees	23,564	17,895
Maintenance and repairs	123,269	100,331
Advertising	28,819	19,315
Surveillance and security	7,874	8,910
Specialized work	254,412	158,766
Personnel transfers	413	138
Other supplies and services	49,623	33,409
	816,781	660,894

8. Personnel costs and employee benefits expense

Personnel costs caption is analyzed as follows:

	Group	
	Dec 2005 Euro 000	Dec 2004 Euro 000
Remuneration of Board members	7,715	12,450
Employees remuneration	437,198	404,212
Charges on remuneration	98,059	102,659
Early retirement costs	7,080	7,192
Other costs	87,593	91,029
Own work capitalised	-91,658	-89,847

	545,987	527,695

The breakdown by management positions and professional category of the permanent staff as at December 31, 2005 and 2004 is as follows:

	Group	
	Dec 2005	Dec 2004
Board members and senior officers	475	475
Senior management	2,087	2,248
Middle management	759	1,174
Intermediate management	612	477
Highly-skilled and skilled workers	7,229	8,919
Semi-skilled workers	2,802	2,406
Unskilled workers	37	28
	14,001	15,727

As at December 31, 2005, the number of employees in service, including those on temporary contract, is 14,224 (2004: 16,243). These figures include all the employees of all the companies included in the consolidation perimeter (full and proportionate method), regardless of the EDP holding in the share capital, and also Management with 83 and 15 elements in Group and EDP, S.A., respectively (2004: 74 and 11 in Group and EDP, S.A., respectively).

The balance **Employee benefits expense** is analyzed as follows:

	Group	
	Dec 2005	Dec 2004
	Euro 000	Euro 000
Costs with pension plans	151,402	381,890
Costs with medical care plans and other benefits	44,187	42,829
Other	4,702	15,364
	200,291	440,083

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9. Other expenses

This balance is analyzed as follows:

	Group	
	Dec 2005 Euro 000	Dec 2004 Euro 000
Concession rents paid to local authorities	201,461	186,111
Electricity generating center rent	7,587	4,083
Direct operating taxes	1,757	1,175
Indirect taxes	31,232	15,564
Impairment loss on trade debtors	24,863	21,739
Impairment loss on debtors and other assets	43,811	320,625
Uncollectible debts	33,606	13,142
Losses on fixed assets	10,382	65,331
Regulation costs	3,406	
Operating indemnities	2,166	1,838
Donations	20,004	2,218
Local authorities agreements	10,575	
Other costs and losses	62,816	52,536
	453,666	684,362

Impairment losses on goodwill, trade debtors and on debtors and other assets are analyzed in notes 16, 22 and 23, respectively.

10. Provisions

This balance is analyzed as follows:

	Group	
	Dec 2005 Euro 000	Dec 2004 Euro 000
Charge for the year - provision for other liabilities and charges	12,474	64,289
	12,474	64,289

11. Net depreciation and amortization expense

This balance is analyzed as follows:

	Group	
	Dec 2005 Euro 000	Dec 2004 Euro 000
Property, plant and equipment:		
Property, plant and equipment under concession - DL 344-B/82	1,791	2,604
Buildings and other constructions	9,620	9,466
Plant and machinery:		
Hydroelectricity generation	128,659	126,246
Thermoelectric generation	175,470	124,632
Electricity distribution	422,192	381,920
Other plant and machinery	108,285	85,202
Transport equipment	8,339	9,570
Office equipment	41,596	27,996
Other	3,233	3,724
	899,185	771,360
Intangible assets:		
Industrial property and other rights	29,722	19,914
Concession rights	31,087	30,489
Utilization rights on telecommunications business	6,545	8,817
Impairment losses on utilization rights	30,000	
Impairment losses on Goodwill (Edinfor)		4,651
	97,354	63,871
	996,539	835,231
Amortization of deferred income on partially funded properties received under concessions		
Partially-funded fixed assets	-97,626	-85,872
Other regularizations	26	-19
	-97,600	-85,891
	898,939	749,340

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During 2005, an impairment loss on utilization rights of optical-fiber on telecommunications business was charged, in the amount of Eur 30 million.

The assets partially-funded by third parties are amortized on the same basis and at the same depreciation rates of the remaining assets, the cost being compensated through the amortization of the amounts received, which are registered against operating income and gains. The funded component of the assets is registered under deferred income and other liabilities and recognized through the profit and loss account, on the same basis and at the same rates as the partially-funded assets.

12. Gains / losses from the sale of financial assets

The balance **Gains / losses from the sale of financial assets** is analyzed as follows:

	Dec 2005		Dec 2004	
	Sale %	Amount Euro 000	Sale %	Amount Euro 000
Sale of investments:				
BCP	2.0%	12,653		
REE	3.0%	19,340		
Galp	14.3%	397,484		
Efacec	4.9%	3,123		
Other		8,130		9,962
		440,730		9,962

The balance Gains from the sale of financial assets, in 2005, includes the gain, in the amount of 397.5 million euros, arising from the sale of a 14.268% stake in the share capital of GALP Energia, SGPS. The Sale and Purchase Agreement with Américo Amorim Group was signed on December 7, 2005, and the value of this transaction amounted to Eur 720.5 million. Payment conditions were 20% with the signature of the agreement and the remaining balance until January 30, 2006. The full payment of the remaining agreed amount was received by EDP on January 27, 2006.

13. Financial income and financial expenses

This balance is analyzed as follows:

	Group	
	Dec 2005 Euro 000	Dec 2004 Euro 000
Financial income:		
Interest income	218,107	227,394
Income from other equity investments	36,069	30,478

Favourable foreign exchange differences	117,416	61,787
Derivative financial instruments	88,663	63,670
Other financial gains	67,639	8,502
	527,894	391,831

	Group	
	Dec 2005	Dec 2004
	Euro 000	Euro 000
Financial expenses:		
Interest expense	534,677	503,125
Banking services	8,138	15,644
Unfavourable foreign exchange differences	48,695	47,897
Derivative financial instruments	243,022	55,806
Other financial losses	92,639	37,846
	927,171	660,318
Financial income/(expenses)	-399,277	-268,487

As at December 31, 2005 and 2004 interest income includes interest income related to derivative financial instruments in the amounts of Eur 149,733 thousand and Eur 172,932 thousand, respectively.

14. Income tax expense

In accordance with prevailing legislation, tax returns are subject to review and correction by the tax authorities during subsequent years. In Portugal this period is 4 years, and 2000 is the last year considered to be definitively reviewed by the tax authorities.

Tax losses generated in each year, also subject to inspection and adjustment, may be deductible from taxable profits during subsequent years. The companies of the EDP Group are taxed, whenever possible, on a consolidated basis allowed by the tax law of the respective countries.

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The **Income tax** provision for the years ended December 31, 2005 and 2004, is analyzed as follows:

	Group	
	Dec 2005 Euro 000	Dec 2004 Euro 000
Current tax		
Current year	-100,898	-236,343
Change in estimate for prior years	-10,163	-23,317
	-111,061	-259,660
Deferred tax		
Temporary differences and reversals	6,636	239,557
Tax rate increase / decrease	1,419	3,732
Tax losses brought forward	-49,183	
	-41,128	243,289
	-152,189	-16,371

The reconciliation between the statutory income tax and the effective income tax (IRC) rate for the **Group** as at December 31, 2005 is shown in the following table:

	Dec 2005		
	Rate %	Tax Basis Euro 000	Tax Euro 000
Income tax calculated based on the statutory tax rate	27.5%	1,218,628	335,123
Non-deductible provisions for tax purposes	1.4%	63,873	17,565
Unrecognized deferred tax assets related to tax losses generated in the year	1.7%	76,741	21,104
Tax-exempt dividends	-0.9%	-38,168	-10,496
Tax benefits	-0.7%	-32,374	-8,903
Fair value of financial instruments	0.4%	17,689	4,864
Difference between tax and accounting gains/losses	-22.4%	-994,523	-273,494
Equity on associates	-0.6%	-27,330	-7,516
Autonomous taxation and tax benefits	-0.6%	-26,160	-7,194
Changes in estimates	7.3%	323,471	88,955
Differences on the subsidiaries statutory tax rates, changes in tax rates and other adjustments	-0.6%	-28,433	-7,819
Effective tax rate and total income tax	12.5%		152,189

15. Property, plant and equipment

This balance is analyzed as follows:

	Group	
	Dec 2005	**Dec 2004**
	Euro 000	**Euro 000**
Cost:		
Property, plant and equipment held under the DL 344-B/82 regime	223,420	240,607
Land and natural resources	134,145	119,763
Buildings and other constructions	411,234	398,574
Plant and machinery:		
Hydroelectric generation	7,211,603	6,969,800
Thermoelectric generation	5,511,392	5,189,655
Renewables generation	747,563	455,538
Electricity distribution	12,981,777	11,773,115
Gas distribution	782,548	613,650
Other plant and machinery	510,015	574,510
Transport equipment	80,037	75,158
Office equipment and utensils	394,370	385,305
Other	31,981	17,148
Assets under construction	1,555,744	1,193,642
	30,575,829	28,006,465
Accumulated depreciation and impairment losses		
Depreciation charge for the year	-899,185	-746,754
Accumulated depreciation in previous years	-15,778,661	-14,700,357
Impairment losses	-6,605	-2,253
	-16,684,451	-15,449,364
Carrying amount	13,891,378	12,557,101

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Property, plant and equipment held under the Decree-Law 344-B/82 regime are those assets allocated to low-tension electricity distribution transferred from the local authorities under the concession regime. These assets, though operated by the Group, continue to be the property of the local authorities and are analyzed as follows:

	Group Dec 2005 Euro 000	Group Dec 2004 Euro 000
Property, plant and equipment held under the DL 344-B/82 regime	223,420	240,607
Accumulated depreciation	-219,831	-234,132
Net amount	3,589	6,475

Part of these assets may be transferred to EDP Group by settlement, by offsetting accounts in respect of outstanding debts of the respective municipalities (see Note 22).

The movement in Property, plant and equipment balance, for the **Group**, and for the year 2005 is analyzed as follows:

	Balance January 1st Euro 000	Acquisitions Euro 000	Disposals Euro 000	Transfers Euro 000	Exchange Differences Euro 000	Perimeter Variations/ Regularizations Euro 000	Balance December 31 Euro 000
Cost:							
Property, plant and equipment held under the DL 344-B/82 regime	240,607					-17,187	223,420
Land and natural resources	119,763	9,579	-11,537	475	10,828	5,037	134,145
Buildings and other constructions	398,574	689	-52,431	11,293	44,289	8,820	411,234
Plant and machinery	25,576,268	92,842	-27,093	961,995	583,257	557,629	27,744,898
Transport equipment	75,158	6,030	-8,279	1,827	6,112	-811	80,037
Office equipment and utensils	385,305	6,079	-3,185	17,970	5,220	-17,019	394,370
Other	17,148	12,904	-533	7,839		-5,377	31,981
Assets under construction	1,193,642	1,377,122	-11,575	-1,001,399	134,457	-136,503	1,555,744
	28,006,465	1,505,245	-114,633		784,163	394,589	30,575,829

	Balance January 1st Euro 000	Charge for the year Euro 000	Impairment Losses / Reverses Euro 000	Disposals Euro 000	Exchange Differences Euro 000	Perimeter Variations/ Regularizations Euro 000	Balance December 31 Euro 000
Accumulated depreciation and impairment losses:							
Property, plant and equipment held under the DL 344-B/82 regime	234,132	1,791				-16,092	219,831
Buildings and other constructions	171,188	9,620		-13,094	18,982	5,277	191,973

Plant and machinery	14,751,502	834,606		-11,291	289,874	79,830	15,944,521
Transport equipment	55,422	8,339		-8,170	5,394	425	61,410
Office equipment and utensils	223,153	41,596		-2,609	4,553	-17,987	248,706
Other	11,714	3,233		-468		-3,074	11,405
Assets under construction	2,253		4,352				6,605
	15,449,364	899,185	4,352	-35,632	318,803	48,379	16,684,451

As at December 31, 2005, for the Group, the property, plant and equipment financed through leasing contracts is Eur 7,882 thousand (2004: Eur 7,985 thousand), with an accumulated depreciation of Eur 1,717 thousand (2004: Eur 1,918 thousand) and the respective lease installments payable are Eur 5,598 thousand (2004: Eur 5,157 thousand).

	Dec 2005			Dec 2004		
	Principal Euro 000	**Interest Euro 000**	**Future lease Payments Euro 000**	**Principal Euro 000**	**Interest Euro 000**	**Future lease Payments Euro 000**
Less than one year	67		67	95	2	97
Between 1 and 5 years	5,220	311	5,531	4,788	272	5,060
	5,287	311	5,598	4,883	274	5,157

During 2005, costs incurred related to these assets amounted to Eur 90 thousand (2004: Eur 37 thousand), and were recorded under maintenance and repairs in income statement (note 7).

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16. Intangible assets and Goodwill

The balance of Intangible assets is analyzed as follows:

	Group	
	Dec 2005 Euro 000	**Dec 2004 Euro 000**
Cost:		
Industrial property, other rights and other intangible assets	269,323	264,746
CO2 licences	99,381	
Intangible assets under development	7,281	5,912
Utilization rights on telecommunications business	32,890	73,169
Concession rights in Brazil	930,925	846,633
Licences on aeolic generation	482,438	
	1,822,238	1,190,460
Accumulated amortization and impairment losses:		
Amortization of concession and utilization rights during the year	-37,632	-39,306
Amortization of intangible assets during the year	-29,722	-20,013
Accumulated amortization in previous years	-262,881	-237,746
Impairment losses	-30,000	
	-360,235	-297,065
	1,462,003	893,395

In December 2005, NEO - Novas Energias do Ocidente, S.A. (the EDP Group subsidiary engaged in developing investments projects in the renewable energy sector in the Iberian Peninsula / Europe) acquired from Nuon International Renewables Projects BV the total share capital of Nuon España in the amount of Eur 485 million.

Nuon España is a company acting in the renewable energies sector in the Spanish market and has a large portfolio of licenses to operate aeolic energy generation within the next 15 to 20 years. This portfolio comprises wind farm investment projects with a total capacity of 1,407 MW, out of which 221 MW are currently operating and 1,186 MW are in different stages of development until being fully operating. The wind farms are located in Galicia, Aragon, Andalusia and Canary Islands. The crucial asset in the business is the existence of aeolic licences to operate. Following the acquisition, on December 31, 2005, the EDP Group through its subsidiary Neo, was able to determine and performed on a provisional basis the estimation of the fair values for recognized assets, liabilities and aeolic licenses, as well as the cost of the business combination at the date of acquisition. The entire excess of the purchase price over the net assets acquired was deemed to be attributable to the aeolic generation license.

The difference between acquisition cost and the respective value of the wind energy facilities acquired amounted to Eur 460 million, which was allocated and accounted as Licenses on aeolic generation , on the acquisition date. The balance Licenses on aeolic generation includes an amount on of Eur 22 million of aeolic generation licenses booked under Nuon España local accounts at acquisition date. Consequently, under the referred provisional estimation of fair value of assets and liabilities on the acquisition date, the amount of Eur 482 millions was determined and allocated to Licenses on aeolic generation (intangible assets) and will be amortized over a maximum period of 20 years. Within the next 12 months, Neo will account for any additional items or adjustments to the fair values assigned to recognized assets and liabilities against goodwill.

The condensed financial information of Nuon España is presented as follows:

	Nuon 2005 Euro 000
Balance sheet information	
Tangible and intangible fixed assets	247,980
Current assets	56,462
Other non current assets	5,244
Total assets	309,686
Loans	158,887
Current Liabilities	100,836
Other non-current liabilities	21,171
Total liabilities	280,894
Total equity attributable to equity holders at Nuon	25,159
Minority Interest	3,634
Total equity	28,793
Statement of income information	
Net revenue	
Operating costs, net	
Other operating income (costs)	-97
Minority interests	
Net income	-97

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The movement in **Intangible assets**, during 2005, for the **Group**, is analyzed as follows:

	Balance 1 January Euro 000	Acquisitions Euro 000	Disposals Euro 000	Transfers Euro 000	Exchange Differences Euro 000	Other Regularizations Euro 000	Balance 31 December Euro 000
Cost:							
Industrial property, other rights and other intangible assets	264,746	21,592	-44,235		15,611	11,609	269,323
CO2 licences		99,381					99,381
Intangible assets under development	5,912	434			672	263	7,281
Utilization rights on telecommunications business	73,169		-40,279				32,890
Concession rights in Brazil	846,633	72,187			10,844	1,261	930,925
Licences on aeolic generation		482,438					482,438
	1,190,460	676,032	-84,514		27,127	13,133	1,822,238

	Balance 1 January Euro 000	Charge for the year Euro 000	Impairment Losses / Reverses Euro 000	Disposals Euro 000	Transfers Euro 000	Exchange Differences Euro 000	Other Regularizations Euro 000	Balance 31 December Euro 000
Accumulated amortization and impairment losses:								
Industrial property, other rights and other intangible assets	95,400	29,722	30,000	-1,973		2,783	-11,406	144,526
Utilization rights on telecommunications business	33,721	6,545		-24,012				16,254
Concession rights in Brazil	167,944	31,087				367	57	199,455
Licences on aeolic generation								
	297,065	67,354	30,000	-25,985		3,150	-11,349	360,235

The balance Concession rights in Brazil, for the **Group**, results from the difference between cost and the fair value of the company s assets attributable to the Group on the acquisition date, and is analyzed as follows:

	Dec 2005 Concession rights Euro 000	Dec 2005 Accumulated amortization Euro 000	Dec 2005 Net amount Euro 000	Dec 2004 Concession rights Euro 000	Dec 2004 Accumulated amortization Euro 000	Dec 2004 Net amount Euro 000
Electricity Business - Brazil Consolidated - Group						

EDP Brasil - Energy Distribution	930,925	-199,455	731,470	846,633	-167,944	678,689
Amortization charge for the year		-31,087			-30,489	

The Concession rights over the electricity distribution network, namely from S. Paulo state, Espirito Santo state and Mato Grosso do Sul state, are amortized using the straight-line method over the total period of concession, until 2025, 2030 and 2035, respectively.

Included in Concession rights in Brazil, at the end of 2005, EDP Lajeado Energia, a subsidiary of EDP Energias do Brasil, together with the other shareholders of Investco, S.A. (the company that holds the concession for the hydro power plant Luiz Eduardo Magalhães Lajeado power plant , with a capacity of 902.5 MW, located in the Brazilian state of Tocantins) have reached an agreement with Centrais Elétricas Brasileiras S.A. - Electrobrás, for the acquisition of Investco s redeemable preference shares currently held by Eletrobrás (PN-R Shares), at its present value which amounted to Eur 389 million (see note 32).

This acquisition was made through capital increase, with the referred redeemable preference shares ("PN-R Shares") subscribed by Electrobrás. EDP Lajeado was controlled 99.99% by Energias do Brasil, and was responsible for the acquisition of its investment in Investco s share capital, 27.65% of the PN-R Shares held by Eletrobrás, in the amount of Eur 108 million. On the acquisition date, the carrying value of the PN-R Shares was Eur 28 million, which led to a Concession right of Eur 80 million, which will be amortized over the remaining period of the concession, until 2032 (27 years).

Goodwill

For the **Group,** the breakdown of **Goodwill** resulting from the difference between the cost of the investments and the corresponding share of the fair value of the net assets acquired, is analyzed as follows:

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	Dec 2005 Euro 000	Dec 2004 Euro 000
Electricity business:		
Hidrocantábrico Group	1,191,889	1,194,821
EDP Brasil - Energy generation	64,511	62,054
	1,256,400	1,256,875
Gas distribution business:		
Naturcorp (Hidrocantábrico Group)	591,993	591,993
Portgás	107,014	107,080
	699,007	699,073
Telecommunications business:		
Comunitel Global, S.A.		73,247
Other		5,652
		78,899
Other businesses:		
Affinis, S.A.	5,736	5,736
Turbogás, S.A.	61,336	17,266
Portugen, S.A.	4,585	
Dómus, Lda.	2,728	2,728
Safra, S.A.	4,147	
Ortiga, S.A.	1,347	
Companhia Electricidade Macau	10,264	9,058
Other	1,274	1,274
	91,417	36,062
	2,046,824	2,070,909

During 2005, the movements in goodwill, by business segment, are analyzed as follows:

	Balance January 1st Euro 000	Acquisitions Euro 000	Disposals Euro 000	Exchange differences Euro 000	Regularizations Euro 000	Balance December 31 Euro 000
Electricity Business	1,256,875	3,241			-3,716	1,256,400
Gas Distribution Business	699,073				-66	699,007
Telecommunications Business	78,899		-78,899			
Other Businesses	36,062	54,150		1,005	200	91,417
	2,070,909	57,391	-78,899	1,005	-3,582	2,046,824

According to IFRS 3, goodwill arising on a business combination is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired.

During 2005, the variation of this balance is justified by an increase of Eur 49 million resulting from the acquisition of a 20% investment in Turbogás, S.A. and a 26.667% investment in Portugen, S.A. and by a decrease of Eur 78 million related to the sale of Comunitel and other associate companies.

In December 2004, EDP increased its financial position in Hidroeléctrica del Cantábrico, from 39.5% to 95.7% of total shares, achieving the control of the company. The additional investment of 56,2%, through the acquisition of additional 23.915.637 shares, amounts to Eur 1,200.8 million. After this transaction the goodwill of Hidrocantábrico Group increased in the amount of Eur 1,222.8 million from which Eur 242.1 million results from the above mentioned acquisition and Eur 980.7 million resulting from the goodwill related to Hidrocantábrico Group subsidiaries arising from the full consolidation method applied to this investment as at December 31, 2004. Until the date of the above mentioned acquisition, Hidrocantabrico Group was consolidated by the proportionate method.

During 2004, Goodwill decreased in the amount of Eur 35,024 thousand in the Information Technology Business due to the existence of impairment losses on the investments, and Eur 21,103 thousand in the Telecommunication Business due to the sale of Oni Solutions, S.A.

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17. Subsidiary companies

The subsidiary companies consolidated under the full consolidated method as at December 31, 2005, are as follows:

Subsidiary Companies	Head Office	Share capital /Currency		Assets 31-Dec-05 Eur 000	Liabilities 31-Dec-05 Eur 000	Total Equity 31-Dec-05 Eur 000	Total Revenues 31-Dec-05 Eur 000	Net Profit 31-Dec-05 Eur 000	% of Group economic interest
Group s parent holding company and related activities - Portugal									
EDP - Energias de Portugal, S.A.	Lisbon	3,656,537,715	EUR	13,566,114	7,177,486	6,388,628	2,153,503	509,835	
Balwerk - Consultadoria Económica e Participações, Sociedade Unipessoal, Lda.	Lisbon	5,000	EUR	285,514	281,479	4,035	4,998	3,564	100.00%
Edalpro - Imobiliária, Lda.	Lisbon	748,197	EUR	780	62	718	11	-346	100.00%
EDP Estudos e Consultoria, S.A.	Lisbon	50,000	EUR	3,274	2,766	508	13,621	616	100.00%
EDP Finance BV	Amsterdam	20,000	EUR	4,573,674	4,570,442	3,232	135,561	3,211	100.00%
EDP Finance Company Ltd.	Dublin	1,000,001	EUR	960	352	608		-44	100.00%
EDP Imobiliária, S.A.	Lisbon	5,000,000	EUR	7,265	3,551	3,714	12,631	-744	100.00%
EDP Internacional S.G.P.S., S.A.	Lisbon	37,500,000	EUR	476,682	2,418	474,264	236,901	166,463	100.00%
EDP Investimento, Gestão de Participações e Assistência Técnica, Lda.	Macau	200,000	MOP	79,011	17,561	61,450	9,713	9,185	100.00%
EDP Investments and Services, S.L.	Madrid	3,006	EUR	314,118	284,057	30,061	8,525	7,472	100.00%
EDP Participações S.G.P.S., S.A.	Lisbon	125,000,000	EUR	1,282,403	225,475	1,056,928	463,351	417,032	100.00%
EDP Trader Internacional - Comércio, Consultoria e Serviços, Sociedade Unipessoal, Lda.	Funchal	5,000	EUR	5		5			100.00%
EDP Valor - Gestão Integrada de Serviços, S.A.	Lisbon	4,550,000	EUR	41,756	32,764	8,992	51,693	1,127	100.00%
Heralds Securities Inc.	Bahamas	1	USD	14,677		14,677	5,058	-2,536	100.00%
Internel - Serviços Consultoria Internacional, S.A.	Lisbon	50,000	EUR	3,251	3,005	246	988	82	100.00%
MRH - Mudança e Recursos Humanos, S.A.	Lisbon	750,000	EUR	1,072	2,477	-1,405	301	-497	100.00%
Sãvida - Medicina Apoiada, S.A.	Lisbon	450,000	EUR	16,234	14,085	2,149	36,368	-403	100.00%
SCS - Serviços Complementares de Saúde, S.A.	Lisbon	50,000	EUR	225	1,480	-1,255	108	-412	100.00%
Electricity business - Portugal									
Electricity generation									
EDP - Gestão da Produção de Energia, S.A.	Lisbon	1,234,000,000	EUR	5,050,028	2,544,294	2,505,734	1,537,175	383,131	100.00%
	Vila Real	5,000	EUR	1,453	1,451	2			100.00%

Domus Eólia - Produção de Energia Renováveis, Lda.									
EDP Produção Bioeléctrica, S.A.	Lisbon	50,000	EUR	33,420	25,983	7,437	4,125	-1,938	100.00%
EDP Produção EM - Engenharia e Manutenção, S.A.	Oporto	2,250,000	EUR	33,533	24,811	8,722	32,741	736	100.00%
Enerfin - Sociedade de Eficiência Energética, S.A.	Oporto	50,000	EUR	200	1	199	156	139	74.88%
Energin, S.A.	Lisbon	50,000	EUR	41,021	42,340	-1,319	30,295	1,912	65.00%
Enernova - Novas Energias, S.A.	Lisbon	7,500,000	EUR	257,869	219,266	38,603	32,884	5,715	100.00%
Eólica da Serra das Alturas, S.A.	Boticas - Oporto	50,000	EUR	50		50			70.00%
Hidrobasto, Lda.	Cabeceiras	100,000	EUR	106	2	104	2		60.00%
O&M Serviços - Operação e Manutenção Industrial, S.A.	Mortágua	500,000	EUR	4,134	3,205	929	11,562	194	60.00%
Ortiga - Energia Eólica, S.A.	Leiria	200,000	EUR	14,407	14,432	-25			100.00%
Safra - Energia Eólica, S.A.	Leiria	50,000	EUR	22,637	22,726	-89			100.00%
Soporgen, S.A.	Lisbon	50,000	EUR	46,077	42,177	3,900	39,321	3,811	82.00%
Tergen - Operação e Manutenção de Centrais Termoeléctricas, S.A.	Carregado	250,000	EUR	1,882	1,531	351	1,537	89	80.00%
Electricity distribution and supply									
EDP Comercial - Comercialização de Energia, S.A.	Lisbon	50,100,200	EUR	241,587	238,428	3,159	103,399	-59,792	100.00%
EDP Energia Ibérica, S.A.	Madrid	60,200	EUR	53,245	65,048	-11,803	471,517	-10,471	100.00%
EDP Distribuição de Energia, S.A.	Lisbon	1,024,500,000	EUR	6,277,514	4,751,737	1,525,777	4,208,296	64,800	100.00%
EDP Powerline, Infraestruturas de Comunicação, S.A.	Lisbon	50,000	EUR	2,547	2,454	93	211	43	100.00%
EDP Serviner - Serviços de Energia, S.A.	Lisbon	50,000	EUR	3,026	2,099	927	5,531	621	100.00%
EDP Soluções Comerciais, S.A.	Lisbon	50,000	EUR	76,403	67,051	9,352	144,619	9,302	100.00%
Gas distribution									
ENAGÁS - S.G.P.S., S.A.	Lisbon	299,400	EUR	13,501	11,846	1,655	1,686	1,396	30.60%
NQF-Nelson Quintas & Filhos-Energia, S.G.P.S.,	Lisbon	5,500,000	EUR	68,352	4,609	63,743	35,431	35,334	100.00%
NQF-Gás, S.G.P.S., SA	Lisbon	5,000,000	EUR	65,161	18,854	46,307	5,310	3,011	51.00%
NQF- Projectos de Telecomunicações e Energia, S.G.P.S., S.A.	Lisbon	5,489,000	EUR	32,095	4,238	27,857	17	5	100.00%
Group s parent holding company and related activities - Spain									
Hidroeléctrica del Cantábrico, S.A.	Oviedo	425,721,430	EUR	3,960,990	2,174,703	1,786,287	988,183	142,804	95.95%
Gas Capital, S.A.U.	Oviedo	60,110	EUR	306	14,611	-14,305	833		95.95%
Hidrocantábrico Gestión de la Energía S.A.	Oviedo	300,500	EUR	2,897	1,102	1,795	3,395	617	95.95%
Hidrocantábrico Servicios S.A.	Oviedo	60,150	EUR	9,269	7,476	1,793	18,490	1,297	95.95%
Keranfouler, SAS	Carhaix	37,000	EUR	613	599	14	14	1	95.95%
Le Gollot, S.A.S.	Carhaix	37,000	EUR	700	686	14	16	3	95.95%
Nuevas Energías de Occidente	Madrid	3,100	EUR	571,993	572,724	-731	97	-734	95.95%
NUON España, S.L.U	Sevilla	30,003,006	EUR	309,685	284,527	25,158		-97	95.95%

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Electricity business - Spain									
Electricity generation									
Ambitec Laboratorio Medioambiental (ITSEMAP),	Madrid	1,021,700	EUR	1,205	338	867	1,003	-204	76.75%
Asociación Central Producción Térmica S.A.	Cuenca	390,658	EUR	852	846	6			46.06%
Biogas y Energia, S.A.	Madrid	3,125,200	EUR	10,297	6,722	3,575	125	-19	76.76%
Ceprastur AIE	Oviedo	360,607	EUR	411	3	408	5	4	45.87%
Cerâmica Técnica de Illescas Cogeneración, S.A.	Madrid	62,247	EUR	1,766	1,717	49	1,547		69.09%
Cogeneración del Esla, S.A.	Madrid	1,081,800	EUR	3,578	2,046	1,532	2,120	33	69.08%
Desarrollos Energeticos Bahia Cadiz, S.A.	Cádiz	60,102	EUR	102	683	-581	32	-638	86.36%
Electrica de la Ribera del Ebro S.A.	Pamplona	5,000,000	EUR	241,509	190,270	51,239	151,474	29,149	86.74%
Energia e Industria de Toledo, S.A.	Madrid	2,139,603	EUR	9,172	6,874	2,298	4,592	-661	69.09%
Eneroliva S.A.	Sevilla	300,500	EUR	306	7	299			76.76%
Eólica Arlanzón, S.A.	Madrid	4,508,980	EUR	35,262	28,459	6,803	5,694	1,391	59.49%
Eolica Campollano S.A.	Madrid	6,559,994	EUR	131,854	121,256	10,598	18,563	1,772	57.57%
Eólica Mare Nostrum, S.A.	Valencia	60,120	EUR	15	56	-41		-100	46.06%
Eólica Sierra de la Peña S.A.	Madrid	3,294,000	EUR	81,768	77,768	4,000	1,619		65.17%
Eólica Sierra de la Peña S.L.	Albacete	1,141,900	EUR	25,852	24,482	1,370	194		57.57%
Genesa I S.L.	Madrid	10,000,000	EUR	254,844	176,860	77,984	131,389	-2,613	76.76%
HDC Explotacion Centrales, S.A.	Oviedo	60,150	EUR	420	332	88	1,386	26	95.95%
Hidroeléctrica del Rumblar, S.L.	Madrid	276,460	EUR	1,000	610	390	207	58	61.41%
Hidroeléctrica Fuentermosa, S.L.	Oviedo	77,036	EUR	360	199	161	101	53	69.05%
Hidroeléctrica Gormaz S.A.	Salamanca	60,701	EUR	490	459	31	52	-11	57.57%
Industrias Medioambientales Río Carrión, S.A.	Madrid	60,200	EUR	51	602	-551		-509	69.09%
Iniciativas Tecnológicas de Valorización Energética de Residuos S.A.	Madrid	2,996,022	EUR	12,770	10,746	2,024	4,501	-644	76.38%
Investigación y Desarrollo de Energías Renovables, S. L.	León	8,686,145	EUR	8,805	483	8,322	44	-109	61.09%
Mazarrón Cogeneración, S.A.	Madrid	70,000	EUR	4,135	4,658	-523	2,551	-565	69.09%
Parque Eólico Belchite S.L.	Zaragoza	3,600,000	EUR	49,096	44,776	4,320	460		76.76%
Parque Eólico la Sotonera, S.L.	Zaragoza	2,000,000	EUR	26,448	23,626	2,822	2,579	823	49.78%
Parques Eólicos del Cantábrico S.A.	Oviedo	9,079,680	EUR	67,201	51,193	16,008	13,856	2,146	76.76%
Patrimonial de la Ribera del Ebro, S.L.	Pamplona	3,264,000	EUR	3,247	3	3,244		-3	97.17%
Rasacal Cogeneración S.A.	Madrid	60,200	EUR	7	423	-416	-7	-476	46.06%
Renovables Castilla la Mancha, S.A.	Albacete	60,102	EUR	1,105	1,045	60			39.15%
Renovamed S.A.	Madrid	60,200	EUR	1,217	1,312	-95	756	-129	57.57%
Sevares Cogeneración, S.A.	Madrid	475,002	EUR	3,982	3,503	479	946	-69	76.76%
Sidergas Energía S.A.U.	Oviedo	2,606,000	EUR	28,018	23,909	4,109	16,573	1,391	76.76%

Siesa Renovables Canarias, S.L.	Gran Canaria	3,006	EUR	3		3			76.76%
Sinae Inversiones Eólicas S.A.	Madrid	6,010,000	EUR	88,370	80,150	8,220	2,173	1,008	76.76%
Sinova Medoambiental, S.A.	Soria	2,687,364	EUR	16,985	13,753	3,232	5,227	-554	64.48%
Sotromal, S.A.	Soria	450,800	EUR	367	196	171			69.08%
Tratamientos Aambientales Sierra de la Tercia, S.A.	Madrid	3,731,202	EUR	17,098	11,131	5,967	10,901	1,585	67.17%
Tratamientos Medioambientales del Norte, S.A.	Madrid	60,200	EUR	63	1	62	2	1	61.41%
Tratamientos Medioambientales Río Sotón, S.A.	Madrid	60,200	EUR	74	12	62	2	1	76.76%
Uniener S.A.	Madrid	940,500	EUR	7,567	7,088	479	414	-612	76.76%
Electricity distribution and supply									
Hidrocantábrico Distribucion Eléctrica, S.A.U.	Oviedo	44,002,000	EUR	715,599	493,609	221,990	669,555	-7,934	95.95%
Hidrocantabrico Energia Verde, S.A.U.	Oviedo	60,300	EUR	56	1	55			95.95%
Hidrocantabrico Energia, S.A.U.	Oviedo	60,110	EUR	218,295	377,471	-159,176	378,143	-136,712	95.95%
Hidrocantabrico Explotación Redes, S.A.	Oviedo	70,000	EUR	203	123	80	398	11	95.95%
Gas distribution									
Gas de Euskadi Transporte de Gas, S.A.U.	Bilbao	12,880,200	EUR	74,489	22,934	51,555	61,095	2,436	53.91%
Gas Hernani, S.A.	Hernani	60,200	EUR	2,280	2,035	245	1,662	11	29.65%
Gas Pasaia, S.A.	Pasajes	60,101	EUR	1,505	1,416	89	914	6	29.65%
Naturcorp Participaciones, S.L.	Bilbao	13,467,000	EUR	14,025	-998	15,023	297	1,310	53.91%
Naturcorp Transporte de Gas, S.A.U.	Bilbao	5,000,000	EUR	5,018	68	4,950	31	-24	53.91%
Naturgas Comercializadora, S.A.	Bilbao	3,185,300	EUR	70,291	63,359	6,932	293,783	3,673	53.91%
Naturgás Energia Distribución, S.A.U.	Bilbao	100,000,000	EUR	1,111,872	113,713	998,159	222,027	37,651	53.91%
Naturgás Energia Grupo, S.A.	Bilbao	316,516,400	EUR	1,131,142	147,467	983,675	324,211	10,445	53.91%
Naturgas Energía Servicios, S.A.	Bilbao	60,200	EUR	60		60			53.91%
Naturgas Participaciones, S.A.U.	Bilbao	300,500	EUR	383	58	325	64	39	53.91%
Septentrional de Gas, S.A.	León	5,105,000	EUR	33,748	28,515	5,233	1,372	182	37.73%
Group s parent holding company and related activities - Brazil									
EDP Energias do Brasil, S.A.	São Paulo	3,182,715,954	BRL	1,376,524	99,458	1,277,066	239,578	148,796	62.37%
Energest, S.A.	São Paulo	120,480,870	BRL	65,681	35,926	29,755	15,757	5,467	62.37%
Escelsapar	Espirito Santo	2,800,000	BRL	2,400	2,263	137	1,015	-21	62.37%
Electricity business - Brazil									
Electricity generation									
CESA - Castelo Energética, S.A.	São Paulo	44,500,622	BRL	70,892	49,225	21,667	8,386	3,352	62.37%
Costa Rica Energética, Lda.	Mato Grosso Su	14,318,185	BRL	8,269	1,588	6,681	3,033	2,086	31.81%
EDP Lajeado Energia, S.A.	São Paulo	132,519,841	BRL	172,676	53,012	119,664	64,846	37,323	37.38%
Enercouto, S.A.	São Paulo	1,000	BRL	456	587	-131		-119	62.37%
Enerpeixe, S.A.	São Paulo	646,471,400	BRL	590,202	298,836	291,366	2,118	-719	37.42%
PANTANAL	São Paulo	602,100	BRL	10,021	8,284	1,737	3,536	1,807	62.37%
Electricity distribution and supply									
Bandeirante Energia, S.A.	São Paulo	254,628,684	BRL	759,992	573,547	186,445	754,391	55,848	62.37%
Enersul - Empresa Energética de Mato Grosso do Sul, S.A.	Mato Grosso Sul	463,412,296	BRL	583,035	418,772	164,263	285,438	33,301	62.37%
Enertrade - Comercializadora de Energia, S.A.	São Paulo	26,284,758	BRL	51,800	41,052	10,748	147,985	15,931	62.37%
Escelsa - Espírito Santo Centrais Eléctricas, S.A.	Espirito Santo	376,021,630	BRL	653,818	460,044	193,774	481,943	58,938	62.37%

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Telecommunications business - Portugal									
Operadora Nacional de Interactivos S.G.P.S., S.A.	Lisbon	100,000,000	EUR	441,962	290,218	151,744	77,220	-176,549	56.61%
FCTE - Forum do Comércio, Transacções	Lisbon	500,000	EUR	49	487	-438		-90	45.29%
Electrónicas e Serviços Empresariais On-Line, S.A.									
Oni Açores, S.A.	P.Delgada	250,000	EUR	1,097	590	507	2,241	77	33.96%
Oni Madeira, S.A.	Funchal	50,000	EUR	491	344	147	948	148	39.62%
Oni Multimédia - Serviços Interactivos, S.A.	Lisbon	50,000	EUR	4,187	86,923	-82,736	76,157	-55,157	56.61%
Oni Telecom, S.A.	Lisbon	4,630,000	EUR	381,636	369,558	12,078	160,850	-56,384	56.61%
U Call - Atendimento a Clientes e Telemarketing, S.A.	Lisbon	50,000	EUR	1,816	1,965	-149	4,848	-270	33.96%
Information technologies business - Portugal									
Central E - Informação e Comércio Electrónico, SA	Lisbon	5,000,000	EUR	1,029	1,154	-125	1,037	-2,774	52.80%
Other									
Energia RE - Sociedade Cativa de Resseguro	Luxemburgo	1,239,468	EUR	33,471	32,232	1,239	5,799		100.00%
Labelec - Estudos, Desenvolvimento e Actividades Laboratoriais, S.A.	Sacavém	2,200,000	EUR	14,879	8,683	6,196	13,772	857	100.00%

The jointly controlled companies included in the consolidation under the proportionate consolidation method as at 31 December, 2005, are as follows:

Subsidiary Companies	Head Office	Share capital /Currency		Assets 31-Dec-05 Eur 000	Liabilities 31-Dec-05 Eur 000	Total Equity 31-Dec-05 Eur 000	Total Revenues 31-Dec-05 Eur 000	Net Profit 31-Dec-05 Eur 000	% of Group economic interest
PORTGÁS - Soc. de Produção e Distribuição de Gás, S.A.	Oporto	7,909,150	EUR	297,797	257,488	40,309	88,347	14,367	59.55%
Bilbogas, S.A.	Bilbao	5,577,373	EUR	27,363	8,451	18,912	22,111	3,274	26.95%
Bioastur, AIE	Gijón	60,101	EUR	2,228	1,468	760	3,195	386	47.98%
Cogeneracion la Espina, S.L.	Salas	228,380	EUR	896	661	235	887	21	38.38%

Cogneracion y Matenimiento AIE	Oviedo	1,208,010	EUR	5,362	2,535	2,827	6,194	798	38.38%
Desarrollos Energeticos Canarios, S.A.	Las Palmas	60,101	EUR	53	18	35			38.30%
Evolución 2000, S.L.	Albacete	117,994	EUR	9,395	402	8,993	18	6	37.73%
Gas Natural de Álava, S.A.	Vitoria	10,348,780	EUR	36,062	14,053	22,009	27,849	3,938	26.95%
Horta Medioambiental S.A.	Madrid	60,200	EUR	133	242	-109		-169	38.38%
Infrastructuras Gasistas de Navarra, S.L.	Pamplona	1,003,006	EUR	9,173	6,023	3,150	776	36	26.95%
Millenium Energy, S.A.	Bilbao	6,500,000	EUR	28,477	21,827	6,650	5,825	849	26.95%
Proenercam, S.L.	Ruiloba	240,400	EUR	1,145	627	518	390	25	38.38%
Tébar Eólica, S.A.	Cuenca	4,720,400	EUR	59,485	53,532	5,953	4,756	1,233	38.38%
Investco, S.A.	São Paulo	756,206,123	BRL	541,719	271,866	269,853	66,414	6,523	10.33%

The summarized financial information of the most relevant jointly controlled companies included in the consolidation under the proportionate consolidation method as at December, 31, 2004 are as follow:

Subsidiary Companies	**Head Office**	**Share capital /Currency**		**Assets 31-Dec-05 Eur 000**	**Liabilities 31-Dec-05 Eur 000**	**Total Equity 31-Dec-05 Eur 000**	**Total Revenues 31-Dec-05 Eur 000**	**Net Profit 31-Dec-05 Eur 000**	**% of Group economic interest**
Affinis - Serviços de Assistência e Manutenção Global, S.A.	Lisbon	3,500,000	EUR	5,542	6,172	-630	6,269	-2,297	45.00%
Investco, S.A.	São Paulo	745,840,273	BRL	416,545	219,031	197,514	59,289	1,715	27,65%

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The summarized financial information of Associated companies included in the consolidation under the equity method as at December 31, 2005, are as follows:

Subsidiary Companies	Head Office	Share capital /Currency		Assets 31-Dec-05 Eur 000	Liabilities 31-Dec-05 Eur 000	Total Equity 31-Dec-05 Eur 000	Total Revenues 31-Dec-05 Eur 000	Net Profit 31-Dec-05 Eur 000	% of Group economic interest
Affinis - Serviços de Assistência e Manutenção Global, S.A.	Lisbon	1,361,100	EUR	4,685	3,405	1,280	5,056	-91	45.00%
Carriço Cogeração, S.A.	Vila Rei	50,000	EUR	25,531	24,533	998	18,944	1,102	35.00%
CBE - Centro de Biomassa para a Energia, Lda.	Portugal	641,735	EUR	1,484	736	748	508	84	23.32%
CEM, S.A.	Macau	580,000,000	MOP	372,010	106,899	265,111	281,982	42,477	21.19%
DECA - Distribuicion Eléctrica Centroamericana Dos (II), S.A.	Guatemala	2,077,097,000	GTQ	833,994	370,135	463,859	616,600	54,289	21.00%
Ecogen - Serviços de Energia Descentralizada, S.A.	Loures	100,000	EUR	377	1,167	-790	18	-183	34.99%
EDEL - Empresa Editorial Electrotécnica, Lda.	Portugal	1,798	EUR	19	93	-74	71		47.77%
Edinfor - Sistemas Informáticos, SA	Portugal	17,000,000	EUR	226,883	134,188	92,695	182,506	-16,478	40.00%
Electra - Empresa de Electricidade e Água, SARL	Cabo Verde	600,000,000	CVE	112,643	116,198	-3,555	37,636	-4,888	30.60%
Eólica da Alagoa, S.A.	Arcos Valdevez	50,000	EUR	16,184	14,362	1,822	2,803	332	40.00%
Geoterceira - S. Geo. Terceira, S.A.	Azores	1,000,000	EUR	6,225	5,229	996	382	-2	49.90%
LBC Tanquipor - Movimentação e Armazenagem de Líquidos, S.A.	Barreiro	1,350,000	EUR	8,398	4,743	3,655	4,665	600	28.89%
Portsines - Terminal Multipurpose de Sines, S.A.	Sines	10,000,000	EUR	29,183	9,789	19,394	13,285	756	39.60%
Portugen, S.A.	Oporto	250,000	EUR	4,339	1,171	3,168	7,011	2,868	26.67%
REN - Rede Eléctrica Nacional, S.A.	Lisbon	534,000,000	EUR	2,974,812	2,050,120	924,692	3,148,448	110,658	30.00%
SETGAS - Sociedade de Produção e Distribuição de Gás, S.A.	Charneca da Caparica	9,000,000	EUR	162,993	142,540	20,453	33,996	4,090	10.11%
Turbogás - Produtos Energéticos, S.A.	Oporto	13,308,000	EUR	522,962	485,714	37,248	365,254	30,432	40.00%
Biomasas del Pirineo, S.A.	Huesca	454,896	EUR	105	55	50			28.79%
Cultivos Energéticos de Castilla, S.A.	Burgos	300,000	EUR	457	180	277		-10	28.79%
Empresa Provincial de Energia, S.A.	Sevilla	601,000	EUR	765	262	503	14	-42	19.19%
Enercem, S.L.	Oviedo	210,350	EUR	762	124	638	691	75	19.19%
Giroaga, A.I.E.	S. Sebastián	300,510	EUR	467	118	349	296	49	5.39%
Hidráulica Rio Lena, S.A.	Oviedo	901,518	EUR	5,389	2,881	2,508	1,242	348	8.29%
Hidroastur, S.A.	Oviedo	4,808,000	EUR	9,470	958	8,512	2,543	912	23.99%
Inkolan, A.I.E.	Bilbao	84,142	EUR	179	16	163	303		45.56%
Kosorkuntza, A.I.E.	Bilbao	1,502,500	EUR	7,811	4,792	3,019	7,271	1,152	23.99%

Parque Eólico Altos del Voltoya, S.A.	Madrid	7,813,157	EUR	56,181	44,166	12,015	11,775	2,745	29.75%
Parque Eólico de Belmonte, S.A.	Asturias	120,400	EUR	9,684	6,850	2,834	10	-12	28.69%
Parque Eólico Sierra del Madero, S.A.	Soria	7,194,021	EUR	35,901	23,909	11,992	9,817	3,462	40.30%
Sociedad Promotora de las Telecomunicaciones en Asturias, S.A.	Oviedo	55,379,523	EUR	161,753	123,473	38,280	78,656	1,042	44.09%
Sodecoan, S.L.	Sevilla	6,010	EUR	n.a.	n.a.	-3	n.a.		47.98%
Solar Siglo XXI, S.A.	Ciudad Real	80,000	EUR	65		65			23.99%
Tolosa Gasa, S.A.	Tolosa	1,021,700	EUR	2,612	602	2,010	1,840	413	38.38%
Yedesa Cogeneración, S.A.	Sevilla	234,390	EUR	n.a.	n.a.	44	n.a.		9.60%

The summarized financial information of the Associated companies included in the consolidation under the equity method as at December, 31, 2004 are as follows:

Associated Companies	**Head Office**	**Share capital /Currency**		**Assets 31-Dec-05 Eur 000**	**Liabilities 31-Dec-05 Eur 000**	**Total Equity 31-Dec-05 Eur 000**	**Total Revenues 31-Dec-05 Eur 000**	**Net Profit 31-Dec-05 Eur 000**	**% of Group economic interest**
Carriço Cogeração, S.A.	Vila Rei	50,000	EUR	28,226	28,331	-105	13,011	-141	35.00%
CBE - Centro de Biomassa para a Energia	Portugal	643	EUR	1,428	768	660	475	52	24.60%
DECA - Distribuicion Eléctrica Centroamericana Dos (II), S.A.	Guatemala	2,077,097,000	GTQ	680,202	448,995	231,207	547,357	40,125	21.00%
Ecogen - Serviços de Energia Descentralizada, S.A.	Loures	100,000	EUR	244	852	-608	100	-304	34.99%
Geoterceira - S. Geo. Terceira, S.A.	Azores	1,000,000	EUR	5,778	4,780	998	395	434	49.90%
LBC Tanquipor Movimentação e Armazenagem de Líquidos, S.A.	Barreiro	1,350,000	EUR	7,678	4,477	3,201	3,821	264	28.89%
PORTGÁS - Soc. de Produção e Distribuição de Gás, S.A.	Oporto	7,909,150	EUR	283,552	257,619	25,933	88,347	8	59.55%
Portsines - Terminal Multipurpose de Sines, S.A.	Sines	10,000,000	EUR	34,628	15,990	18,638	12,605	1,057	39.60%
REN - Rede Eléctrica Nacional, S.A.	Lisbon	534,000,000	EUR	2,635,537	1,773,209	862,328	2,516,682	69,299	30.00%
SETGAS - Sociedade de Produção e Distribuição de Gás, S.A.	Charneca da Caparica	9,000,000	EUR	160,862	144,499	16,363	30,448	3,210	10.11%
Turbogás - Produtos Energéticos, S.A.	Oporto	13,308,000	EUR	535,216	505,088	30,128	301,837	24,514	20.00%

The companies excluded from the consolidation though accounted under the equity method, as at December 31, 2005, are as follows:

Companies excluded	**Head Office**	**% Group**	**% Company**
Iberenergia, S.A.	Portugal	100.00%	100.00%
Shipec-South China Inter.P.Eng.	China	24.00%	24.00%

Other companies in which there are holdings equal to or greater than 10% as at December 31, 2005, are as follows:

Other companies	**Head Office**	**% Group**	**% Company**
Valorsul, S.A.	Lisbon - Portugal	11.00%	
Tejo Energia, S.A.	Abrantes - Portugal	11.11%	

EDA, S.A.	Azores - Portugal	10.00%

These financial assets are classified as available for sale investments (see note 19).

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18. Investments in associates

This balance is analyzed as follows:

	Group	
	Dec 2005	**Dec 2004**
	Euro 000	**Euro 000**
Investments in associates		
Equity holdings in associates	351,302	316,775
Impairment losses on investments in associates		
Carrying amount	351,302	316,775

The breakdown of **Investments in associates** is analyzed as follows:

	Group			
	Dec 2005		**Dec 2004**	
	Investment	**Impairment**	**Investment**	**Impairment**
	Euro 000	**Euro 000**	**Euro 000**	**Euro 000**
Associated companies:				
DECA - Distribucion Eléctrica Centroamerica, S.A.	65,358		49,952	
Companhia de Electricidade de Macau	56,177		48,992	
REN - Rede Eléctrica Nacional, S.A.	130,200		144,624	
Associated companies of Hidrocantábrico Group	34,195		38,470	
Portsines - Terminal de Multipurpose de Sines, S.A.	7,680		7,381	
Turbogás - Produtora Energética, S.A.	14,899		6,026	
Portgás-Soc.de Prod.e Distrib.de Gás, S.A.			15,443	
AIST-Administradora de Inmuebles Santo Tomas, S.A.			1,065	
Edinfor, S.A.	36,306			
Other	6,487		4,822	
	351,302		316,775	

From January 1, 2005, and after the sale of 60% of the share capital of Edinfor, S.A. to Lógica CMG, this investment is being consolidated by the equity method.

19. Available for sale investments

This balance is analyzed as follows:

Group

	Dec 2005 Euro 000	Dec 2004 Euro 000
CERJ - Companhia Eléctrica do Estado Rio Janeiro	75,513	85,905
Galp Energia, SGPS, S.A.		328,171
BCP - Banco Comercial Português, S.A.	196,783	295,939
OPTEP (Optimus, S.A.)	259,500	336,000
Elcogás, S.A.	4,720	4,720
Tagusparque, S.A.	1,097	1,097
Tejo Energia, S.A.	11,445	4,988
ValorSul, S.A.	3,878	3,878
Efacec, S.A.		3,566
EDA - Eléctrica dos Açores, S.A.	6,891	6,891
Costa Rica Energética, Lda.		2,635
Red Eléctrica de España S.A.		66,959
Other	6,619	28,349
	566,446	1,169,098

On December 7, 2005, EDP Participações SGPS (a subsidiary 100% held by EDP SA) signed a Sale and Purchase Agreement to sell its 14.268% investment in the share capital of GALP Energia, SGPS to the Américo Amorim Group, with a selling price of Eur 720.5 million. The payment conditions were 20% with the signature of the agreement and the remaining balance by January 30, 2006. The full payment of the remaining agreed amount was received by EDP on the January 27, 2006. This transaction generated a gain, on a consolidated basis, of Eur 397.5 million. Following the derecognition of this financial asset, the cumulative gains arising from changes in fair value, of Eur 5.6 million, previously recognised in equity under Fair value reserve were recognised in the income statement.

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The main investments available for sale are analyzed as follows:

	Dec 2005				
	Balance January 1st Euro 000	Acquisitions Euro 000	Disposals Euro 000	Potencial gain/(loss) Euro 000	Balance December 31 Euro 000
BCP - Banco comercial Português, S.A.	295,939		-140,501	41,345	196,783
CERJ - Companhia Eléctrica do Estado Rio Janeiro	85,905			-10,392	75,513
OPTEP (Optimus)	336,000			-76,500	259,500
Galp Energia, S.G.P.S., S.A.	328,171		-328,171		
Red Eléctrica de España	66,959		-66,959		
Tejo Energia, S.A.	4,988	1,367		5,090	11,445
Other	51,136		-27,931		23,205
	1,169,098	1,367	-563,562	-40,457	566,446

In June 2005, the Group transferred approximately 2.01% of BCP ordinary shares to the Pension Fund, with a value of Eur 153 million, generating a gain of approximately Eur 12.7 million, transferred from the Fair value reserve (available for sale investments).

20. Deferred tax assets and liabilities

The EDP Group records in its accounts the tax effect arising from temporary differences between the assets and liabilities determined on an accounting basis and on a tax basis, which are analyzed as follows:

	Deferred tax assets		Deferred tax liabilities		Net	
	Dec 2005 Euro 000	Dec 2004 Euro 000	Dec 2005 Euro 000	Dec 2004 Euro 000	Dec 2005 Euro 000	Dec 2004 Euro 000
Tax losses brought forward	166,026	215,209			166,026	215,209
Provisions	469,965	414,178	6,860	3,152	463,105	411,026
Intangible assets	227,319	261,263			227,319	261,263
Goodwill			105,644	102,726	-105,644	-102,726
Property, plant and equipment	10,054				10,054	
Available for sale investments	2,734	37,169	9,464		-6,730	37,169
Derivative financial instruments	153,273	48,642	91,849	63,845	61,424	-15,203
Bonds issued	7,874				7,874	
Accounting revaluations	49,324	45,661	310,664	312,356	-261,340	-266,695
Reinvested gains			11,192	10,338	-11,192	-10,338
Regulatory assets and liabilities	131,330	117,985	60,363	52,542	70,967	65,443
Pension plans		12,334				12,334
Exchange differences and other			98,932	41,710	-98,932	-41,710
Assets/Liabilities compensation for deferred taxes	-325,246	-300,260	-325,246	-300,260		

	892,653	852,181	369,722	286,409	522,931	565,772

The **Deferred tax** movement, for the **Group**, in 2005 and 2004, is analyzed as follows:

	Deferred taxes	
	Group	
	Dec 2005 Euro 000	Dec 2004 Euro 000
Balance at the beginning of the year	565,772	365,167
Charges through the profit and loss account	-41,128	243,289
Charges against reserves:		
Changes in fair value of financial instruments	14,748	-6,974
Actuarial gains or losses	7,802	
Foreign exchange differences, perimeter variations and transfers	-24,263	-35,710
Balance at the end of the year	522,931	565,772

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Taxes recorded against reserves are analyzed as follows:

	Group Dec 2005 Euro 000	Group Dec 2004 Euro 000
Current tax		
Fair value of derivative financial instruments	3,931	
Gains from the sale of treasury stock	-693	
	3,238	
Deferred tax		
Fair value of derivative financial instruments	10,519	177
Gains from the sale of assets	4,229	-7,151
Other	7,802	
	22,550	-6,974
	25,788	-6,974

The breakdown of tax losses and tax credits carried forward is analyzed as follows:

	Group Dec 2005 Euro 000	Group Dec 2004 Euro 000
Expiration date:		
2006	70,346	70,346
2007	130,188	130,339
2008	289,551	289,596
2009	76,303	76,848
2010	64,606	64,987
2011	164,656	
2018	309	309
2019	440	440
2020	10,471	
Without expiration date but with a limit of 30% of the taxable income of each year	948,089	1,024,191
	1,754,959	1,657,056

21. Inventories

This balance is analyzed as follows:

	Group Dec 2005 Euro 000	Group Dec 2004 Euro 000
Merchandise	12,235	1,972
Purchases and advances on account of purchases	104	312
Finished and intermediate products	16,719	
Products and work in progress	224	2,330
Sub-products, waste, residues and scrap	5,049	3,994
Raw and subsidiary materials and consumables:		
Coal	52,951	28,567
Fuel	66,664	24,060
Other consumables	65,248	95,571
	219,194	156,806

22. Trade receivables

The **Trade receivables** balance, by sector of activity, is analyzed as follows:

	Group Dec 2005 Euro 000	Group Dec 2004 Euro 000
Short term trade receivables - Current:		
Resident customers:		
State and official entities	23,620	39,891
Local government	23,664	29,260
Corporate sector and individuals	806,337	820,219
Trade accounts - Bills receivable	796	
	854,417	889,370
Non-resident customers:		
Corporate sector and individuals	618,938	272,764
	1,473,355	1,162,134
Doubtful debts	197,488	188,261
Impairment losses on doubtful debts	-207,338	-188,551
	1,463,505	1,161,844

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	Group Dec 2005 Euro 000	Group Dec 2004 Euro 000
Medium and long-term trade receivables - Non Current:		
Resident customers:		
Local government - Debt at December 31, 1988 (i)	164,127	178,127
Corporate sector and individuals	21,595	5,241
	185,722	183,368
Impairment losses on Local government debts	-63,730	-88,228
	121,992	95,140
	1,585,497	1,256,984

(i) This amount is presented net of debits related to assets to be transferred to the Group and of the rents owed by the Group on that date.

The movements in **Impairment losses**, for the **Group**, are analyzed as follows:

	Balance 1 January Euro 000	Perimeter Variations/ Regularizations Euro 000	Impairment Losses Euro 000	Reversal of Impairment Losses Euro 000	Utilizations Euro 000	Transfers Euro 000	Balance 31 December Euro 000
Corporate sector and individuals	188,551	-3,495	24,230	-35,661	1,817	31,896	207,338
Local government - Debt at December 31, 1988 (i)	88,228		697			-25,195	63,730
	276,779	-3,495	24,927	-35,661	1,817	6,701	271,068

23. Other current assets

The balance **Other current assets** is analyzed as follows:

	Group Dec 2005 Euro 000	Group Dec 2004 Euro 000
Short term debtors - Current		
Other related companies	6,090	15,516
Advances to suppliers	663	2,149
Other debtors:		

- Current account with the Pension Fund	1,656	12,120
- Amounts owed by staff	2,263	2,195
- Amounts receivable from Telecommunications business	65,786	90,045
- Amounts receivable from Brazilian tariff expenses		2,894
- Amounts receivable from Spanish tariff expenses	74,775	
- Amounts owed by the State and Concessors	8,020	5,948
- Debtors in respect of other goods and services	63,271	55,326
- Amounts receivable from Piratininga		11,547
- Amounts receivable from Retecal sale		28,887
- Amounts receivable from Enerpeixe sale		11,923
- Amounts receivable from GALP sale	576,400	
- Amounts receivable from Edinfor 60% sale	6,233	
- Amounts receivable from EDP Brasil shares sale	16,626	
- Amounts receivable from Fafen sale		19,919
- Derivative financial instruments	226,819	363,709
- Advances to pensioners, on account of the Social Security	5,376	6,242
- Advances to pensioners, on account of the Pension Fund	11,017	9
- Amounts receivable related to power management activity	14,792	84
- Amounts receivable related to insurance and re-insurance activities	14,766	6,771
- Other tax receivable	8,456	7,129
- Expenditure on concessions	8,223	10,653
- Rents	1,540	689
- Insurances	3,961	3,467
- Deferred costs	117,433	28,658
- Financial assets advanced payments	35,796	16,961
- CO2 licences - SENV	98,073	
- Sundry debtors	148,211	149,000
	1,516,246	851,841
Impairment losses on short-term debtors - Current	-80,461	-12,947
	1,435,785	838,894

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	Group	
	Dec 2005 Euro 000	Dec 2004 Euro 000
Medium and long-term debtors - Non Current:		
Other related companies	38,355	37,446
Loans to associated companies	11,360	30,536
Energy efficiency programme - Escelsa		2,372
Other debtors:		
- Other tax receivable	3,612	6,866
- Amounts receivable from regulatory entities	9,356	8,200
- Debt from Municipalities (i)	2,894	9,270
- Amounts receivable from CNE	213,000	
- Guarantees and tied deposits	67,858	60,298
- Sundry debtors	30,716	20,526
	377,151	175,514
Impairment losses on medium/long-term debtors Non Current	-2,550	-21,821
	374,601	153,693
	1,810,386	992,587

(i) The balance **Debt from Municipalities** is related to the compensated fixed assets undergoing integration and corresponds to the net amounts, at the integration date, of the debts of Municipalities at December 31, 1988, compensated by the corresponding assets on undergoing integration (Property, plant and equipment held under the regime of Decree-law 344-B/82). The transfer of these amounts to Property, plant and equipment is dependent on the execution of the concession agreements or debt regularization protocols to be contracted by EDP and the Municipalities.

The balance Sundry debtors includes, as at December 31, 2005, the amount of Eur 576.4 million related to the remaining 80% of the selling price of GALP Energia, S.G.P.S., which was received on the January 27, 2006. See notes 12 and 19.

Medium and long term caption includes an Hidrocantábrico balance, which is a receivable from the Spanish regulatory entities (CNE), in the amount of Eur 213 million, following the issue of the Royal Decree in December 2005.

The balance **Impairment losses on short-term debtors - Current**, for the **Group**, is analyzed as follows:

	Balance 1 January Euro 000	Perimeter Variations/ Regularizations Euro 000	Impairment Losses Euro 000	Reversal of Impairment Losses Euro 000	Transfers Euro 000	Charge off Euro 000	Balance 31 December Euro 000
Other debtors	12,947	-158	78,153	-8,040	5,037	-7,478	80,461
	12,947	-158	78,153	-8,040	5,037	-7,478	80,461

The balance **Impairment losses on medium and long-term debtors - Non Current,** for the **Group,** is analyzed as follows:

	Balance 1 January Euro 000	Perimeter Variations/ Regularizations Euro 000	Impairment Losses Euro 000	Reversal of Impairment Losses Euro 000	Transfers Euro 000	Charge off for the year Euro 000	Balance 31 December Euro 000
Other debtors	21,821	-14,334			-4,937		2,550
	21,821	-14,334			-4,937		2,550

24. Income tax receivable

The balance **Income tax receivable** is analyzed as follows:

	Group Dec 2005 Euro 000	Dec 2004 Euro 000
State and other public entities:		
- Income tax	25,139	2,036
- Value added tax	255,810	164,893
- Other taxes	65,226	15,925
	346,175	182,854

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25. Financial assets held for trading

The balance **financial assets held for trading** is analyzed as follows:

	Group	
	Dec 2005 Euro 000	**Dec 2004 Euro 000**
Debt securities:		
- Listed bonds	10,040	
- Other debt securities		
- Listed	38,864	53,237
- Not listed	14,595	3,012
	63,499	56,249
Equity listed securities:		
- Shares	211,698	
- Other equity securities	421	
	212,119	
	275,618	56,249

26. Cash and cash equivalents

The balance **Cash and cash equivalents** is analyzed as follows:

	Group	
	Dec 2005 Euro 000	**Dec 2004 Euro 000**
Cash:		
- Cash in hand	33	57
Bank deposits:		
- Current deposits	270,301	183,855
- Term deposits	58,114	8,744
- Other deposits	84	
	328,499	192,599

Other short term investments:

- Domestic banks	123,500	8,701
- Foreign banks	133,467	29,343
	256,967	38,044
Cash and cash equivalents in the Statement of Cash Flows	585,499	230,700

27. Share capital and Share premium

EDP, which started-up as a state-owned Company, was successively transformed into a sociedade anónima (limited liability company under Portuguese law) wholly owned by the State and other Public Sector Entities and then into a sociedade anónima with a majority of its share capital owned by the public sector. Currently the State and other Public Sector Entities have a minority position in the company s share capital. The privatization process began in 1997, and the second and third stages of the privatization took place in 1998 and the fourth stage in 2000, following which the State now holds about 30% of the share capital, directly and indirectly.

The share capital amounts to Eur 3,656,537,715 represented by 3,656,537,715 ordinary shares each of a par value of 1 euro, and is fully paid-up.

Share capital and Share premium are analyzed as follows:

	Group	
	Share Capital Euro 000	**Share Premium Euro 000**
Balance as at December 31, 2003	3,000,000	
Issue of 656,537,715 shares in December 2004	656,538	551,491
Expenses with Share Capital increase		-78,536
Balance as at December 31, 2004	3,656,538	472,955
Reversal of estimated tax expense from share capital increase		29,037
Balance as at December 31, 2005	3,656,538	501,992

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In accordance with the General Meeting of October 7, 2004, the Board of Directors decided to increase the share capital by 656,537,715 euros, through a public offer reserved to EDP shareholders through the exercise of their preference rights. The new 656,537,715 ordinary, registered and nominative shares have a nominal value of 1 euro each. The shares were offered at a subscription price of 1.84 euro per share, the operation being concluded on December 2, 2004.

This increase in share capital took place in order to finance the acquisition of an additional 56.2% stake in Hidrocantábrico Group, increasing the investment to 95.7%. The increase in this shareholding allows EDP to exercise, indirectly, the control over Naturcorp, a gas company operating in the Spanish market.

The breakdown of the earnings per share (EPS) attributable to the equity holders of the parent is as follows:

	Group	
	Dec 2005	**Dec 2004**
Profit attributable to the equity holders of the parent	1,071,102,496	42,815,266
Profit from continuing operations attributable to the equity holders of the parent	1,030,487,000	42,586,000
Weighted average number of ordinary shares outstanding	3,639,274,980	3,040,423,819
Earnings per share attributable to equity holders of the parent	0.29	0.01
Earnings per share from continuing operations (basic and diluted) in euros	0.28	0.01

The EDP Group calculates its basic earnings per share using the weighted average number of ordinary shares outstanding during the year ended December 31, 2005.

The weighted average number of ordinary shares outstanding during the year is analyzed as follows:

	Group	
	Dec 2005	**Dec 2004**
Ordinary shares issued at the beginning of the year	3,656,537,715	3,000,000,000
Issue of new shares for cash		54,711,476
Realized shares	3,656,537,715	3,054,711,476
Treasury stock	-17,262,735	-14,287,657
Weighted average number of ordinary shares outstanding during the year	3,639,274,980	3,040,423,819

28. Treasury stock

This balance is analyzed as follows:

	Group	
	Dec 2005	Dec 2004
	Euro 000	**Euro 000**
Book value of EDP, S.A. shares	38,119	31,662
Number of shares	17,262,735	14,287,657
Market value per share of EDP, S.A. shares	2.60 euros	2.23 euros
Market value of EDP, S.A. shares	44,883	31,861

The treasury shares held by EDP, S.A., are within the limits established by the Company s articles of association and by the Código das Sociedades Comerciais (Companies Code). These shares are stated at acquisition cost.

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29. Reserves

This balance is analyzed as follows:

	Group	
	Dec 2005	**Dec 2004**
	Euro 000	**Euro 000**
Legal reserve	367,454	345,446
Fair value reserve (cash flow hedge)	-16,709	-643
Fair value reserve (available for sale investments)	-49,735	19,515
Currency translation reserve	113,963	936
Other consolidation reserves	-2,203,920	-2,049,266
Other reserves	123,214	71,164
	-1,665,733	-1,612,848

Legal reserve

In accordance with Article 295 of the "Código das Sociedades Comerciais" (Companies Code) and with the EDP articles of association, the Legal reserve must be increased by a minimum of 5% of the annual profits until its value equals 20% of the company s share capital. This reserve can only be used to cover losses or to increase share capital.

Fair value reserve (cash flow hedge)

The Fair value reserve (cash flow hedge) comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments. Changes in this reserve related to derivative financial instruments classified as hedging instruments in a cash flow hedge model are analyzed in note 38.

Fair value reserve (available for sale investments)

This reserve includes the cumulative net change in the fair value of available for sale investments until the investment is derecognized. The amount of potential gains or losses of available for sale investments, as at December 31, 2005, is recorded under Fair value reserve (available for sale investments). This balance, for the Group, is analyzed as follows:

	Group	
	Increases	**Decreases**
	Euro 000	**Euro 000**
Balance as at January 1, 2004	47,948	-37,191
Changes in fair value	44,438	-35,680

Balance as at December 31, 2004	92,386	-72,871
Changes in fair value	59,088	-86,893
Transfers to profit or loss		-41,445
Balance as at December 31, 2005	151,474	-201,209
Net unrealized gains / (losses) as at December 31, 2005		-49,735

As at December 31, 2005, proposed dividends before the approval of the accounts, which are not yet recorded as a distribution to shareholders, amounted to Eur 365.7 million, corresponding to 0.1 euros per share.

The balance **Currency translation reserve** reflects the fluctuation in the value of Shareholders Equity of foreign Subsidiary and Associated Companies resulting from foreign currency exchange differences arising on the translation of the financial statements of subsidiaries and associates from their functional currency into euros. The exchange rates to the Euro used in the preparation of the Financial Statements are as follows:

		Exchange rates Dec 2005		**Exchange rates Dec 2004**	
Currency		**Closing rates**	**Average exchange-rate**	**Closing rates**	**Average exchange-rate**
American Dollar	USD	1.180	1.243	1.362	1.241
Brazilian Real	BRL	2.744	3.024	3.615	3.630
Macao Pataca	MOP	9.422	9.960	10.905	9.956

30. Minority interests

This balance is analyzed as follows:

	Group	
	Dec 2005	**Dec 2004**
	Euro 000	**Euro 000**
Minority interest in income statement	40,859	3,276
Minority interest in reserves	1,246,904	740,661
	1,287,763	743,937

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The balance Minority interests, by company, is analyzed as follows:

	Group	
	Dec 2005 Euro 000	Dec 2004 Euro 000
Edinfor Group		6,989
Brazil Group	702,296	200,211
Hidrocantábrico Group	585,137	535,386
Other	330	1,351
	1,287,763	743,937

During 2005, EDP Group results attributable to minority interests amounted to Eur 40,859 thousand (2004: Eur 3,276 thousand) which includes an amount of Eur 98,879 thousand mainly attributable to minority interest in Brazil and Hidrocantábrico Group partially off set by a minority interest benefit resulting from a capital contribution in the amount of Eur 58,020 thousand made by the minority holders of ONI Group, to fund a loss which had previously been assumed by the majority interest.

During 2005, increase in the minority interest in EDP Brazil is mainly due to the following:

Eur 275.5 million due to the reorganization of the Group structure, through the roll-up of the Bandeirante s, Escelsa s and Enersul s minority interest into EDP Energias do Brasil and a capital increase, mainly subscribed by minority interest. After the capital increase EDP holds a stake of EDP Energias do Brazil, of 62.37%;

Capital increase of EDP Lajeado, in the amount of BRL 295.1 million, (Eur 97.6 million) fully subscribed by minority interest (Electrobrás) through the delivery of Investco PN-R shares;

Exchange differences in the amount of Eur 72 million;

Results attributable to minority interest in the amount of Eur 61.3 million;

Decrease from actuarial losses and Fair value reserve of available for sale investments in total amount of Eur 5.5 million.

The increase in the minority interest of Hidrocantábrico Group includes the amount of Eur 36.8 million of results attributable to minority interest.

31. Hydrological correction account

The movements in this balance are analyzed as follows:

	Group	
	Dec 2005	Dec 2004
	Euro 000	Euro 000
Balance at the beginning of the year	364,197	387,506
Payments of the year	-200,219	-32,617
Financial charges	5,989	9,308
Balance at the end of the year	169,967	364,197

During 2004, Decree Law no. 240/2004 was issued, with the purpose of regulating the early termination of the PPAs, a step towards the liberalization of the energy market within the Iberian Peninsula. This Decree Law states that with the introduction of the free trading market, the government will be required to introduce a new regulation regarding the purpose and scope of the hydrological correction account as well as the mechanisms to compensate producers for their increased risks resulting from the early termination of PPAs. As a result of the introduction of this regulation mandated by the above mentioned Decree-Law, and in the light of the above mentioned government announcement, EDP s board of directors and management consider that it is probable that the hydrological correction mechanism will be terminated. At such date, the liability recorded for the hydrological correction account, including the balance relating to pre-1994 activity, will be payable to a third party to be nominated by the regulator.

The Portuguese Government approves the amount of the accumulated balance and the movements during the year on an annual basis. REN is engaged to calculate the amounts to be received or paid by EDP in relation to the hydrological correction account cash payments or receipts made to REN are booked against the hydrological correction account.

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32. Debt and borrowings

This balance is analyzed as follows:

	Group	
	Dec 2005	Dec 2004
	Euro 000	Euro 000
Short term debt and borrowings - Current		
Overdrafts:		
- ONI Group	315,712	533,720
- Other	2,429	8
	318,141	533,728
Bank loans:		
- EDP, S.A.	141,098	336,628
- ONI Group		88,818
- EDP Produção Group	4,718	
- Brazil Group	332,736	211,624
- Hidrocantábrico Group	111,646	54,574
- Other	10,754	26,555
	600,952	718,199
Bonds loans - Non convertible:		
- EDP, S.A.	106,542	9,951
- EDP Finance B.V.	27,882	
- Brazil Group	3,332	2,738
	137,756	12,689
Commercial paper:		
- EDP, S.A.	636,000	470,000
- Hidrocantábrico Group	123,030	105,460
	759,030	575,460
Other short term debt and borrowings:		
- Other	3,173	3,486
	3,173	3,486
Interest payable	164,527	117,218

	1,983,579	1,960,780
Medium/Long term debt and borrowings - Non Current		
Bank loans:		
- EDP, S.A.	530,338	571,436
- EDP Produção Group	23,588	
- Brazil Group	580,882	419,196
- Hidrocantábrico Group	482,982	1,487,195
- EDP Finance B.V.	2,605,000	635,000
- Other	57,439	2,559
	4,280,229	3,115,386
Bonds loans - Non convertible:		
- EDP, S.A.	2,107,003	2,466,299
- EDP Finance B.V.	1,590,836	963,694
- Brazil Group	87,751	75,435
	3,785,590	3,505,428
Commercial paper:		
- EDP, S.A.	100,000	100,000
	100,000	100,000
Other medium/long term debt and borrowings:		
- Investco preference shares		22,439
- Other	25,930	15,295
	25,930	37,734
	8,191,749	6,758,548
Other liabilities:		
- Recognition of liabilities on the sale of OPTEP (Optimus) in 2002	315,000	315,000
- Fair value related with the risk being hedged	93,972	107,557
	408,972	422,557
	8,600,721	7,181,105
	10,584,300	9,141,885

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As referred in note 16 (Concession rights in Brazil), and following the acquisition of Investco s PN-R shares (27.65%) by EDP Lajeado Energia from Electrobrás at the end of December 2005, they have became intra-group assets/liabilities in 2005, so they were eliminated on consolidation.

The balance Other liabilities includes, for the Group and for the Company, the amount of Eur 315 million resulting from the sale of 100% of OPTEP/Optimus in 2002, since there is a "selling price adjustment mechanism of OPTEP/Optimus", which, in accordance with the rules in force, does not allow this operation to be considered as an effective sale and consequently the derecognition of the asset. On this basis, the investment sold in 2002 is registered under assets and the respective liability under liabilities, the price fluctuations being recognized against reserves as an available for sale investment for as long as the referred clause remains in force.

At the EDP, S.A. level, the Group has short-term credit facilities of Eur 197 million, indexed to the Euribor rate for the agreed period of use, with margin conditions agreed in advance, of which Eur 177 million have a firm underwriting commitment. There is also a Eur 350 million commercial paper programme with guaranteed placement. As far as medium-term credit facilities are concerned, Eur 1,300 million is available to EDP, SA, with a firm underwriting commitment, also indexed to Euribor under previously agreed conditions. As at December 31, 2005, these credit facilities have not been used.

In Brazil, in line with local market practice, some of the Group s subsidiaries debt agreements contain financial covenants. At December 31, 2005 the outstanding balance of debt owed to third parties that included debt covenants amounted to Eur 428.8 million. This amount includes a loan to Bandeirante from the IDB (Inter-American Development Bank) amounting to Eur 117.3 million maturing in 2012, under which Bandeirante is required to maintain: (1) a liquidity coverage ratio of no less than 1, as from May 2006; (2) a total debt to EBITDA ratio of less than 3.5 to 1 at the end of each quarter; and (3) a ratio of total debt to total debt plus net equity of less than 0.6 to 1 at the end of each quarter prior to 2007 and less than 0.55 to 1 thereafter; and a loan to Enerpeixe from BNDES (Banco Nacional de Desenvolvimento Económico e Social) in the amount of Eur 255.4 million maturing in 2017, under which Enerpeixe is required to maintain a debt service coverage ratio of at least 1.3 to 1. As of December 31, 2005, the Group subsidiaries were in compliance with the aforementioned covenants.

Bank loans in euros are associated with floating-rate interest indexed to the three or six month Euribor rates. The bank loans in Brazil involve floating-rate interest on the BRL, mostly indexed to the CDI rate.

The breakdown of Bond loans issues as at December 31, 2005 is analyzed as follows:

Issuer		Issue date	Interest rate	Hedge Accounting	Repayment conditions	Group Euro 000
Issued by EDP, S.A.						
EDP, S.A.	22nd Issue	30/May/1996	Euribor 6 months - 0.10%		(i)	6,582
EDP, S.A.	23rd Issue	20/Dec/1996	Euribor 6 months - 0.125%		(ii)	10,332
EDP, S.A.	25th Issue	23/Nov/1998	Euribor 6 months + 0.225%		(iii)	299,279
EDP, S.A.	26th Issue	26/Mar/2003	Euribor 6 months + 0.5%		26/Mar/2013	150,000
						466,193
Issued by EDP under Euro Medium Term Notes Programme						
EDP, S.A.	1st Issue	29/Oct/1999	Fixed rate EUR 6.40%	Fair Value	29/Oct/2009	1,000,000
EDP, S.A.	2nd Issue	28/Mar/2001	Fixed rate EUR 5.875%	Fair Value	28/Mar/2011	747,352
EDP Finance B.V.	4th Issue	26/Nov/2001	Zero Coupon		27/Nov/2009	22,455
EDP Finance B.V.	5th Issue (*)	28/Nov/2001	Fixed rate JPY 0.70%	Fair Value	28/Nov/2006	27,882

EDP Finance B.V.	6th Issue (*)	09/Aug/2002	Fixed rate GBP 6.625%	Fair Value	09/Aug/2017	320,000
EDP Finance B.V.	7th Issue	16/Dec/2002	Fixed rate EUR 5.00%		20/Mar/2008	355,024
EDP Finance B.V.	8th Issue	23/Dec/2002	Fixed rate EUR 2.661%		23/Dec/2022	93,357
EDP Finance B.V.	9th Issue	22/Jun/2005	Fixed rate EUR 3.75%		22/Jun/2015	500,000
EDP Finance B.V.	10th Issue	29/Jun/2005	Fixed rate EUR 4.125%		29/Jun/2020	300,000
						3,366,070
Issued by Escelsa (Brazil) in the International Market						
Escelsa USD 133 Millions (**)		28/Jul/1997	Fixed rate USD 10.0%	Fair Value	15/Jul/2007	45,826
EDP Energias do Brasil		07/Jul/2005	Fixed rate USD 10.0%	Fair Value	15/Jul/2007	16,550
Issued by Investco (Brazil) in the Domestic Market						
Investco	1st Issue	01/Nov/2001	IGPM + 12.80%		01/Nov/2011	19,616
Investco	(FINAM)	14/Nov/2003	TJLP + 4%		14/Nov/2011	9,091
						3,923,346

(i) 4 annual payments beginning on June 2, 2003. It may be repaid early at the request of bondholders.

(ii) 4 annual payments beginning on December 20, 2008. As from December 20, 2006 it may be repaid in part or in full at the request of EDP to all the bondholders.

(iii) 6 semi-annual payments beginning on May 23, 2006.

(*) These issues by EDP Finance BV have associated floating-interest-rate euro currency swaps.

(**) The EDP Group holds 52.52% of the value of this issue in an intra-group portfolio, as a result of the international takeover bid launched in 2002.

In compliance with the debt portfolio management policies of the Group, EDP has swapped bonds issued by EDP Energias de Portugal, S.A. with maturity in 2011 (2nd International Issue) and by EDP Finance BV with maturity in 2008 (8th International Issue) in the amounts of Eur 252.6 and Eur 145 million, respectively. According to this swap, EDP Finance BV has issued new bonds in the amount of Eur 500 million (9th International Issue) with maturity in 2015, corresponding to an increase of Eur 102.4 million in consolidated net debt.

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The breakdown of **Loans,** by maturity, is as follows:

	Group	
	Dec 2005	Dec 2004
	Euro 000	Euro 000
Bank loans and overdrafts:		
Up to 1 year	1,086,793	1,272,631
1 to 5 years	3,857,469	3,122,157
Over 5 years	857,662	553,520
	5,801,924	4,948,308
Bond loans:		
Up to 1 year	137,756	12,689
1 to 5 years	1,668,800	1,916,851
Over 5 years	2,116,790	1,588,577
	3,923,346	3,518,117
Commercial paper:		
Up to 1 year	759,030	575,460
1 to 5 years	100,000	100,000
	859,030	675,460
	10,584,300	9,141,885

The fair value of EDP Group s debt, corresponding to the market value of the debt, is analyzed as follows:

	Dec 2005		Dec 2004	
	Carrying Value Euro 000	Market Value Euro 000	Carrying Value Euro 000	Market Value Euro 000
Short term debt and borrowings - Current	1,983,579	1,983,579	1,960,780	1,960,780
Medium/Long term debt and borrowings - Non current	8,600,721	8,935,348	7,181,105	7,492,570
	10,584,300	10,918,927	9,141,885	9,453,350

According to the accounting policy described in note 2 e), the financial liabilities hedged by financial instruments, are stated at the fair value of the risk being hedged in accordance with the requirements of IAS 39 concerning the adoption of hedge accounting. However, the remaining financial liabilities are stated at their amortized cost or historical cost.

The market value of the medium/long-term loans is calculated based on the discounted cash flows at the rates ruling at the balance sheet date. The book value of the current short-term debt is considered to be the market value.

As at December 31, 2005, the scheduled repayments of Group s debt are as follows:

	Total Euro 000	2006 Euro 000	2007 Euro 000	2008 Euro 000	2009 Euro 000	2010 Euro 000	Following Years Euro 000
Medium/long term debt and borrowings	8,600,721		2,979,825	986,402	1,230,493	558,433	2,845,568
Short term debt and borrowings	1,983,579	1,983,579					
Total	10,584,300	1,983,579	2,979,825	986,402	1,230,493	558,433	2,845,568

The analysis of guarantees is included in note 39.

33. Employee benefits

As at December 31, 2005 and 2004, the number of employees covered by the pension plan is as follows:

	Portugal	
	2005	2004
Number of participants		
Retired employees and pensioners	18,185	18,283
Employees	8,118	8,373
	26,303	26,656

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The **Employee benefits** balance is analyzed as follows:

	Group	
	Dec 2005	Dec 2004
	Euro 000	Euro 000
Provisions for pensions liabilities and benefits:		
- Defined benefit plan	1,024,477	1,194,325
- Other benefits plan	75,127	65,330
	1,099,604	1,259,655
Provisions for healthcare liabilities	743,642	725,575
	1,843,246	1,985,230

As at December 31, 2005 and 2004, the balance of the Provision for pensions liabilities and benefits includes the amount of Eur 50.8 million (2004: Eur 50.8 million) and Eur 24.3 million (2004: Eur 14.5 million), resulting from pension benefits of Hidrocantábrico Group employees reflecting the increase in their salaries and estimated costs with external Human resources services resulting from the Rationalization program, respectively.

The movement in **Provisions for pension liabilities and benefits** is analyzed as follows:

	Group	
	Dec 2005	Dec 2004
	Euro 000	Euro 000
Balance at the beginning of the year	1,259,655	660,789
Changes in the consolidation perimeter		50,842
Charge for the year	68,618	24,553
Pre-retirement	34,855	286,396
Actuarial losses	58,224	390,115
Provision charge-off	-327,049	-152,989
Transfers	5,301	-51
Balance at the end of the year	1,099,604	1,259,655

Actuarial losses, in the amount of Eur 58 million (2004: Eur 390 million), were charged against reserves, according to the accounting policy presented in note 2 n).

The movement in **Provisions for healthcare benefits** is analysed as follows:

	Group Dec 2005	Group Dec 2004
	Euro 000	Euro 000
Balance at the beginning of the year	725,575	680,520
Changes in the consolidation perimeter		-2,789
Charge for the year	45,350	42,990
Actuarial (Gains) / Losses	-23,184	19,274
Provision charge-off	-22,349	-14,168
Transfers	18,250	-252
Balance at the end of the year	743,642	725,575

Actuarial (gains) / losses, include a gain of Eur 23 million (2004: a loss of Eur 19 million), which were charged against reserves, according to the accounting policy presented in note 2 n).

These benefits include pension plans that pay complementary old-age, disability and surviving-relative pension complements, and also early retirement pensions. In some cases medical care is provided during the period of retirement and of early retirement, through mechanisms complementary to those provided by the National Health Service.

The existing plans are presented hereunder, with a brief description of each and of the companies covered by them, as well as of the economic and financial data:

I. Pension Plans - Defined-Benefit Type

In Portugal, the companies of the EDP Group resulting from the split of EDP in 1994 have a social benefits plan financed through a restricted Pension Fund, complemented by a specific provision.

This Pension Fund covers liabilities for retirement pension complements (old-age, disability and surviving pension) as well as liabilities for early retirement.

In Brazil, Bandeirante has two defined-benefit plans managed by the CESP Foundation, a restricted complementary welfare entity with its own assets, segregated from those of the Sponsors (Bandeirante and other Brazilian electricity companies) with no common contributions or funding between these funds:

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BD Plan in force up to March 31, 1998, a Balance Benefit Plan that grants Balanced Proportional Supplementary Benefit (BSPS) in the form of an annuity payable to participants enrolled until March 31, 1998, of an amount defined in proportion to past services accumulated by the reference date, based on compliance with regulatory granting requirements. The company is totally liable to cover any actuarial insufficiencies of this plan.

BD plan in force after March 31, 1998, which grants an annuity in proportion to the accumulated past services after March 31, 1998, on the basis of 70% of the average actual monthly wage for the last 36 months in service. In the event of death or disability caused by labour accident, the benefits incorporate the whole of the past service (including that accumulated up to March 31, 1998), and not only the past service accumulated after March 31, 1998. The Company and the participants equally share liability for the coverage of the actuarial insufficiencies of this plan.

Escelsa and Enersul have a Defined-Benefit Plan that grants a complementary benefit for retirement, disability, and surviving pension. Escelsa also has a special complementary benefit plan for retirement of former combatants.

As at December 31, 2005 and 2004, the Group liabilities for past services associated to these pension plans, are as follows:

		Dec 2005			Dec 2004	
	Portugal Euro 000	Brazil Euro 000	Group Euro 000	Portugal Euro 000	Brazil Euro 000	Group Euro 000
Evolution of Liabilities						
Liabilities at the beginning of the year	2,015,930	107,403	2,123,333	1,412,541	64,750	1,477,291
Current services cost	12,828	380	13,208	8,869	899	9,768
Interest cost	96,455	13,621	110,076	69,553	9,789	79,342
Benefits paid	-145,859	-6,544	-152,403	-142,207	-4,914	-147,121
Curtailments/Settlements	34,855		34,855	271,908		271,908
Actuarial losses and gains	39,101	27,450	66,551	395,266	5,773	401,039
Currency fluctuation		34,841	34,841		906	906
Other fluctuations		1,137	1,137		30,200	30,200
Liabilities at the end of the year	2,053,310	178,288	2,231,598	2,015,930	107,403	2,123,333

As at December 31, 2004, the balance Other fluctuations includes the 2004 initial balance of the actuarial liabilities recognized in 2004 on the Defined-Benefit Plan of Escelsa and Enersul, of Eur 16.8 and Eur 13.4 million, respectively.

In calculating the liabilities inherent in these pension plans within the EDP Group the following financial and actuarial assumptions were used:

		Dec 2005		
			Brazil	
	Portugal	Bandeirante	Escelsa	Enersul
Assumptions				
Expected return of plan assets	6.40%	12.20%	12.45%	12.00%
Discount rate	4.60%	10.75%	10.75%	10.75%
Salaries increase rate	3.50%	7.12%	5.55%	5.55%

Pension increase rate	3.00%	4.50%	4.50%	4.50%
Social Security salaries appreciation rate	2.20%	4.50%	4.50%	4.50%
Inflation rate	2.40%	4.50%	4.50%	4.50%
Mortality table	TV 88/90	GAM-83	GAM-83	GAM-83
Disability table	50% EKV 80	TASA 27	TASA 27	TASA 27
Expected % of subscription by employees eligible for early retirement	(a)	not applicable	not applicable	not applicable

(a) 40% of the eligible population (employees entitled to early retirement in accordance with the Collective Bargaining Agreement: 36 years of service with at least 60 years of age, or 40 years of service and any age).

	Dec 2004			
			Brazil	
	Portugal	Bandeirante	Escelsa	Enersul
Assumptions				
Expected return of plan assets	6.40%	10.76%	12.98%	12.98%
Discount rate	5.00%	10.76%	10.76%	10.76%
Salaries increase rate	3.50%	7.12%	6.08%	6.08%
Pension increase rate	3.00%	4.00%	4.00%	4.00%
Social Security salaries appreciation rate	2.20%	4.00%	4.00%	4.00%
Inflation rate	2.40%	4.00%	4.00%	4.00%
Mortality table	TV 88/90	GAM-83	GAM-83	AT-2000
Disability table	50% EKV 80	Light-Average	Light-Average	Light-Average
Expected % of subscription by employees eligible for early retirement	(a)	not applicable	not applicable	not applicable

(a) 40% of the eligible population (employees entitled to early retirement in accordance with the Collective Bargaining Agreement: 36 years of service with at least 60 years of age, or 40 years of service and any age).

The change in 2005, in the discount rate used to calculate the actuarial present value of the pensions defined benefits in Portugal, led to an increase of pension liabilities for the Group, of Eur 80 million.

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Net actuarial losses in 2005, for the pension plan in Portugal, of Eur 13 million, result from the difference between the actuarial assumptions used to calculate liabilities and the amounts verified and include the following effects:

i) actuarial losses of Eur 39 million, for the pension plan in Portugal, resulting from changes in the discount rate referred to above, softened by the positive difference between the effective salaries and pensions increase rates and the previous actuarial assumptions;

ii) actuarial gains of Eur 26 million, resulting from the difference between the expected return on plan assets and the rate of return actually obtained.

As at December 31, 2005 and 2004, according to the accounting policy described in note 2 n), the amounts recognized in the balance sheet are analyzed as follows:

	Dec 2005			Dec 2004		
	Portugal Euro 000	Brazil Euro 000	Group Euro 000	Portugal Euro 000	Brazil Euro 000	Group Euro 000
Provision for Pension Plans						
Liabilities at the end of the year	2,053,310	178,288	2,231,598	2,015,930	107,403	2,123,333
Fair value of plan assets at the end of the year	-1,070,656	-136,465	-1,207,121	-839,669	-89,339	-929,008
Unfunded liabilities	982,654	41,823	1,024,477	1,176,261	18,064	1,194,325
Value of the provision at the end of the year	982,654	41,823	1,024,477	1,176,261	18,064	1,194,325

The components of consolidated net cost recognized in 2005 and 2004 with these plans are as follows:

	Dec 2005			Dec 2004		
	Portugal Euro 000	Brazil Euro 000	Group Euro 000	Portugal Euro 000	Brazil Euro 000	Group Euro 000
Cost for the year						
Service cost	12,828	380	13,208	8,869	899	9,768
Interest cost	96,455	13,621	110,076	69,553	9,789	79,342
Expected return on plan assets	-51,980	-12,477	-64,457	-42,877	-8,171	-51,048
Plan participants contribution		-1,031	-1,031		-473	-473
Net cost for the year	57,303	494	57,797	35,545	2,044	37,589

The change in the fair value of the plan assets in 2005 and 2004 is analyzed as follows:

	Dec 2005			Dec 2004		
	Portugal	Brazil	Group	Portugal	Brazil	Group

	Euro 000	Euro 000	Euro 000	Euro 000	Euro 000	Euro 000
Pension Funds						
Fair value of plan assets at the beginning of the year	839,669	89,339	929,008	785,147	31,355	816,502
Group contribution	196,135	5,752	201,887	57,930	4,082	62,012
Plan participants contribution		1,031	1,031		462	462
Benefits paid by the Fund during the year	-42,981	-6,544	-49,525	-51,230	-4,914	-56,144
Actual return on plan assets	51,980	12,477	64,457	42,877	8,171	51,048
Actuarial losses and gains	25,853	4,764	30,617	4,945	19,488	24,433
Currency fluctuation		29,646	29,646		495	495
Other					30,200	30,200
Fair value of plan assets at the end of the year	1,070,656	136,465	1,207,121	839,669	89,339	929,008

In 2004, Other fluctuations, in Brazil, includes the initial balance of 2004 from the pension funds.

The assets of the pension fund in Portugal are managed by three independent pension fund management companies. As at December 31, 2005 and 2004 the composition and returns of the fund portfolio are as follows:

	Asset allocation by nature					
	Cash	Bonds	Shares	Properties	Other	Total
	Euro 000	Euro 000	Euro 000	Euro 000	Euro 000	Euro 000
December 31, 2005	24,142	591,489	350,065	229,353	12,072	1,207,121
December 31, 2004	41,805	431,989	236,897	218,317		929,008

	Asset allocation by nature					
	Cash	Bonds	Shares	Properties	Other	Total
	%	%	%	%	%	%
December 31, 2005	2.00%	49.00%	29.00%	19.00%	1.00%	100.00%
December 31, 2004	4.50%	46.50%	25.50%	23.50%	0%	100.00%

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As at December 31, 2005, the amount of expected future benefits to be paid is analyzed as follows:

	Expected future benefits to be paid			
	Pensions	Medical Plan	Other	Total
	Euro 000	Euro 000	Euro 000	Euro 000
2006	167,824	22,361	5,162	195,347
2007	164,184	23,045	5,348	192,577
2008	159,617	23,748	5,716	189,081
2009	155,615	24,355	5,950	185,920
2010	152,259	24,958	6,149	183,366
2011	147,638	25,577	6,462	179,677
2012	143,600	26,220	7,115	176,935
2013	139,081	26,997	7,705	173,783
2014	135,575	27,764	8,390	171,729
2015	131,032	28,669	9,319	169,020
2016	126,724	29,605	9,866	166,195

Contributions to the Pension Fund made by the Group companies are analyzed as follows:

	Dec 2005	Dec 2004
	Euro 000	Euro 000
Shares	153,154	
Cash	48,733	62,012
	201,887	62,012

In 2005, the balance Shares includes the BCP shares representing 2.01% of BCP share capital that were transferred from EDP to the Pension Fund.

As at 31 December 2005, the amount of pensions paid by the Fund amounted to approximately Eur 50 million (2004: Eur 56 million). In 2006, the Group estimates contributions to be paid to the pension Fund of Eur 72 million.

II. Pension Plans - Defined Contribution Type

Hidrocantábrico in Spain and Bandeirante, Escelsa and Enersul in Brazil, have social benefit plans of defined contribution that complement those granted by the Social Welfare System to the companies employees, under which they pay a contribution to these plans each year, calculated in accordance with the rules established in each case.

III. Liability for Medical Care Plans - Defined Benefit Type

In Portugal, Group companies resulting from the split of EDP in 1994 have a Medical Care Plan of the defined-benefit type, supported through a provision that covers the whole of these liabilities.

In Brazil, Escelsa also has a Medical Care Plan for retired employees, supported through a provision that covers the whole of these liabilities.

The evolution of consolidated liabilities for past services related to medical care plans is analyzed as follows:

	Dec 2005			Dec 2004		
	Portugal	Brazil	Group	Portugal	Brazil	Group
	Euro 000	Euro 000	Euro 000	Euro 000	Euro 000	Euro 000
Evolution of Liabilities						
Liabilities at the beginning of the year	721,765	3,810	725,575	660,255		660,255
Current service cost	7,961	182	8,143	7,904	140	8,044
Interest cost	35,375	1,832	37,207	33,646	1,300	34,946
Benefits paid	-22,324	-25	-22,349	-23,397	-724	-24,121
Curtailments/Settlements	1,999		1,999	15,793		15,793
Actuarial losses and accruals	-17,671	-5,513	-23,184	27,564	1,392	28,956
Currency fluctuation		6,742	6,742		3	3
Other		9,510	9,510		1,699	1,699
Liabilities at the end of the year	727,105	16,537	743,642	721,765	3,810	725,575

Actuarial gains / (losses) include a gain of Eur 23 million (2004: Eur 29 million), which was charged against reserves, according to the accounting policy presented in note 2 n).

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	Dec 2005		Dec 2004	
	Portugal	**Brazil**	**Portugal**	**Brazil**
Assumptions				
Discount rate	4.60%	10.75%	5.00%	10.76%
Annual increase rate of medical services costs	4.5%(a)	8.16%	4.5%(a)	8.16%
Mortality table	TV 88/90	GAM-83	TV 88/90	GAM-83
Disability table	50% EKV 80	Light-Average	50% EKV 80	Light-Average
Expected % of adherence by employees eligible for early retirement	b)	not applicable	b)	not applicable

(a) 4.5% during the next 10 years and 4.0% during the remaining years

(b) 40% of the eligible population (employees entitled to early retirement in accordance with the Collective Bargaining Agreement: 36 years of service with at least 60 years of age, or 40 years of service and any age).

As mentioned above, the Medical Care Plan liabilities are recognized in the Group s accounts through a provision, which is presented as follows:

	Dec 2005			Dec 2004		
	Portugal Euro 000	**Brazil Euro 000**	**Group Euro 000**	**Portugal Euro 000**	**Brazil Euro 000**	**Group Euro 000**
Provision for Medical Care Plans						
Liabilities at the end of the year	727,105	16,537	743,642	721,765	3,810	725,575
Value of the provision at the end of the year	727,105	16,537	743,642	721,765	3,810	725,575

The components of net consolidated cost recognized during the year with this plan are as follows:

	Dec 2005			Dec 2004		
	Portugal Euro 000	**Brasil Euro 000**	**Group Euro 000**	**Portugal Euro 000**	**Brasil Euro 000**	**Group Euro 000**
Cost for the year						
Current service cost	7,961	182	8,143	7,904	140	8,044
Interest cost	35,375	1,832	37,207	33,646	1,300	34,946
Net cost for the year	43,336	2,014	45,350	41,550	1,440	42,990

In 2005, EDP Group decided to change the discount rate used to calculate the actuarial present value of the Medical Care defined benefits, leading to an increase in Medical Care liabilities of Eur 43 million.

34. Provisions for liabilities and charges

This balance is analyzed as follows:

	Group	
	Dec 2005	Dec 2004
	Euro 000	Euro 000
Provision for legal, labour and other contingencies	88,004	132,020
Provision for customers guarantees	26,821	35,059
Provision for other liabilities and charges	154,424	126,153
	269,249	293,232

The movement in **Provision for legal, labour and other contingencies** is analyzed as follows:

	Group	
	Dec 2005	Dec 2004
	Euro 000	Euro 000
Balance at the beginning of the year	132,020	36,805
Changes in the consolidation perimeter	-32,447	
Charge for the year	3,214	2,440
Write-back for the year	-788	-222
Charge-off for the year	-15,565	220
Transfers and exchange differences	1,570	92,777
Balance at the end of the year	88,004	132,020

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The movement in **Provision for customers guarantees** is analyzed as follows:

	Group	
	Dec 2005 Euro 000	Dec 2004 Euro 000
Balance at the beginning of the year	35,059	34,233
Changes in the consolidation perimeter	-13,246	
Charge for the year	95,638	8,053
Charge-off for the year	-74,402	-8,924
Transfers and exchange differences	-16,228	1,697
Balance at the end of the year	26,821	35,059

The movement in **Provision for other liabilities and charges** is analyzed as follows:

	Group	
	Dec 2005 Euro 000	Dec 2004 Euro 000
Balance at the beginning of the year	126,153	163,982
Changes in the consolidation perimeter	41,621	21,312
Charge for the year	225,639	83,479
Write-back for the year	-135,608	-7,762
Charge-off for the year	-168,494	-70,459
Transfers and exchange differences	65,113	-64,399
Balance at the end of the year	154,424	126,153

35. Trade and other payables

This balance is analyzed as follows:

	Group	
	Dec 2005 Euro 000	Dec 2004 Euro 000
Short term trade payables - Current		
Suppliers	951,464	819,081
Property and equipment suppliers	306,302	217,617
Other shareholders of Group companies	20,757	33,767
Advances from customers	11,851	5,908

Trade payables - subsidiary companies		
Other trade payables:		
- Employees	12,976	12,575
- Supply of other goods and services	2,489	1,912
- Concession rents	6,108	2,200
- Creditors for collections	21,362	16,721
- Credits related to OMEL	73,466	6,893
- Amounts receivable related to tariffs (Bandeirante)		5,915
- Advance related to share capital increase (Enerpeixe)		8,299
- Amount due regarding Portgás acquisition		84,997
Credits to related companies	33,974	
Energetic efficiency program	15,464	
Holiday pay, bonus and other charges	86,222	87,706
Derivative financial instruments	221,926	262,993
Subsidies for investment in fixed assets	1,760,513	1,587,908
Accrued costs related to trading activity	51,117	16,357
Accrued costs related to energy purchases (PRE)	32,325	22,335
Deferred income EDP Distribuição	177,530	149,681
Other deferred income	274,054	122,276
Other creditors and sundry operations	311,943	105,007
	4,371,843	3,570,148
Medium/long-term trade payables - Non current:		
Regularization account - (Reg. DL 344-B/82)	3,589	6,475
Deposits received from customers and other debtors	43,929	47,284
Credits to related companies	31,913	7,880
Property and equipment suppliers	44,270	50,764
Credits for financial transactions (Bandeirante)		12,409
Refund of Investco preference shares		28,632
Credits for retirement benefits (Escelsa)		9,357
Other credits - associated companies		10,946
Other creditors and sundry operations	14,044	25,227
	137,745	198,974

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36. Income tax payable

This balance is analyzed as follows:

	Group	
	Dec 2005	**Dec 2004**
	Euro 000	**Euro 000**
State and other public entities:		
- Income tax	25,608	84,830
- Withholding tax	7,476	8,052
- Social security contributions	8,421	11,620
- Value added tax	10,744	13,272
- Other taxes	123,491	92,605
	175,740	210,379

The balance Other taxes, for the Group, as at December 31, 2005, includes foreign taxes, namely from Brazil - EDP Brasil Group: Eur 93,701 thousand (2004: Eur 43,487 thousand) and Spain - Hidrocantábrico Group: Eur 26,098 thousand.

37. Assets and liabilities classified as held for sale and discontinued operations

The accounting policy related to assets and liabilities classified as held for sale and discontinued operations is described in note 2 u).

Discontinued operations - Edinfor and Comunitel

Edinfor

In April 2005, EDP Group sold a 60% stake in Edinfor Sistemas Informáticos, S.A. (Edinfor), a company operating in the information technologies sector. According to the early adoption of IFRS 5, with reference to January 1, 2004, the assets and liabilities of Edinfor, recognized using full consolidated method in the previous GAAP until December 31, 2004, are stated in specific captions of assets and liabilities in the consolidated balance sheet.

The transaction value of Eur 81 million was based on the enterprise value of Eur 135 million, including the shares and the loans amounts due to shareholders. This transaction generated a gain, on a consolidated basis, of approximately Eur 15 million.

As at December 31, 2004, Edinfor assets and liabilities included in the EDP Group consolidated financial statements, amounted to Eur 165 million and Eur 69 million, respectively.

	Dec 2004
	Euro 000
	Edinfor
Assets classified as held for sale	

Property, plant and equipment	68,663
Intangible assets	23,207
Investments in associates	565
Other investments	72
Deferred tax assets	15,177
Trade receivables	
Other assets	388
Total Non-Current Assets	108,072
Inventories	11,761
Trade receivables	23,086
Other current assets	15,831
Income tax receivable	3,158
Financial assets held for trading	2
Cash and cash equivalents	3,427
Total Current Assets	57,265
	165,337
Liabilities classified as held for sale	
Medium/Long term debt and borrowings	4,905
Employee benefits	10,202
Provisions for liabilities and charges	1,617
Deferred tax liabilities	-40
Trade and other payables	9,365
Total Non-Current Liabilities	26,049
Short term debt and borrowings	14,324
Trade and other payables	18,327
Income tax payable	10,027
Total Current Liabilities	42,678
	68,727

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Comunitel

In July 2005, EDP Group signed a Sale and Purchase Agreement for the sale of its 99.93% shareholding in Comunitel, held by Oni Group. Comunitel is a subsidiary of Oni Group operating a fixed line business in Spain, specialized in providing voice and data communication services to small and medium size corporate clients.

This transaction is based on an enterprise value of Eur 257 million and a net financial debt of Eur 42 million. The receivable amount of Eur 215 million includes shareholders loans of Eur 100 million. This transaction generated a gain, on a consolidated basis, of Eur 31 million.

38. Derivative financial instruments

In accordance with IAS 39, the Group classifies the derivatives as fair value hedge of an asset or liability recognized and as cash flow hedge of recorded liabilities and forecast transactions considered highly probable.

The changes in fair value of hedging instruments and risks being hedged are analyzed as follows:

			Dec 2005 Fair Value Changes		Dec 2004 Fair Value Changes	
Hedge Type	**Hedging Instrument**	**Hedging Risk**	**Instruments Euro 000**	**Risk Euro 000**	**Instruments Euro 000**	**Risk Euro 000**
- Fair value	Interest rate swap	Interest rate	-53,634	53,634	53,884	-53,884
- Fair value	Currency interest rate swap	Interest and exchange rate	22,731	-22,731	4,677	-4,677
- Cash flow hedge	Interest rate swap	Interest rate	-317		-643	
			-31,220	30,903	57,918	-58,561

During 2005 and 2004, the movements in the balance Fair value reserve related with cash flow hedges, were as follows:

	Group Dec 2005 Euro 000	Group Dec 2004 Euro 000
Balance at the beginning of the year	-643	
Fair value changes	-16,932	1,431
Transfers to results	866	-2,074
Balance at the end of the year	-16,709	-643

The balance Fair value reserve (cash flow hedge) includes, in fair value changes, an amount of Eur 16,615 thousand related to the hedges of forecasted transactions. This amount is amortized over the same period during which the referred cash flows will affect the income statement.

The valuation of derivatives is recorded in the balance Other current assets or in Trade and other payables in accordance with its nature.

The gains and losses on the derivatives portfolio recorded in the income statement of 2005 and 2004, are analyzed as follows:

	Group Dec 2005 Euro 000	Group Dec 2004 Euro 000
Derivatives held for trading	-153,493	-42,788
Fair value hedge		
- Derivatives	-30,903	58,561
- Hedged liabilities	30,903	-58,561
Cash flow hedge		
- Derivatives	-866	2,074
	-154,359	-40,714

The maturity of derivatives associated to financing operations is analyzed as follows:

	Group Dec 2005				
	Up to 3 months Euro 000	3 months to 1 year Euro 000	1 year to 5 years Euro 000	More than 5 years Euro 000	Total Euro 000
Interest rate contracts:					
Interest rate swaps		400,000	1,859,344	807,640	3,066,984
Options purchased and sold		235,000	1,007,832	37,194	1,280,026
		635,000	2,867,176	844,834	4,347,010
Interest rate and exchange rate contracts:					
CIRS (currency interest rate swaps)		35,410	60,634	336,922	432,966
		670,410	2,927,810	1,181,756	4,779,976

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The effective interest rates on the derivatives portfolio associated to financing operations are analyzed as follows:

	Currency	Group Dec 2005 EDP Pays	EDP Receives
Interest rate contracts:			
Interest rate swaps	EUR	[5.15% - 2.26%]	[6.40% 2.10%]
Interest rate and exchange rate contracts:			
CIRS (currency interest rate swaps)	EUR / JPY	2.72%	0.70%
CIRS (currency interest rate swaps)	EUR / GBP	3.54%	6.63%
CIRS (currency interest rate swaps)	USD/BRL	[21.96% - 20.49%]	[8.90% - 3.80%]

	Nominal value Euro 000	Group Dec 2005
Interest rate contracts:		
Options purchased on interest rates (CAP purchases)	1,280,026	[5.25% - 3.50%]
Options sold on interest rates (CAP sale)	750,000	[5.30% - 4.75%]
Options sold on interest rates (Floor sale)	1,280,026	[3.60% - 1.99%]

39. Commitments

As at December 31, 2005, the financial commitments in respect of guarantees provided are analyzed as follows:

Commitments	Group Dec 2005 Euro 000	Dec 2004 Euro 000
Guarantees of a financial nature		
Guarantees provided by Group entities - Portugal		
To domestic banks	61,782	67,527
To foreign banks	194,146	187,664
To other foreign entities	70,945	71,823
Guarantees provided by Group entities - Spain		
To other foreign entities		79,255
Guarantees provided by Group entities - Brazil		
To foreign banks	46,383	30,238
To other foreign entities	30,603	22,685
	403,859	459,192
Guarantees of an operational nature		
Guarantees provided by Group entities - Portugal		
To other domestic entities	68,467	57,568
To foreign banks	20,044	15,216

To other foreign entities	73,247	43,000
Guarantees provided by Group entities - Spain		
To other domestic entities	4,500	
To other foreign entities	317,736	
Guarantees provided by Group entities - Brazil		
To other foreign entities	41,511	
	525,505	115,784
	929,364	574,976
Real guarantees		
Mortgages	74,293	

The part of guarantees with an operational nature presented by financial institutions, are as follows:

	Group	
	Dec 2005	**Dec 2004**
	Euro 000	**Euro 000**
Domestic banks	59,839	12,827
Foreign banks	381,584	35,000
	441,423	47,827

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At the end of 2005 EDP reported financial commitments not shown in the balance sheet amounting to Eur 929.4 million, of this Eur 403.9 million are guarantees related to financial debt whilst the remainder relate to guarantees of an operational nature. Guarantees for financial debt consist of first demand guarantees, mainly parent guarantees to third parties related to group subsidiaries.

The total amount of guarantees of a financial nature issued by EDP S.A. stood at Eur 326.9 million. We have issued first demand guarantees in respect of the financing required to build the hydropower plant projects of Lajeado in the amount of Eur 129.8 million maturing in 2012 and of Enerpeixe in the amount of Eur 104.9 million maturing in 2014. EDP has also issued guarantees in favour of commercial banks in respect of debt raised by other subsidiaries in the amount of Eur 48 million and debt raised by an associate company in the amount of Eur 44 million maturing between 2006 and 2009.

EDP and its subsidiaries in Portugal and Spain are also required to provide bank guarantees or corporate guarantees of an operational nature in the normal course of Group s electricity generation and distribution businesses in order to comply with legal and regulatory requirements of the markets in which the Group operates. The principal type of guarantees corresponds to guarantees in favour of OMEL (the Spanish market operator) to enable EDP and its Group subsidiaries to trade in the Spanish Pool, and at the end of 2005 totaled Eur 156 million, and is annually renewable.

In Brazil, the Group subsidiaries had outstanding guarantees of Eur 118.5 million, of which Eur 77 million are of a financial nature, maturing between 2006 and 2024, and Eur 41.5 million are of an operational nature. Guarantees of an operational nature are issued by subsidiaries in the context of their activities of distribution of electricity. Guarantees of a financial nature consist mainly of the assignment of revenues as collateral in financial debt contracts with various financial institutions.

40. Employee Stock Option

EDP Group began a stock option programme under the terms approved by the General Meeting, applicable to senior management and directors, in order to stimulate value creation.

EDP Group has two stock option plans. Under the 1999 option plan for Members of the Board of Directors, the company may grant options for up to 2,450,000 shares of common stock. Under the option plan for the Members of the Boards of Directors of the Group s subsidiaries and Management, the company may grant options up to 16,250,000 shares of common stock.

Under both plans, the exercise price of each option equals the market price of the company s stock at the date of grant. Options maximum term is five years.

Options are granted to the Board of Directors of EDP Group and vested over a two year service period.

Changes in the stock options plans are analyzed as follows:

	Option activity	**Weighted average exercise price**
Balance as at December 31, 2004	612,725	2.44
Options forfeited	-262,391	
Options granted	1,692,810	
Balance as at December 31, 2005	2,043,144	2.27

The stock options information related to 2005, is analyzed as follows:

Options outstanding	Weighted average exercise price	Weighted average remaining contractual life	Options exercisable	Options fair value Eur 000
2,043,144	2.27	6.52	603,830	956

41. Fair values of financial assets and liabilities

	2005			2004		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Financial assets						
Available for sale investments	566,446	566,446		1,169,098	1,169,098	
Trade receivables	1,585,497	1,585,497		1,256,984	1,256,984	
Derivative financial instruments	226,819	226,819		363,709	363,709	
Financial assets held for trading	275,618	275,618		56,249	56,249	
Cash and cash equivalents	585,499	585,499		230,700	230,700	
	3,239,879	3,239,879		3,076,740	3,076,740	
Financial liabilities						
Debt	10,584,300	10,918,927	334,627	9,141,885	9,453,350	311,465
Suppliers	1,257,766	1,257,766		1,036,698	1,036,698	
Derivative financial instruments	221,926	221,926		262,993	262,993	
	12,063,992	12,398,619	334,627	10,441,576	10,753,041	311,465

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42. Gains or losses on the sale of discontinued operations

In accordance with IFRS 5, at the transition date January 1, 2004, the assets and liabilities of Edinfor, recognized using the full consolidated method in the previous GAAP until December 31, 2004, are stated in specific captions of assets and liabilities in the consolidated balance sheet.

In April 2005, EDP Group sold a 60% stake in Edinfor Sistemas Informáticos, S.A. (Edinfor), a company operating in the information technologies sector. The above mentioned transaction in the amount of Eur 81 million was based on the enterprise value in the amount of Eur 135 million, including the shares and the loans amounts due to shareholders. This transaction generated a gain, on a consolidated basis, of approximately Eur 15 millions.

In September, 2005, EDP Group sold Comunitel, as well as its subsidiaries (Germinus XXI, Intercom e Ola Internet). These subsidiaries operate in the telecommunication sector in Spain. The sale of 99,93% of Comunitel was based on an enterprise value of Eur 257 million and a net financial debt of Eur 42 million. The receivable amount of Eur 215 million includes shareholders loans of Eur 100 million. This transaction generated a gain, on a consolidated basis, of Eur 31 millions.

The breakdown of these operations is detailed in note 37 - Assets and liabilities classified as held for sale and discontinued operations.

43. Transition and implementation of International Financial Reporting Standards

In accordance with Regulation (EC) no. 1606/2002 of July 19, 2002 from the European Council and Parliament, and its adoption into Portuguese Law through Decree-Law no. 35/2005, of February 17, EDP Group (the Group) is required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) from 2005. Therefore, from January 1, 2005 the consolidated financial statements of EDP Group are prepared in accordance with IFRS as adopted for use in the EU.

IFRS comprise accounting standards issued by the International Accounting Standards Board (IASB) and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and its predecessor body.

The accounting policies described in note 2 were used in the preparation of the financial statements as at and for the year ended December 31, 2005, the financial information for the year ended December 31, 2004, as well as the preparation of the opening consolidated balance sheet in accordance with IFRS as at January 1, 2004 (the transition date).

In the preparation of the opening consolidated balance sheet in accordance with IFRS and for the comparative financial information for the year ended December 31, 2004, the Group has restated amounts previously reported in accordance with generally accepted accounting principles in Portugal.

An explanation of how the transition to IFRS affected the Group s reported financial position as at January 1, and December 31, 2004, the reconciliation of the equity and the effect on the profit for the year ended December 31, 2004, is presented below:

	December 31, 2004		January 1, 2004
	Equity	Net profit	Equity
In accordance with Portuguese GAAP			
Equity	6,401,714	440,152	5,298,007
Transition adjustments			

Property, plant, equipment and Intangible assets	(a)	-1,021,905	53,963	-1,075,940
Pensions and other retirement benefits	(b)	-1,177,702	33,970	-793,469
Bonus to employees	(c)	-24,626	-24,626	-20,722
Goodwill amortization	(d)	51,567	51,567	
Hedge accounting	(e)	-107,944	13,632	-121,576
Adjustments related with the regulated activity	(f)	-563,519	-262,057	-299,304
Equity investment in REN	(g)	-114,074	-37,243	-76,831
Minority interests	(h)	58,831	-48,493	-86,201
Concession subsidies	(i)	30,222	3,330	26,899
Deferred taxes	(j)	514,063	139,275	371,885
Hydrological correction account	(k)		-315,590	315,590
Other		-8,769	-5,065	3,658
IFRS Adjustments		-2,363,856	-397,337	-1,756,011
In accordance with IFRS		4,037,858	42,815	3,541,996

a) Property, plant, equipment and Intangible assets

Under IFRS 1, the Group has decided to use as the deemed cost, at the date of transition (January 1, 2004), the previous GAAP carrying amount, including the revalued amount of Property, plant and equipment as determined in accordance with the Group s previous accounting policies, which were broadly similar to depreciated cost measured under IFRS adjusted to reflect changes in a specific price index.

However, the Group considered that overheads and exchange differences capitalized under Property, plant and equipment and Intangible assets do not meet the recognition criteria under IFRS and therefore such assets are adjusted against equity, at the transition date.

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Under Portuguese GAAP, general and administrative overhead costs associated with assets under construction are capitalized and amortized on a straight line basis over the useful life of the assets. Under IFRS, these overheads are expensed in the period in which they are incurred.

Under Portuguese GAAP, prior to 1995, the Group capitalized gains and losses related to net foreign exchange differences resulting from loans contracted to fund capital expenditures, denominated in foreign currencies. Under IFRS, foreign exchange differences are considered as expenses in the period they are incurred.

Under Portuguese GAAP, set-up costs, research and development expenses and other deferred costs are capitalized and amortized over their useful life. Under IFRS, such costs are expenses in the period they are incurred, except if it is probable that the expected future economic benefits will flow to the entity and if those benefits can be reliably measured. Additionally, subsidies received with respect to research and development costs, which were deferred under Portuguese GAAP, are recognized as income under IFRS, as the related research and development costs are expensed.

As at January 1, and December 31, 2004 the impact under equity of the IFRS adjustments to Property, plant, equipment and intangible assets caption is analyzed as follows:

	December 31, 2004 Shareholders equity	January 1, 2004 Shareholders equity
Capitalized overhead costs	-693,969	-702,033
Foreign exchange differences	-249,411	-272,289
Intangible assets and other deferred costs	-78,525	-101,618
	-1,021,905	-1,075,940

b) Pensions and other retirement benefits

Some EDP Group companies attribute post-retirement plans to their employees under defined benefit plans and defined contribution plans, namely, pension plans that pay complementary old-age, disability and surviving-relative pension complements, and also early retirement pensions. In some cases EDP companies also provide medical care during the period of retirement and of early retirement, through complementary benefits to those provided by the Social Welfare System. Measurement and recognition of the liability with healthcare benefits is similar to the measurement and recognition of the pension liability for the defined benefit plans.

Under Portuguese GAAP, unrecognized actuarial gains and losses were amortized under the corridor method. The corridor method determines that the net cumulative actuarial gains and losses at the end of the previous reporting period which amount to up to 10 percent of the greater of the projected benefit obligation and the value of plan assets are not recognized or amortized as part of the net pension cost for the year. The amount of the unrecognized actuarial net gains or losses that exceeds the referred 10 percent shall be amortized over the average remaining service period of the employees.

In accordance with IFRS 1, the Group decided to recognise at the date of transition, January 1, 2004, the unrecognized value of the actuarial losses against reserves.

c) Bonus to employees

In accordance with the by-laws of certain subsidiaries, shareholders are required to approve at the annual general meetings a percentage of profits to be paid to management and employees. These amounts payable to the managers and employees are considered to be a distribution of profits on the same basis as dividends payable to the shareholders because they are considered as a reallocation of entitlements from shareholders to managers and employees.

Under Portuguese GAAP, this attribution of bonus is charged to retained earnings in the year that it is paid and is deductible for tax purposes from the profits of the year to which it relates. Under IFRS, bonuses distributed as a result of rendered services are recognized as an expense in the period to which they relate. Consequently under IFRS at the transition date, the 2003 Bonus to employees was recognized against reserves. From January 1, 2004, bonus to employees is accrued as an expense in the base to which it relates.

d) Goodwill amortization

Under Portuguese GAAP, goodwill arising from the acquisition of shareholdings in subsidiaries and associates, resulting from the difference between the cost of acquisition and the proportional fair value of net assets acquired, is amortized over the estimated useful life not exceeding 20 years.

IFRS requires that goodwill, including previously existing goodwill, is not amortized but is tested for impairment annually. Therefore, goodwill amortizations recorded during 2004 under Portuguese GAAP were reversed under IFRS. The Group reviews the recoverable amount of the goodwill recognized as an asset. During 2004 impairment losses related to the information and technology business were identified and recognized in the income statement.

e) Hedge accounting

As at January 1, 2003, the EDP Board of Directors decided an earlier adoption of IAS 39, supplementarily to the Portuguese Plan of Accounts. At that date, the requirements of IAS 39, regarding the interest rate risk and the exchange rate risk hedging, were not fully complied with. Therefore and even considering that, in terms of risk management the operations were contracted for hedge purposes, the hedge accounting criteria was not applied.

Considering that EDP Group qualifies as a first time adopter under IFRS 1 on the basis that the Group is presenting a full set of consolidated financial statements according to IFRS beginning January 1, 2005 for the first time, the IFRS 1 transition rules related to IAS 39 are applicable to the Group.

Considering the documentation prepared to demonstrate the hedging purposes of the transactions and that the operations were contracted by the management to hedge the interest rate and exchange rate risks, under the transition rules defined by IFRS 1, the referred operations were considered as hedging at the transition date.

The EDP Group has adopted, in accordance with IAS 39, the fair value hedge and cash flow hedge models. Therefore, the changes in fair value of the liabilities hedged, under the cash flow hedge model, were recognized against reserves as a transition adjustment, in accordance with IFRS 1.

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f) Adjustments related with the regulated activity
Tariff adjustments and regulatory assets and liabilities

In activities subject to regulation, the recognition of profits and losses to accounting periods may differ from non-regulated activities. For accounting purposes, when the regulator establishes a criteria of allocating income or expense to future years, a regulatory asset or liability is booked in the financial statements, which otherwise would be recognized as profit or loss of the year.

In accordance with the IFRS conceptual framework, regulatory assets and liabilities are not recognized and on that basis, at the transition date, these assets and liabilities were reversed against reserves.

Other regulatory assets related to deferred costs, defined and regulated by the Regulator, being recoverable through tariff adjustments charged to customers in future years, have been also charged against reserves under IFRS at transition. Future tariff adjustments will be recorded as income in the year in which they are charged to customers.

Regulatory assets on restructuring costs - PAR

During 2003 and 2004, the Group set up a restructuring plan that consisted of a reduction of employees, most of them through early retirements or indemnities schemes. These costs were accepted by the Regulator (ERSE) as a deferred cost (regulatory asset) amortisable over a period of 20 years, beginning in 2005.

For IFRS purposes, the regulatory assets on restructuring costs are not recognized, therefore, the restructuring costs were charged to income in the year in which the restructuring took place.

g) Equity investment in REN
The equity investment in REN is affected by certain accounting differences between IFRS and Portuguese GAAP. The main differences are related with overheads capitalized, deferred costs, distribution to management and employees, tariff adjustments and deferred income taxes.

h) Minority interest
Under Portuguese GAAP, in prior years, the accumulated losses attributable to minority interest that exceeded the equity capital attributable to minority interest in the subsidiaries were recorded in the balance sheet as negative minority interest. In the income statement, the losses attributable to minority interest were charged to the minority interest in the proportion of their shareholding.

Beginning on January 1, 2004, under Portuguese GAAP, the EDP Group adopted a new accounting policy by which the accumulated losses attributable to minority interest which exceed the equity capital attributable to minority interest in subsidiaries resulting in negative minority interest are debited against equity of the EDP Group. In the income statement, losses continued to be attributed to minority interest in the proportion of their shareholding.

Under IFRS, accumulated losses of a subsidiary attributable to minority interest, which exceed the equity of the subsidiary attributable to the minority interest, are attributed to the Group and taken to the income statement when incurred, as there is no binding obligation of minority interest to cover such losses. If the subsidiary subsequently reports profits, such profits are recognized by the Group until the losses attributable to the minority interest previously recognized have been recovered.

i) Concession subsidies

The amount classified as deferred income related to subsidies on assets under concession in Brazil was not amortized. Under IFRS, considering that the assets under concession are amortized on a straight-line basis over the concession period, the amortization of the deferred income was recorded using the same period as the assets amortization.

j) Deferred taxes

In accordance with the accounting policy of EDP Group, the income tax charge is determined considering the taxable income in accordance with the applicable legal framework and the tax rate approved or substantially approved in each jurisdiction. Deferred taxes are determined according to the liability method based on the balance sheet, considering temporary differences between the accounting and fiscal amounts of assets and liabilities, by the use of the tax rate approved or substantially approved as at the balance sheet date in each jurisdiction, and that are expected to be applicable when the above mentioned differences are reversed.

Therefore, the deferred tax adjustments performed under IFRS are related to the impact of the adjustments mentioned above, whenever in accordance with IAS 12, there are temporary differences between accounting principles and tax regulations that result in deferred taxes asset or liability.

k) Hydrological correction account

The hydrological correction account was established by Decree law no. 338/91 and constitutes a legally mandated mechanism for compensating the variable costs of electricity generation. This accrual was set up mainly in 1994 through a charge against income during the period that EDP was owned by the Portuguese state. Despite the separation of REN from EDP in 2000, further regulation (through Decree law no. 98/2000) maintained the requirement to keep this account in the balance sheet of EDP.

The main objective of the hydrological correction account is to avoid imbalances in the electricity sector due to changes in variable costs incurred as a result of hydrological conditions. Accordingly, since the tariffs cannot be modified immediately to reflect the changes in variable costs incurred as a result of hydrological conditions, this account is used to compensate the volatility in variable operating costs of power generators in the SEP for unfavourable hydrological conditions, such as when thermal generation increases and, consequently, expenditures on fuel and electricity imports increase substantially. In years with abundant rainfall, the opposite occurs. In this context, and with a view to avoiding major distortions in operating results due to favourable or unfavourable hydrological conditions, the hydrological correction account is adjusted upwards or downwards based upon average hydrological conditions.

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As mentioned above until 2000 REN was part of the EDP Group and therefore the movements of the hydrological correction account were within the EDP Group. Since the separation of REN in June 2000, EDP (at the holding company level) pays or receives cash from REN, which is booked against the hydrological correction account. REN uses the amount received or paid to compensate the operators in the SEP (a significant majority of which are EDP subsidiaries) in accordance with the objectives of the hydrological correction account as described above. As such, REN is effectively a flow-through entity for purposes of the hydrological correction account.

Cash payments or receipts made to REN are booked against the hydrological correction account, which is recorded as a liability in the EDP Group financial statements.

Under IFRS, at the transition date, January 1, 2004, and considering that the liability should be associated with an asset at the consolidation level, a value for accrued income was set up as an asset with an increase in shareholders equity due to the existence of future economic benefits.

During 2004, Decree Law no. 240/2004 was issued, with the purpose of regulating the early termination of the PPAs, a step towards the liberalization of the energy market within the Iberian Peninsula (MIBEL). This Decree Law states that with the introduction of the free trading market, which is currently expected to occur within the next twelve months, the Government will be required to introduce a new regulation regarding the purpose and scope of the hydrological correction account as well as the mechanisms to compensate producers for their increased risks resulting from the early termination of PPAs.

As a result of the introduction of this regulation mandated by the above-mentioned Decree Law, and in light of the above-mentioned government announcement, EDP s Board of Directors considers that it is probable that the hydrological correction mechanism will be terminated. At such date the liability recorded for the hydrological correction account, including the balance relating to pre-1994 activity, will be payable to a third party to be nominated by the Regulator. Moreover, since this regulation can only be introduced simultaneously with the effective liberalization of the energy market in the Iberian Peninsula, the Board of Directors considers that the accrued income accounted as an asset will cease to have any future economic benefits. Therefore, at the end of 2004, the Group recorded an impairment loss against the asset recorded in its IFRS accounts at the transition date in the amount of Eur 315 million. Payments to the third party to be nominated by the Regulator will be recorded against the liability actually booked in the Group financial statements.

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44. Reconciliation of Balance Sheet and Profit and Loss Account according to Portuguese GAAP and to IFRS as at December 31, 2004 Balance sheet

	Group Dec 2004		
	PT GAAP	Transition Adjustments	IFRS
	(Thousands of Euros)		
Assets			
Property, plant and equipment	13,559,325	-1,002,224	12,557,101
Intangible assets and Goodwill	2,958,487	5,817	2,964,304
Investments in associates	431,415	-114,640	316,775
Available for sale investments	1,183,878	-14,780	1,169,098
Deferred tax assets	589,094	263,087	852,181
Trade receivables	95,140		95,140
Other assets	850,283	-696,590	153,693
Total Non-Current Assets	19,667,622	-1,559,330	18,108,292
Inventories	168,567	-11,761	156,806
Trade receivables	1,202,250	-40,406	1,161,844
Other current assets	460,411	378,483	838,894
Income tax receivable	171,428	11,426	182,854
Accrued income and deferred costs	641,038	-641,038	
Financial assets held for trading	81,922	-25,673	56,249
Cash and cash equivalents	196,083	34,617	230,700
Assets classified as held for sale		165,337	165,337
Total Current Assets	2,921,699	-129,015	2,792,684
	22,589,321	-1,688,345	20,900,976
Equity			
Share capital	3,656,538		3,656,538
Treasury stock	-31,662		-31,662
Share premium	472,955		472,955
Reserves and retained earnings	2,303,883	-2,363,856	-59,973
Minority interests	801,018	-57,081	743,937
Total Equity	7,202,732	-2,420,937	4,781,795
Liabilities			
Medium / Long term debt and borrowings	6,741,014	440,091	7,181,105
Employee benefits	959,907	1,025,323	1,985,230
Provisions for liabilities and charges	297,790	-4,558	293,232
Hydrological correction account	364,197		364,197
Deferred tax liabilities	545,901	-259,492	286,409

Trade and other payables	588,130	-389,156	198,974
Total Non-Current Liabilities	9,496,939	812,208	10,309,147
Short term debt and borrowings	1,857,830	102,950	1,960,780
Trade and other payables	1,379,048	2,191,100	3,570,148
Income tax payable	220,406	-10,027	210,379
Accrued costs and deferred income	2,432,366	-2,432,366	
Liabilities classified as held for sale		68,727	68,727
Total Current Liabilities	5,889,650	-79,616	5,810,034
Total Liabilities	15,386,589	732,592	16,119,181
	22,589,321	-1,688,345	20,900,976

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Income Statement

	Group Dec 2004		
	PT GAAP	Transition Adjustments	IFRS
		(Thousands of Euros)	
Revenue	6,699,294	89,109	6,788,403
Cost of consumed electricity and of raw material and consumables used	-4,017,270	73,764	-3,943,506
Gross profit	2,682,024	162,873	2,844,897
Other income			
Services rendered	522,396	-111	522,285
Own work capitalized	258,774	-258,774	
Other income	17,731	58,990	76,721
	798,901	-199,895	599,006
	3,480,925	-37,022	3,443,903
Other expenses			
Supplies and services	-649,504	-11,390	-660,894
Personnel costs	-496,492	-31,203	-527,695
Employee benefits expense	-146,127	-293,956	-440,083
Other expenses	-220,761	-463,601	-684,362
	-1,512,884	-800,150	-2,313,034
	1,968,041	-837,172	1,130,869
Provisions	-114,078	49,789	-64,289
Net depreciation and amortization expense	-795,517	46,177	-749,340
	1,058,446	-741,206	317,240
Financial income / (expenses)	-239,727	-15,051	-254,778
Amortization of goodwill and concession rights	-95,525	95,525	
Current profit	723,194	-660,732	62,462
Extraordinary gains / (losses)	-164,732	164,732	
Profit before tax	558,462	-496,000	62,462
Income tax expense	-159,617	143,246	-16,371

Profit after tax but before gain on discontinued operation	398,845	-352,754	46,091
Profit for the year	398,845	-352,754	46,091
Attributable to:			
Equity holders of EDP	440,152	-397,337	42,815
Minority interests	-41,307	44,583	3,276
Profit for the year	398,845	-352,754	46,091

45. Relevant and subsequent events

Banco Espírito Santo Ownership in EDP s Share Capital

On the January 5, 2006, Banco Espírito Santo (BES) acquired, on the Euronext Lisbon, 67,204,883 ordinary shares of EDP or 1.84% of the company s share capital.

Following this transaction, BES now holds, direct and indirectly, 79,524,691 EDP shares, which represents 2.17% of the company s share capital. Taking into account that EDP currently holds 14,265,089 own shares, the BES holding represents 2.18% of the total voting rights.

In accordance with article 20 of the Portuguese Securities Code, BES s voting rights are attributable as follows:

Shareholder	Shares Owned	Voting Rights
BES, S.A.	76,426,469	2.10%
ESAF E.S. FIM	1,790,770	0.05%
ESAF E.S.G	301,945	0.01%
ESAF E.S.	1,005,507	0.03%
Total	**79,524,691**	**2.18%**

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BRISA sold Its 2.0020% Ownership in EDP s Share Capital

On February 2, 2006, Brisa sold to BALTIC SGPS, S.A., a company 100% indirectly held by José de Mello SGPS, S.A., 73,202,802 EDP shares, which represents 2.0020% of EDP s share capital.

After this transaction, BRISA no longer holds any participation in EDP s share capital.

EDP Lajeado reaches an agreement with Eletrobrás regarding the redeemable preferred shares issued by Investco

INVESTCO, S.A. (Investco) the company that holds the concession for the hydro power plant Luiz Eduardo Magalhães (Lajeado power plant) with an installed capacity of 902.5 MW located in the Brazilian state of Tocantins and its shareholders EDP Lajeado Energia, S.A. (EDP Lajeado), Rede Lajeado Energia, S.A., CEB Lajeado, S.A. and Paulista Lajeado, S.A., reached an agreement with Centrais Eléctricas Brasileiras, S.A. Eletrobrás (Eletrobrás), for the acquisition of Investco s redeemable shares (PN-R Shares) currently held by Eletrobrás.

The above-mentioned PN-R Shares, which represented 37.52% of Investco s total capital, were redeemable in five annual installments, the last one maturing on December 31, 2007. The value of these shares was annually adjusted by IGP-M (inflation) plus a 12% spread. As of November 30, 2005, the value of these shares totaled R$1,067.3 million.

EDP Lajeado, in which Energias do Brasil holds a 99.99% stake, is responsible for 27.65% of the total PN-R Shares redeemable by Eletrobrás, which value amounted to R$295.1 million as of November 30, 2005.

With the conclusion of the present agreement, EDP Lajeado acquired from Electrobrás 27.65% of the PN-R Shares in the following conditions:

i) credits attributed to Eletrobrás of R$110.5 million to be used in the subscription of 83,234,057 new preferred shares without voting or redemption rights, corresponding to 40.07% of EDP Lajeado total capital, and;

ii) credits attributed to Eletrobrás of R$184.6 million to be used in the acquisition of securities representative of Partes Beneficiárias (1) of EDP Lajeado. These securities give the right to receive a dividend equal to 10% of net income and are convertible into preferred shares, with no voting right, at the end of the concession of Lajeado power plant (2032). The conversion of the Partes Beneficiárias into preferred shares will correspond, by the time of the conversion, to 5.084% of total EDP Lajeado s outstanding shares.

46. Recently issued pronouncements

The new standards and interpretations that have been issued, but that are not yet effective and that the Group has not yet applied, can be analyzed below.

The Group is evaluating the impact of adopting these recently issued pronouncements and has not yet completed the analysis.

IFRIC 5 - Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

The International Financial Reporting Interpretations Committee (IFRIC) has issued on December 16, 2004 an Interpretation IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds, which is effective for annual periods beginning on or after January 1, 2006.

IFRIC 5 applies to accounting in the financial statements of a contributor for interests arising from decommissioning funds, in particularly costs of decommissioning plant (such as nuclear plant) or equipment (such as cars) or in undertaking environmental restoration or rehabilitation (such as rectifying pollution of water or restoring mined land).

IFRIC 8 Scope of IFRS 2

The International Financial Reporting Interpretations Committee (IFRIC) has issued on January 12, 2006 an Interpretation IFRIC 8 Scope of IFRS 2, which is effective for annual periods beginning on or after May 1, 2006.

The Interpretation clarifies that the accounting standard IFRS 2 Share based Payment applies to arrangements where an entity makes share-based payments for apparently nil or inadequate consideration.

IFRIC 8 explains that, if the identifiable consideration given appears to be less than the fair value of the equity instruments granted or liability incurred, this situation typically indicates that other consideration has been or will be received. IFRS 2 therefore applies.

The Amendment has not yet been endorsed by the European Commission (EC).

IFRIC 4 - Determining whether an Arrangement contains a Lease

The International Financial Reporting Interpretations Committee (IFRIC) has released on December 2, 2004 an Interpretation IFRIC 4 Determining whether an Arrangement contains a Lease, which is effective for annual periods beginning on or after January 1, 2006.

IFRIC 4 establishes criteria to determine whether an arrangement is, or contains, a lease (eg some take-or-pay contracts). IFRIC 4 gives guidance for determining whether arrangements that do not take the legal form of a lease should, nonetheless, be accounted for in accordance with IAS 17 Leases the company is in the process of evaluating the impact of this pronouncements, however it is expected that application of this interpretation is likely to have a significant impact on the consolidated financial position of the Group.

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Amendment to the hedge accounting provisions of IAS 39 Financial Instruments: Recognition and Measurement

The International Accounting Standards Board (IASB) issued on April 14, 2005 an amendment to the hedge accounting provisions of IAS 39 Financial Instruments: Recognition and Measurement.

The IASB developed this amendment after constituents raised concerns that it was common risk management practice for entities to designate the foreign currency risk of a forecast intragroup transaction as the hedged item and that IAS 39 (as revised in 2003) did not permit hedge accounting for this. Furthermore, IAS 39 (as revised in 2003) created a difference from US accounting requirements on this point.

Following publication of an Exposure Draft and extensive consultation with constituents, the IASB has decided to allow the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in consolidated financial statements. This is consistent with the provisions of the international accounting standard on foreign currency, IAS 21 The Effects of Changes in Foreign Exchange Rates.

Amendment to the fair value option in IAS 39 Financial Instruments: Recognition and Measurement

The International Accounting Standards Board (IASB) issued on June 16, 2005 an amendment to IAS 39 Financial Instruments: Recognition and Measurement. The fair value option amendment is effective for annual periods beginning on or after January 1, 2006, with earlier application encouraged.

The IASB developed this amendment after commentators, particularly supervisors of banks, securities companies and insurers, raised concerns that the fair value option contained in the 2003 revisions of IAS 39 (as revised in 2003) might be used inappropriately. The option allowed entities to designate irrevocably on initial recognition any financial instruments as ones to be measured at fair value with gains and losses recognised in profit or loss. The purpose of the option was to simplify the application of the standard.

Following publication of an exposure draft on the April 21, 2004 and extensive consultation with interested parties, the IASB has decided to revise the fair value option by limiting its use to those financial instruments that meet certain conditions.

IFRS 7 - Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements

The International Accounting Standards Board (IASB) issued on August 18, 2005 International Financial Reporting Standard (IFRS) 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements.

IFRS 7 introduces new requirements to improve the information on financial instruments that is given in entities financial statements. It replaces IAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions and some of the requirements in IAS 32 Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces requirements for disclosures about an entity s capital.

Amendment to International Accounting Standard (IAS) 21 - The Effects of Changes in Foreign Exchange Rates

The International Accounting Standards Board (IASB) issued on December 15, 2005 a limited amendment to International Accounting Standard (IAS) 21 The Effects of Changes in Foreign Exchange Rates. The amendment clarifies the requirements of IAS 21 regarding an entity s investment in foreign operations and will therefore help the financial reporting of entities that invest in businesses operating in a currency different from that used by the entity.

The Amendment has not yet been endorsed by the European Commission (EC).

47. Segmental reporting

A business segment is a distinguishable component of the Group, that is engaged in providing products or services or a group of related products or services that is subject to risks and returns that are different from those of other business segments.

A geographical segment is a distinguishable component of the Group, that is engaged in providing products or services or a group of related products or services within a particular economic environment which is subject to risks and returns that are different from those of components operating in other economic environments.

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(Thousands of Euros)

	Iberia Generation			Iberia Distribution			Electricity Iberia Supply			Brazil			
	Portugal	**Spain**	**Total**	**Portugal**	**Spain**	**Total**	**Portugal**	**Spain**	**Total**	**Generation**	**Distribution**	**Supply**	**Total**
Turnover													
Sales of electricity	1,965,286	1,069,031	3,034,317	3,737,599	118,259	3,855,859	524,868	343,392	868,259	47,193	1,383,276	141,867	1,572,336
Other sales	24,113	116,593	140,706	3,176	37	3,213		3,206	3,206				
Services rendered	19,281	3,517	22,798	26,821	34,636	61,456	155	7,924	8,079	12,356	21,407	506	34,269
	2,008,680	1,189,141	3,197,820	3,767,596	152,933	3,920,528	525,023	354,521	879,544	59,549	1,404,683	142,373	1,606,605
Raw materials and consumables used													
Cost of consumed electricity	-188,505	-49,399	-237,904	-2,580,184	-33,595	-2,613,779	-581,023	-502,897	-1,083,920	-5,275	-846,229	-120,390	-971,894
Fuel costs	-710,570	-377,952	-1,088,522										
Other materials and other	-65,048	-118,515	-183,562	-14,018	3,400	-10,618		-5,554	-5,554	-304	-12,825		-13,129
	-964,123	-545,865	-1,509,989	-2,594,202	-30,195	-2,624,397	-581,023	-508,451	-1,089,475	-5,579	-859,054	-120,390	-985,022
Gross margin	1,044,556	643,275	1,687,832	1,173,393	122,738	1,296,131	-56,001	-153,930	-209,931	53,970	545,630	21,983	621,583
Operating expenses													
Supplies and services	-103,051	-58,220	-161,271	-256,704	-49,002	-305,706	-12,423	-23,836	-36,259	-19,187	-86,682	-3,105	-108,974
Personnel costs	-118,042	-42,323	-160,365	-311,706	-35,139	-346,845	-4,390	-5,864	-10,254	-1,084	-81,339	-934	-83,357
	-221,093	-100,544	-321,637	-568,410	-84,141	-652,551	-16,813	-29,700	-46,513	-20,270	-168,021	-4,040	-192,331
Other income / (other expenses)													
Concession rights	-4,496		-4,496	-201,439		-201,439	-23		-23	-1,601	-662		-2,262
Other income / (other expenses)	5,828	28,913	34,740	25,857	-7,432	18,424	1,371	19,788	21,159	29,148	-38,535	-163	-9,550
	1,332	28,913	30,245	-175,582	-7,432	-183,014	1,348	19,788	21,136	27,547	-39,197	-163	-11,812
	824,795	571,645	1,396,440	429,402	31,165	460,567	-71,466	-163,842	-235,308	61,247	338,411	17,781	417,439

Gross operating results													
Provisions	1,779	-541	1,238	-5,438		-5,438	-6,403	-433	-6,836	10	757		767
Depreciation and amortization expense	-213,456	-121,165	-334,620	-332,706	-32,129	-364,835	-4,418	-4,233	-8,652	-4,709	-69,397	-105	-74,211
Compensation of amortization	4,907	362	5,269	80,005	2,014	82,019					6,784		6,784
Operating results	618,026	450,301	1,068,327	171,263	1,049	172,312	-82,287	-168,508	-250,795	56,549	276,555	17,675	350,778
Gains / losses from the sale of financial assets													
Financial income / (expenses)	-42,892	-26,774	-69,666	-26,063	-10,241	-36,304	-7,810	-421	-8,231	-6,886	-81,672	5,599	-82,958
Profit before tax	575,134	423,526	998,660	145,200	-9,192	136,008	-90,097	-168,929	-259,026	49,663	194,883	23,274	267,820
Income tax expense	-159,137	-150,700	-309,837	-16,515	3,150	-13,365	20,973	59,161	80,134	-4,131	-46,796	-7,343	-58,270
Gain on sale of discontinued operation													
Profit for the year	**415,996**	**272,826**	**688,823**	**128,686**	**-6,042**	**122,644**	**-69,123**	**-109,768**	**-178,892**	**45,532**	**148,087**	**15,931**	**209,551**
Attributable to:													
Equity holders of EDP	415,996	272,826	688,823	128,686	-6,042	122,644	-69,123	-109,768	-178,892	45,532	148,087	15,931	209,551
Minority interests													
Profit for the year	**415,996**	**272,826**	**688,823**	**128,686**	**-6,042**	**122,644**	**-69,123**	**-109,768**	**-178,892**	**45,532**	**148,087**	**15,931**	**209,551**
Other information:													
Property, plant and equipment	3,888,125	2,191,034	6,079,159	4,213,882	546,015	4,759,897	89,046	759	89,805	795,302	957,090	223	1,752,615
Intangible assets	22,078	48,168	70,245		1,140	1,140		3,149	3,149	82,749	49,466	292	132,506
Current assets	901,841	352,362	1,254,203	940,325	157,301	1,097,626	203,732	88,095	291,828	45,987	423,006	49,699	518,693
Shareholders equity and minority interest	2,006,158	1,237,408	3,243,566	130,958	215,357	346,315	-10,288	-146,167	-156,455	515,598	544,482	10,748	1,070,828
Current liabilities	875,507	1,151,887	2,027,394	2,651,234	210,363	2,861,597	292,155	161,174	453,328	104,706	821,747	39,744	966,197

Gas Distribution						Continuing Activity		
Portugal	**Spain**	**Total**	**Telecommu-nications**	**Other Operations**	**Consolidation Adjustments**	**EDP Group**	**Discontinued Operations**	**EDP Group**

Turnover									
Sales of electricity		63,415	63,415		11,031	-820,842	8,584,375		8,584,375
Other sales	47,850	562,184	610,034	3,984		-99,216	661,926	2,404	664,330
Services rendered	1,179	45,642	46,821	146,447	163,536	-180,655	302,752	125,568	428,320
	49,030	671,240	720,270	150,431	174,567	-1,100,714	9,549,052	127,972	9,677,025
Raw materials and consumables used									
Cost of consumed electricity		-74,923	-74,923		-1,761	762,178	-4,222,003		-4,222,003
Fuel costs						-15,178	-1,103,700		-1,103,701
Other materials and other	-23,981	-430,242	-454,223	-3,760	-86,136	271,558	-485,426	-2,062	-487,488
	-23,981	-505,165	-529,146	-3,760	-87,898	1,018,558	-5,811,129	-2,062	-5,813,192
Gross margin	25,048	166,075	191,123	146,670	86,670	-82,156	3,737,923	125,910	3,863,833
Operating expenses									
Supplies and services	-4,047	-34,241	-38,288	-108,773	-150,316	195,105	-714,482	-102,299	-816,781
Personnel costs	-2,732	-22,405	-25,137	-25,944	-105,869	28,758	-729,014	-17,264	-746,278
	-6,779	-56,646	-63,425	-134,717	-256,185	223,863	-1,443,496	-119,563	-1,563,059
Other income / (other expenses)									
Concession rights					-829		-209,048		-209,048
Other income / (other expenses)	557	-1,877	-1,320	-485	99,176	-197,196	-35,051	-3,382	-38,433
	557	-1,877	-1,320	-485	98,347	-197,196	-244,099	-3,382	-247,481
Gross operating results	18,826	107,552	126,378	11,468	-71,168	-55,489	2,050,328	2,965	2,053,293
Provisions	-135	8	-128	4,838	-5,710	-1,205	-12,474		-12,474
Depreciation and amortization expense	-4,401	-33,174	-37,575	-72,815	-22,637	-66,347	-981,693	-14,846	-996,539
Compensation of amortization	1,231	1,777	3,008		841	-321	97,600		97,600
Operating results	15,521	76,163	91,683	-56,509	-98,674	-123,362	1,153,761	-11,881	1,141,880
Gains / losses from the sale of financial assets				-83	440,730		440,647	83	440,730
Financial income / (expenses)	-2,055	21,315	19,260	-31,133	-311,371	158,536	-361,868	-2,113	-363,982
Profit before tax	13,466	97,477	110,943	-87,725	30,684	35,174	1,232,540	-13,911	1,218,628
Income tax expense	-3,291	-13,180	-16,471	-54,046	190,076	24,670	-157,108	4,919	-152,189
Gain on sale of discontinued operation								45,522	45,522
Profit for the year	**10,175**	**84,298**	**94,473**	**-141,771**	**220,761**	**59,844**	**1,075,432**	**36,530**	**1,111,961**
Attributable to:									
Equity holders of EDP	10,175	84,295	94,471	-145,811	220,761	18,942	1,030,488	40,615	1,071,102
Minority interests		2	2	4,040		40,902	44,944	-4,085	40,859
Profit for the year	**10,175**	**84,298**	**94,473**	**-141,771**	**220,761**	**59,844**	**1,075,432**	**36,530**	**1,111,961**
Other information:									
Property, plant and equipment	149,695	427,437	577,133	142,547	151,988	338,233	13,891,378		13,891,378
Intangible assets		491,624	491,625	77,691	963,354	1,769,118	3,508,828		3,508,827
Current assets	23,310	269,209	292,519	102,540	3,328,153	-2,559,786	4,325,776		4,325,776
Shareholders equity and minority interest	42,126	2,083,145	2,125,271	-182,208	12,352,035	-12,688,185	6,111,165		6,111,163
Current liabilities	69,167	175,749	244,916	464,090	2,337,789	-2,824,152	6,531,160		6,531,162

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(Thousands of Euros)

	Iberia Generation			**Electricity Iberia Distribution**			**Iberia Supply**			**Brazil**			
	Portugal	**Spain**	**Total**	**Portugal**	**Spain**	**Total**	**Portugal**	**Spain**	**Total**	**Generation**	**Distribution**	**Supply**	**Total**
Turnover													
Sales of electricity	1,480,840	232,918	1,713,758	3,610,192	46,751	3,656,943	324,768	103,331	428,098	28,249	1,002,592	88,958	1,119,799
Other sales	21,648	10,439	32,088	2,734	19	2,752		6,933	6,933	2,769			2,769
Services rendered	53,899	1,148	55,048	24,612	11,953	36,565	2,487	2,867	5,353	10,532	14,438	585	25,556
	1,556,388	244,505	1,800,893	3,637,538	58,722	3,696,260	327,254	113,130	440,384	41,550	1,017,030	89,544	1,148,124
Raw materials and consumables used													
Cost of consumed electricity	-51,417	-10,398	-61,815	-2,324,118	-11,944	-2,336,062	-311,763	-99,066	-410,829	-5,878	-657,449	-74,637	-737,965
Fuel costs	-422,699	-117,379	-540,078							-2,306			-2,306
Other materials and other	-5,206	-3,997	-9,203	-14,151	687	-13,464	401	-6,927	-6,525	-105	-10,523		-10,628
	-479,322	-131,774	-611,096	-2,338,270	-11,256	-2,349,526	-311,361	-105,993	-417,354	-8,290	-667,973	-74,637	-750,900
Gross margin	1,077,066	112,731	1,189,797	1,299,268	47,466	1,346,734	15,893	7,137	23,030	33,261	349,058	14,906	397,224
Operating expenses													
Supplies and services	-90,564	-14,872	-105,436	-226,947	-14,482	-241,429	-10,536	-6,490	-17,026	-14,369	-58,849	-1,175	-74,392
Personnel costs	-118,793	-13,802	-132,595	-630,338	-9,403	-639,741	-3,723	-2,108	-5,831	-1,050	-65,959	-622	-67,631
	-209,357	-28,674	-238,031	-857,285	-23,885	-881,170	-14,259	-8,598	-22,857	-15,419	-124,808	-1,797	-142,023
Other income / (other expenses)													
Concession rights	-4,083		-4,083	-186,095		-186,095	-16		-16				
Other income / (other expenses)	7,054	-2,100	4,954	26,711	1,202	27,913	-7,749	4,937	-2,813	-344	-20,597	-1,061	-22,001
	2,970	-2,100	870	-159,383	1,202	-158,181	-7,766	4,937	-2,829	-344	-20,597	-1,061	-22,001
	870,679	81,957	952,636	282,600	24,783	307,382	-6,132	3,476	-2,656	17,497	203,653	12,049	233,199

Gross operating results													
Provisions	-14,418	-57	-14,475	-84	763	679	-7		-7		-3,343		-3,343
Depreciation and amortization expense	-211,522	-41,332	-252,854	-326,796	-12,259	-339,055	-3,707	-1,739	-5,446	-4,635	-49,321	-35	-53,991
Compensation of amortization	4,300	139	4,439	72,402	704	73,106							
Operating results	649,039	40,707	689,746	28,122	13,990	42,112	-9,846	1,737	-8,110	12,863	150,989	12,013	175,865
Gains / losses from the sale of financial assets													
Financial income / (expenses)	-80,876	-7,556	-88,432	-25,125	-4,097	-29,222	-1,446	-1,214	-2,660	-8,430	-72,149	-419	-80,998
Profit before tax	568,163	33,151	601,314	2,997	9,893	12,890	-11,292	522	-10,770	4,433	78,839	11,595	94,867
Income tax expense	-151,248	-11,012	-162,260	19,690	-3,356	16,334	2,724	-38	2,686	-2,129	19,435	-4,275	13,032
Profit for the year	**416,914**	**22,140**	**439,054**	**22,687**	**6,538**	**29,225**	**-8,569**	**485**	**-8,084**	**2,304**	**98,275**	**7,320**	**107,899**
Attributable to:													
Equity holders of EDP	416,914	21,243	438,158	22,687	6,538	29,225	-8,569	485	-8,084	2,304	98,275	7,320	107,899
Minority interests		897	897										
Profit for the year	**416,914**	**22,140**	**439,054**	**22,687**	**6,538**	**29,225**	**-8,569**	**485**	**-8,084**	**2,304**	**98,275**	**7,320**	**107,899**
Other information:													
Property, plant and equipment	3,803,223	744,315	4,547,538	4,080,193	215,518	4,295,712	86,438	371	86,809	370,915	694,008	41	1,064,964
Intangible assets	297	15,969	16,266		225	225		1,663	1,663	4,941	30,882	235	36,059
Current assets	452,878	71,466	524,344	729,134	16,414	745,549	132,036	16,943	148,979	48,041	375,589	21,087	444,717
Shareholders equity and minority interest	3,355,970	534,020	3,889,990	117,273	91,768	209,040	58,945	-9,242	49,704	182,929	344,592	13,480	541,001
Current liabilities	486,303	183,367	669,669	2,256,854	137,622	2,394,476	116,218	46,060	162,278	41,525	518,212	9,491	569,228

	Gas Distribution Spain	**Telecommu-nications**	**Other Operations**	**Consolidation Adjustments**	**Continuing Activity EDP Group**	**Discontinued Operations**	**EDP Group**
Turnover							
Sales of electricity	7,983			-387,197	6,539,384		6,539,384
Other sales	176,475	4,328		1,165	226,511	22,508	249,019
Services rendered	13,903	151,407	127,042	-100,384	314,489	207,796	522,285

	198,361	155,735	127,042	-486,415	7,080,384	230,304	7,310,688
Raw materials and consumables used							
Cost of consumed electricity	-13,586			224,454	-3,335,803		-3,335,803
Fuel costs				-9,208	-551,592		-551,592
Other materials and other	-123,132	-4,194	-225	134,759	-32,613	-23,497	-56,111
	-136,717	-4,194	-225	350,005	-3,920,008	-23,497	-3,943,506
Gross margin	61,644	151,541	126,817	-136,410	3,160,377	206,807	3,367,182
Operating expenses							
Supplies and services	-9,243	-113,634	-143,418	138,433	-566,146	-94,749	-660,894
Personnel costs	-7,208	-29,294	13,598	-12,040	-880,743	-87,036	-967,778
	-16,451	-142,929	-129,821	126,394	-1,446,889	-181,785	-1,628,672
Other income / (other expenses)							
Concession rights					-190,194		-190,194
Other income / (other expenses)	113	-3,278	-332,110	-98,325	-425,547	8,100	-417,447
	113	-3,278	-332,110	-98,325	-615,741	8,100	-607,641
Gross operating results	45,306	5,335	-335,114	-108,342	1,097,747	33,122	1,130,869
Provisions	-55	-44,330	-18,796	18,819	-61,509	-2,780	-64,289
Depreciation and amortization expense	-12,334	-42,510	-17,874	-63,347	-787,410	-47,821	-835,231
Compensation of amortization	713		592	7,013	85,863	28	85,891
Operating results	33,631	-81,505	-371,192	-145,857	334,691	-17,451	317,240
Gains / losses from the sale of financial assets				9,837	9,837	125	9,962
Financial income / (expenses)	-587	-33,324	30,328	-55,411	-260,307	-4,432	-264,740
Profit before tax	33,044	-114,829	-340,864	-191,431	84,221	-21,758	62,462
Income tax expense	-10,195	-13,746	120,464	5,059	-28,625	12,254	-16,371
Profit for the year	**22,849**	**-128,575**	**-220,399**	**-186,372**	**55,596**	**-9,504**	**46,091**
Attributable to:							
Equity holders of EDP	12,499	-131,849	-220,399	-184,861	42,586	229	42,815
Minority interests	10,350	3,274		-1,512	13,009	-9,733	3,276
Profit for the year	**22,849**	**-128,575**	**-220,399**	**-186,372**	**55,596**	**-9,504**	**46,091**
Other information:							
Property, plant and equipment	162,935	216,282	133,998	1,980,199	12,488,438	68,663	12,557,101
Intangible assets	234,483	247,688	110,499	2,294,214	2,941,097	23,207	2,964,304
Current assets	76,868	184,186	1,478,648	-867,871	2,735,419	57,265	2,792,684
Shareholders equity and minority interest	416,652	-272,201	10,385,974	-10,534,978	4,685,182	96,614	4,781,795
Current liabilities	55,689	812,617	1,360,147	-256,750	5,767,356	42,678	5,810,034

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48. Reconciliation to accounting principles generally accepted in the United States of America

As discussed in Note 2, the accompanying financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as of December 31, 2005, in conformity with European Regulation (EC) No. 1606/2002 of the European Parliament and of the Council.

Until 2004, EDP had prepared its financial statements in accordance with accounting principles generally accepted in Portugal (Portuguese GAAP), EDP s Previous GAAP. Portuguese GAAP is not comparable with information prepared in accordance with IFRS. A reconciliation of the opening equity balance and net income for the first financial year beginning on January 1, 2004 from Portuguese GAAP to IFRS is included in Note 43 Transition and implementation of International Financial Reporting Standards .

This is the first year that EDP s financial statements have been prepared on an IFRS basis. In relation to this transition to IFRS, in April 2005 the Securities and Exchange Commission (SEC) adopted some amendments to Form 20-F to provide a one time accommodation relating to financial statements prepared under IFRS for foreign private issuers registered with the SEC, such as EDP. This accommodation permitted EDP for their first year of reporting under IFRS to file two years rather than three years of statements of income, changes in shareholders equity and cash flows prepared in accordance with IFRS, with appropriate related disclosure and respective reconciliation of financial statement items to generally accepted accounting principles as used in the United States (U.S. GAAP).

International Financial Reporting Standards (IFRS) differ in certain significant aspects from accounting principles generally accepted in the United States of America (U.S. GAAP). These differences, as they relate to EDP, are discussed in the following paragraphs.

a) Revaluation of fixed assets

The Group s fixed assets that were acquired prior to 1994 were stated at revalued amounts as permitted under Portuguese GAAP. The revalued fixed assets were being depreciated over their estimated useful lives on their revalued basis. Under IFRS 1, the Group has decided to use as the deemed cost, at the date of transition (January 1, 2004) the Portuguese GAAP carrying amount, including the revalued amount of the referred assets. Under U.S. GAAP, fixed assets may not be stated at more than their historical acquisition cost. Accordingly, in the accompanying reconciliation, the increases in shareholders equity and the related increase in depreciation expense occurring as a result of such revaluations have been reversed for all periods presented under U.S. GAAP. Depreciation for corporate income tax purposes is based on the original acquisition cost and 60% of the additional revaluation increment. Therefore, the adjustments also reflect the remaining deferred tax benefit arising from the revaluation increments.

b) Employee retirement benefits and additional minimum pension liability

The Company and some of its subsidiaries have pension obligations, both defined benefit and contribution and also medical benefits for retired employees. Costs for defined contribution are expensed when incurred. Obligations and annual expenses for defined benefit plans, including pension and medical plans, are determined on an actuarial basis.

Under IFRS, and in accordance with IFRS 1, the Group decided to recognize at the date of transition, January 1, 2004, the unrecognized value of the actuarial losses against reserves. Actuarial gains and losses determined annually and resulting from (i) the differences between financial and actuarial assumptions used and real values obtained and (ii) changes in the actuarial assumptions are recognized against equity, in accordance with the alternative method defined by IAS 19, revised on December 16, 2004, which was adopted early by the Group. The increase in past service costs arising from early retirements (retirements before the normal age of retirement) is recognized in the income statement when incurred.

Under U.S. GAAP, unrecognized actuarial gains and losses are amortized under the corridor method. The corridor method allows that actuarial net gains or losses up to 10 per cent of the greater of the projected benefit obligation or the value of plan assets need to be recognized or amortized as part of the net pension cost of the year. The value of the unrecognized actuarial net gains or losses that exceeds the value of 10 per cent as defined above shall be amortized over the average remaining service period of the employees.

Additionally, under U.S. GAAP an additional minimum liability is required to be recognized, and charged to intangibles or other comprehensive income, when plan assets are less than employees accumulated benefits obligation. When the accumulated benefit obligation exceeds the fair value of the plan assets, as it is the case in the EDP Group, the excess is immediately recognized as an additional liability. The cost of this is capitalized as an intangible up to the amount of any unrecognized net transition obligation plus the unrecognized prior service costs, and the remainder is charged through OCI. Under IFRS (IAS 19), no such requirement exists, consequently a GAAP difference arises.

c) Power purchase agreements

EDP Group executed several contracts with REN, which are treated as finance leases, under U.S. GAAP. The evaluation of whether an arrangement contains a lease within the scope of Statement 13 and EITF 01-8 is based on the substance of the arrangements. Those contracts, include agreements that, although not nominally identified as leases, meet the definition stated in the referred statements, that a lease transfers substantially all of the benefits and risks related to the property to the lessee. In substance, those contracts explicitly identified the group of assets (power plants) under which EDP produces power exclusively to be provided to the lessee and cannot use any other power plant to supply the referred power to the referred lessee.

Additionally, those contracts convey the right to use those power plants and require that the total production is acquired by REN, who is the lessee. Those contracts are being considered as capital leases for U.S. GAAP purposes, due to the fact that those contracts transfer the risks and the rewards of the usage to the lessee during the period of the lease term and the ownership of the property to the lessee (REN) at the end of the lease term and the lease terms are the same as the useful lives of power plants.

Under IFRS, fixed assets used by binding producers are recorded as tangible fixed assets in the financial statements of each company, and are stated at deemed cost, which includes the revalued amount. The referred tangible assets are amortized on a straight line basis, over their estimated useful life. The remain useful life of PPA s agreements is from 8 to 19 years for hydro power plants and 2 to 12 years for thermal power plants.

On January 27, 2005 in accordance with Decree-Law 240/2004, of December 27, the EDP Group signed the early termination contracts of PPA related to the binding electricity producers centers. The termination agreements effects are suspended until a set of conditions is met which includes the start up of the spot market that assures the sales of generated electric energy and the attribution of non-binding production licenses. When the conditions set on above allow for the effective termination of PPA s, under U.S. GAAP, the accounting of these agreements will be re-assessed.

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On December 2, 2004 IFRIC 4 Determining whether an arrangement contains a lease as defined in IAS 17 was published, effective only after January 1, 2006. An arrangement that contains a lease will be the same under IFRS and U.S. GAAP, effective January 1, 2006.

Under IFRIC 4, in accordance with the transition regime set by this rule, PPAs should be analysed based on the existing information and facts at the date of such transition, as to whether in substance the contracts are a financial lease. On this basis, the above mentioned Decree-Law that established the early termination of PPAs and the terms of the termination agreements signed in January 2005 relating to the electric generation facilities in PES, are relevant facts that should be taken in consideration, in the assessment of the adoption of IFRIC 4 effective January 1, 2006.

d) Equity accounting on investments

The Group s equity investments, namely the shareholding of 30% in REN s Equity, are affected by certain accounting differences between U.S. GAAP and IFRS. The main differences are related with revaluation of fixed assets, PPAs (from EDP Group, Turbogás and Tejo Energia), tariff adjustments, other regulatory assets and deferred income taxes related to those adjustments.

e) Intangible assets

As at December 31, 2004, under U.S. GAAP a charge was made against income for intangible assets for which under U.S. GAAP it was not possible to sustain future economic benefits. On transition to IFRS, these intangible assets were also charged off.

f) Goodwill

On transition to IFRS, the Group decided to follow the exemption allowed by IFRS 1 regarding business combination and has not restated past business combinations. Therefore the purchase accounting used for Portuguese GAAP purposes remains unchanged as of January 1, 2004. Under IFRS goodwill, including previously existing goodwill, is not amortized but is tested for impairment at least annually.

Until December 31, 2001, under U.S. GAAP, Goodwill arising on acquisitions was classified as an intangible asset to be amortized over its estimated useful life. After January 1, 2002, U.S. GAAP requires that goodwill, including previously existing goodwill, is not amortized but rather tested for impairment annually. The Group reviews the value of the goodwill periodically. If such impairment is indicated, a loss is recognized in the year. Disposals in which a reversal of the amortization was previously made under U.S. GAAP are also written back against earnings.

There is a permanent difference related to the depreciation of goodwill of 2002 and 2003, considering that under IFRS, goodwill continued to be depreciated until December 31, 2003, whereas under U.S. GAAP, after the adoption of SFAS 142 effective on January 1, 2002, goodwill is no longer amortized.

g) Financial instruments

Hedge accounting

EDP qualifies as a first time adopter under IFRS 1, on the basis that the Group is presenting a full set of consolidated financial statements according to IFRS beginning January 1, 2005. Considering the documentation prepared to demonstrate the hedging purposes of the transactions and that the operations were contracted by the management to hedge the interest rate and exchange rate risks, under the transition rules defined by IFRS 1, those operations were considered as hedging at the transition date.

For U.S. GAAP purposes, up to December 31, 2003, the Company did not meet documentation and effectiveness testing requirements with respect to its economic hedges of interest rate and currency exchange risks, so SFAS 133 hedge accounting was not applied. After January 1, 2004, the Group has complied with such documentation and effectiveness tests and started to apply prospectively hedge accounting under U.S. GAAP.

Consequently, there will be a difference between IFRS and U.S. GAAP regarding the transition adjustment to IFRS, until the maturity of those transactions that were considered hedged. The main difference arises from derivatives which under IFRS have been formally documented prior to the transition date as at January 1, 2004, but since their inception in prior years were not assigned and documented as hedging instruments under U.S. GAAP.

Available for sale investments

Under IFRS all financial investments can be classified as available for sale, if they do not meet the definition requirements to be classified as financial assets at fair value through profit or loss or held-to-maturity.

These investments are carried at fair value, being the gains and losses arising from changes in their fair value recognized directly in equity, until the financial assets are derecognized or impaired, at which time the cumulative gain or loss previously recognized in equity is recognized in the income statement. Under IFRS the fair values for listed securities are determined based on current bid prices and, for unlisted securities, determined based on valuation techniques and assumptions, including the use of recent arm s length transactions, discounted cash flow analysis and option pricing models.

In accordance with U.S. GAAP only debt securities and marketable equity securities can be classified as available for sale, therefore, the changes in fair value recognized directly in equity attributable to non-marketable equity securities were reversed under U.S. GAAP.

h) Regulatory assets and liabilities

In accordance with the IFRS conceptual framework, regulatory assets and liabilities, including tariff adjustments, are not recognized and on that basis, at the transition date, these assets and liabilities were adjusted against reserves. Under IFRS, regulatory assets and liabilities which relate to deferred costs and deferred income, respectively, defined and regulated by the Regulator, being recoverable or payable through tariff adjustments to be charged to customers in future years were also adjusted against reserves at the transition date. These future tariff adjustments are recorded as income in the period when they are charged to customers.

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Under U.S. GAAP, tariff adjustments, for the regulated activity in Portugal are eliminated because management believes that, in substance, the tariff adjustments regulation does not meet in full the criteria set out in SFAS 71. Even though the scope criterion of SFAS 71 is met with respect to the regulated activities in Portugal, due to the uncertainty in relation to future income being in an amount at least equal to the capitalized cost or a situation of a permanent roll forward of cost with current year costs being deferred and prior cost being recovered in each period, the asset recognition criteria as defined in SFAS 71 is not met. As a result, tariff adjustments related to Portuguese activities, consistently with the accounting treatment under IFRS, are not also reflected in U.S. GAAP accounts.

The regulatory assets and liabilities including the tariff adjustments mechanism set out by the regulator (ANEEL) regarding the activities in Brazil meets the requirements of SFAS 71 and therefore are accounted for on that basis. Eligible costs are specifically determined by the Regulator and are recoverable through the recovery rates. Resulting from measures taken by the Brazilian government and by ANNEL in 2001, the companies in Brazil are subject to the application of SFAS 71.

i) Accounts receivable - Municipalities

From 1998 to 2000 EDP reached agreements with several municipalities on the terms of the future settlement of outstanding debts, and, for Portuguese GAAP maintained on the balance sheet the corresponding doubtful debt provision. At transition date to IFRS, no adjustment was made considering the actual recoverable amount of those receivables.

Under US GAAP the collection of the receivables had previously been considered not probable and consequently had been fully provided. Therefore, at December 31, 2004, under US GAAP the provision for doubtful debts was written back based on the actual collection and on the estimated recoverable amount of outstanding receivables.

j) Income taxes

Both under U.S. GAAP and IFRS GAAP, income taxes are provided using the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences attributable to differences between the financial statement carrying amount of assets and liabilities and their tax bases. A valuation allowance is provided based on the expected realization of the deferred tax assets. Additionally, any deferred tax effect of other U.S. GAAP adjustment is reflected.

k) Jointly controlled entities

Jointly controlled entities are joint ventures that involve the establishment of an entity in which each venture has an interest and that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity. Under IFRS, interest in a joint controlled entity is accounted for under the proportionate consolidation method. Under U.S. GAAP these entities are accounted for under the equity method as the proportionate method is not allowed.

l) Other comprehensive income

The Group has disclosed the information required for reporting total comprehensive income, which consists of net income and other comprehensive income, for each of the reported periods.

m) Impact of Recently Issued Accounting Standards
Standards adopted in the years covered by the financial statements

Equity method of accounting EITF No. 02-14

On July 16, 2004, the FASB ratified the Emerging Issues Task Force (EITF) consensus on Issue No. 02-14, Whether the Equity Method of Accounting Applies When an Investor Does Not Have an Investment in Voting Stock of an Investee but Exercises Significant Influence through Other Means (EITF 02-14). The consensus concludes that an investor should apply the equity method of accounting when it can exercise significant influence over an entity through a means other than holding voting rights. The consensus is effective for reporting periods beginning after September 15, 2004. The adoption of EITF 02-14 did not have a material impact on the Group s financial position, results of operations or cash flows.

Accounting for Preexisting relationships between the Parties to a Business Combination (EITF 04-1)

In October 2004, the EITF reached a consensus on EITF 04-1, Accounting for Preexisting relationships between the Parties to a Business Combination. EITF 04-1 addresses various elements connected to a business combination between two parties that have a pre-existing relationship and the settlement of the pre-existing relationship in conjunction with the business combination. The Group applied the provisions of EITF 04-1 to business combinations consummated and goodwill impairment tests performed beginning January 1, 2005.

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Determining Whether to Report Discontinued Operations (EITF 03-13)

In November 2004, the EITF reached a consensus on EITF 03-13, Applying the Conditions in Paragraph 42 of FASB No. 144 in Determining Whether to Report Discontinued Operations. EITF 03-13 addresses how an ongoing entity should evaluate whether the operations and cash flows of a disposed component have been or will be eliminated from the ongoing operations of the entity, and the types of continuing involvement that constitute significant continuing involvement in the operations of the disposed component. If continuing cash flows are determined to be direct, then the cash flows have not been eliminated and the operations of the component should not be presented as discontinued operations.

If continuing cash flows are determined to be indirect, then the cash flows are considered to be eliminated and the operations of the component should be presented as discontinued operations. In order to determine the significance of the continuing involvement, consideration must be given to the ability to influence the operating and or financial policies of the disposed component, as well as the retention of risk or the ability to obtain benefits. The Company applied the provisions of EITF 03-13 to a component of an enterprise that is either disposed of or classified a held for sale beginning January 1, 2005.

Accounting for Conditional Asset Retirement Obligations (FIN No. 47)

In March 2005, the FASB issued FASB Interpretation (FIN) No. 47 Accounting for Conditional Asset Retirement Obligations, which clarifies that a liability (at fair value) must be recognized for asset retirement obligations when it has been incurred if the amount can be reasonably estimated, even if settlement of the liability is conditional on a future event. FIN No. 47 is effective as of December 31, 2005. The adoption of FIN No. 47 did not have a material impact on the Group s financial position, results of operations or cash flows.

Accounting Changes and Error Corrections

In May 2005, the FASB issued Statement No. 154, Accounting Changes and Error Corrections , replacing APB Opinion No. 20 and FASB Statement No. 3 (SFAS No. 154). SFAS No. 154 requires retrospective application to prior periods financial statements of changes in accounting principles, unless impracticable. The statement defines retrospective application as the application of a different accounting principle to prior accounting periods as if that principle had always been used and redefines restatement as revising previously issued financial statements to reflect the correction of an error. SFAS No. 154 also requires that retrospective application of a change in accounting principles be limited to the direct effects of the change. Indirect effects of a change in accounting principles should be recognized in the period of the accounting change. The new standard is effective for accounting changes made in fiscal years beginning after December 15, 2005. The adoption of this rule will not have a material effect on the Group s financial position, results of operations or cash flows.

Standards to be adopted in future years

Share-Based Payment (SFAS 123R)

In December 2004, the FASB issued SFAS No. 123 (Revised 2004), Share-Based Payment (SFAS 123R), SFAS 123R is effective for interim or annual reporting periods beginning after June 15, 2005. The adoption of SFAS 123R will not have a material impact on the Group s financial position, results of operations or cash flows.

Exchanges of Nonmonetary Assets (SFAS 153)

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets, which becomes effective for financial statements for fiscal years beginning after June 15, 2005. According to Accounting Principles Board Opinion No. 29 (APB 29), exchanges of nonmonetary assets are generally measured based on the fair value of the assets exchanged, with certain exceptions. SFAS 153 amends APB 29 to eliminate the exception for nonmonetary exchanges of similar productive assets, which were exchanged at carrying values, and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The adoption of SFAS 153 will not have a material impact on the Group s financial position, results of operations or cash flows.

Determining the Amortization Period for Leasehold Improvements Purchased after Lease Inception or Acquired in a Business Combination

At the June 15 and 16 EITF meeting, and further modified at the September 15, 2005 meeting, the EITF discussed Issue 05-6, Determining the Amortization Period for Leasehold Improvements Purchased after Lease Inception or Acquired in a Business Combination, (EITF 05-6), and concluded on the appropriate amortization periods for leasehold improvements either acquired in a business combination or which were not preexisting and were placed in service significantly after, and not contemplated at, the beginning of the lease term. This Issue is effective for leasehold improvements (that are within the scope of this Issue) that are purchased or acquired in reporting periods beginning after June 29, 2005. The adoption of this rule will not have a material effect on the Group s financial position, results of operations or cash flows.

Inventory Costs (SFAS No. 151)

In November 2004, the FASB issued SFAS No. 151, Inventory Costs , which is an amendment of Accounting Research Bulletin No. 43, Inventory Pricing. SFAS No. 151 clarifies that abnormal amounts of idle facility expense, freight, handling costs and wasted materials (spoilage) should be recognized as current period charges. The provisions of SFAS No. 151 are effective for inventory costs incurred beginning January 1, 2006, and are applied on a prospective basis. The adoption of SFAS No. 151 will not have a significant impact on the Company s consolidated financial statements.

Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140

In February 2006 the FASB issued Statement of Financial Accounting Standards No. 155 Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140 that amends FASB Statements No. 133, Accounting for Derivative Instruments and Hedging Activities, and No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.

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This Statement resolves issues addressed in Statement 133 Implementation Issue No. D1, Application of Statement 133 to Beneficial Interests in Securitized Financial Assets. This Statement permits fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement 133, establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives and amends Statement 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument.

This Statement is effective for all financial instruments acquired or issued after the beginning of an entity s first fiscal year that begins after September 15, 2006. Earlier adoption is permitted as of the beginning of an entity s fiscal year, provided the entity has not yet issued financial statements, including financial statements for any interim period for that fiscal year. The Company does not anticipate that the adoption of this new statement at the required effective date will have a significant effect in its results of operations, financial position or cash flows.

The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments

On November 2, 2005, the FASB issued Financial Staff Position (FSP) FAS 115-1 and FAS 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments, which nullifies certain requirements of Emerging Issues Task Force (EITF) Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments and supersedes EITF Abstracts Topic No. D-44, Recognition of Other-Than-Temporary Impairment Upon the Planned Sale of a Security whose Cost Exceeds Fair Value. The guidance in this FSP will be applied to reporting periods beginning after December 15, 2005. The adoption of this rule did not have a material effect on the Group s financial position, results of operations or cash flows.

Accounting for Servicing of Financial Assets

Summary of Statement No. 156 Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140 This Statement amends FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, with respect to the accounting for separately recognized servicing assets and servicing liabilities. This Statement requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in certain situations, requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable and permits an entity to choose either of subsequent measurement methods for each class of separately recognized servicing assets and servicing liabilities.

An entity should adopt this Statement as of the beginning of its first fiscal year that begins after September 15, 2006. Earlier adoption is permitted as of the beginning of an entity s fiscal year, provided the entity has not yet issued financial statements, including interim financial statements, for any period of that fiscal year. The Company does not anticipate that the adoption of this new statement at the required effective date will have a significant effect in its results of operations, financial position or cash flows.

Reconciliation of net income and stockholders equity from IFRS to U.S. GAAP

It is worth noting that under U.S. GAAP, equity consists only of equity corresponding to the shareholders of the Parent Company. Under IFRS equity includes the equity corresponding to the shareholders of both the Parent and the minority interests. Therefore, to arrive at equity of the Parent Company under U.S. GAAP from equity under IFRS it is necessary to deduct the amount attributable to minority interest.

The effect on net income and shareholders equity of the Parent is as follows:

Net income

	2005 US$	2005 Euro 000	2004 Euro 000
Net income as reported under IFRS	1,366,083	1,071,102	42,815
U.S. GAAP adjustments increase (decrease) due to:			
a. Revaluation of fixed assets	228,409	179,088	177,803
b. Employee retirement benefits	-93,611	-73,397	-41,900
b. Additional minimum pension liability			
c. Power purchase agreements	-17,273	-13,543	-11,819
d. Equity accounting on investments - REN	57,199	44,848	100,526
e. Intangible assets			-52,074
f. Goodwill	-23,109	-18,119	-11,553
g. Financial instruments	-28,515	-22,358	-13,632
h. Regulatory assets and liabilities	-46,088	-36,136	23,750
i. Accounts receivable - municipalities			68,865
j. Income taxes	-28,211	-22,119	-48,872
Other	-580	-455	4,690
Net adjustments	48,221	37,809	195,784
Net income in accordance with U.S. GAAP	1,414,304	1,108,911	238,599
Basic and diluted net income per share	0.39	0.30	0.08

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Shareholders equity

	2005	2005	2004
	US$	Euro 000	Euro 000
Shareholders equity as reported under IFRS	6,151,764	4,823,400	4,037,858
U.S. GAAP adjustments increase (decrease) due to:			
a. Revaluation of fixed assets	-743,778	-583,173	-762,261
b. Employee retirement benefits	1,456,641	1,142,105	1,190,020
b. Additional minimum pension liability	-239,183	-187,536	-271,509
c. Power purchase agreements	-316,341	-248,033	-234,490
d. Equity accounting on investments - REN	136,372	106,925	62,076
e. Intangible assets			
f. Goodwill	46,760	36,663	54,783
g. Financial instruments	173,449	135,996	107,944
h. Regulatory assets and liabilities	211,539	165,861	158,375
i. Accounts receivable - municipalities			
j. Income taxes	213,082	167,071	239,887
Other	-1,927	-1,511	262
Net adjustments	936,614	734,368	545,087
Shareholders equity in accordance with U.S. GAAP	7,088,378	5,557,768	4,582,945

Changes in consolidated statements of Shareholders Equity in accordance with U.S. GAAP are as follows:

	Total Shareholders Equity Euro 000	Share capital Euro 000	Share premium Euro 000	Reserves and retained earnings Euro 000	Accumulated other comprehensive income Euro 000	Treasury stock Euro 000
Balances as at December 31, 2003 USGAAP (restated)	**3,439,645**	**3,000,000**		**1,253,001**	**-764,336**	**-49,020**
Dividends paid	-268,008			-268,008		
Treasury stock	15,034					15,034
Net profit for the year	238,599			238,599		
Increase in capital with the issue of 656,537,715 new shares in Dec 2004	1,208,029	656,538	551,491			
Expenses with share capital increase	-64,937		-64,937			
Fair Value of investments available for sale	-5,999				-5,999	
Exchange differences arising on consolidation	936				936	
Cash flow hedge - Fair value reserve	-466				-466	

Additional minimum pension liability	16,171				16,171	
Other reserves	3,941			3,941		
Balances as at December 31, 2004 USGAAP	**4,582,945**	**3,656,538**	**486,554**	**1,227,533**	**-753,694**	**-33,986**
Dividends paid	-335,968			-335,968		
Treasury stock	-6,457					-6,457
Net profit for the year	1,108,911			1,108,911		
Reversal of tax effect of share capital increase	29,037		29,037			
Fair value of investments available for sale	-10,980				-10,980	
Cash flow hedge - Fair value reserve	-12,135				-12,135	
Exchange differences arising on consolidation	142,610				142,610	
Additional minimum pension liability	60,880				60,880	
Other reserves	-1,075			-1,075		
Balances as at December 31, 2005 USGAAP	**5,557,768**	**3,656,538**	**515,591**	**1,999,401**	**-573,319**	**-40,443**

Certain significant line items of the balance sheets as presented on a IFRS basis would be as follows after application of U.S. GAAP differences:

	Group	
	2005	**2004**
	Euro 000	**Euro 000**
Fixed assets	11,648,170	9,721,775
Total Assets	25,799,509	23,525,081
Total current liabilities	6,408,388	6,919,644
Total long-term liabilities	12,471,411	11,230,463
Total Liabilities	18,879,799	18,150,107
Shareholders Equity	5,557,768	4,582,945
Total Liabilities and Shareholders Equity	25,799,509	23,525,081

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Trade receivables

The amount of trade receivables in accordance with U.S. GAAP is as follows:

	Group	
	2005	**2004**
	Euro 000	**Euro 000**
Trade receivables - Current		
Short term receivables	1,463,505	1,161,844
PPA receivables, short-term (less than 1 year)	147,048	133,680
	1,610,553	1,295,524
Trade receivables - Non-Current		
Long term receivables	121,992	95,140
PPA receivables, long-term (over 1 year)	2,909,426	3,056,474
	3,031,418	3,151,614

The amounts received from the PPA s agreements are analyzed as follows:

	Group	
	2005	**2004**
	Euro 000	**Euro 000**
Rents received	452,695	452,695
Interest received	319,015	331,168
Capital reimbursement	133,680	121,527

The rents to be received for the PPA s agreement for the next 5 years are presented as follows:

	2005
	Euro 000
2006	452,695
2007	452,695
2008	448,663
2009	448,663
2010	444,146
	2,246,862

Income taxes

The components of the income tax provision and deferred income tax assets and liabilities in accordance with U.S. GAAP, before minority interest, are as follows:

	Group	
	2005	**2004**
	Euro 000	**Euro 000**
Current		
- Portugal	28,652	-216,919
- Foreign	-133,637	-39,890
	-104,985	-256,809
Deferred		
- Portugal	-54,303	149,204
- Foreign	-6,032	41,900
	-60,335	191,104
Income tax as reported	-165,320	-65,705

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Components of deferred income tax assets and liabilities under U.S. GAAP, are analyzed as follows:

	Group	
	2005	**2004**
	Euro 000	**Euro 000**
Deferred tax assets:		
Fixed assets	250,264	259,663
Intangibles and deferred costs capitalized	16,576	29,517
Pension and other post-retirement benefits	194,819	207,197
Power purchase agreements	68,209	64,485
Investment securities	35,853	57,106
Other provisions	180,656	84,626
Provision for doubtful accounts	30,219	22,544
Regulatory assets	93,786	102,052
Derivative instruments	11,964	
Deferred revenue	7,853	
Bond loans	7,874	
Tax losses carried forward and tax credits	360,072	388,134
Equity method investments	36,204	38,563
Total deferred tax assets	1,294,349	1,253,887
Deferred tax liabilities:		
Fixed assets	147,646	106,998
Emission Rights	9,897	
Tariff deviations	18,295	7,669
Concession subsidies	24,949	17,009
Derivative instruments		19,134
Goodwill	174,277	138,045
Investment securities	18,574	11,211
Others	30,828	24,899
Total deferred tax liabilities	424,466	324,965
Total net deferred tax assets	869,883	928,922
Valuation allowance	-217,097	-131,851
Total net deferred tax assets as reported	652,786	797,071

During 2005, additional valuation allowance was recorded against tax losses and other temporary differences of a subsidiary pursuant to a change in circumstances that caused a change in judgment about the realizability of the deferred tax assets of this subsidiary. This change in judgment about the realizabilty of the deferred tax assets in future years has given rise to an increase of Eur 52.557 thousand to the relevant subsidiary s balance of valuation allowance at the beginning of 2005. Additionally, EDP provided a valuation allowance for the deferred tax asset resulting from operating losses carry forward and other deductible temporary differences generated in the year as it was considered more likely than not that it will not be realized.

The change in deferred tax assets, for the year under U.S. GAAP, was recognized as follows:

	Group	
	2005	2004
	Euro 000	Euro 000
Other comprehensive income		
- Minimum liability	-23,093	-6,134
- Available for sale	7,860	-6,297
Business combination / Changes in consolidation perimeter	-71,843	-63,218
Other charges	3,126	5,606
Net income	-60,335	191,104
	-144,285	121,061

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The reconciliation of the expected income tax provision computed using the Company s Portuguese statutory income tax rate of 27.5% in 2005 and 2004 to the actual income tax provision, is as follows:

	Group	
	2005	**2004**
	Euro 000	**Euro 000**
Net income in accordance with U.S. GAAP	1,108,911	238,599
Minority interest	34,911	10,532
Income tax for the year		
Current	104,985	256,809
Deferred	60,335	-191,104
	165,320	65,705
Gain on sale of discontinued operation, net of tax	-13,339	
Income before minority interest and tax in accordance with U.S. GAAP		
Portugal	852,357	201,073
Foreign	443,446	113,763
	1,295,803	314,836
Income tax rate for the year	27.5%	27.5%
Income tax using the domestic corporate tax rate	356,346	86,580
Tax exempt revenues (gain on disposal of investments)	-277,583	-4,332
Tax exempt dividends	-10,496	-9,083
Tax incentives	-15,924	-11,680
Change in previous years estimates	31,528	7,534
Change in valuation allowance	85,246	-25,282
Foreign tax rate difference	30,091	-1,552
Non-deductible pension costs	-3,969	4,164
Other non-deductible costs	-8,901	35,490
Equity method investments	-21,018	-16,134
	165,320	65,705

Pensions

EDP uses a December 31, 2005 measurement date for all of its plans. The components of the net periodic pension cost under U.S. GAAP include the following:

Group

	2005 Euro 000	2004 Euro 000
Service cost	13,208	9,768
Interest cost	110,076	79,342
Expected return on plan assets	-64,457	-51,048
Worker s contributions	-1,031	-473
Amortization of net actuarial losses	47,742	33,563
Amortization of transition obligation	5,050	5,826
Net periodic pension cost	110,588	76,978

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The following table sets forth the changes and the funded status of the pension plan under U.S. GAAP:

	Group 2005	2004
	Euro 000	Euro 000
Change in plan assets		
Fair value of plan assets at the beginning of the year	929,008	816,502
Actual company contributions	201,887	62,012
Worker s contributions	1,031	462
Benefits paid	-49,525	-56,144
Actual return on plan assets	64,457	51,048
Actuarial (losses)/gains	30,617	24,433
Exchange losses/(gains)	29,646	495
Plan assets of Brazilian subsidiaries		30,200
Fair value of plan assets at the end of the year	1,207,121	929,008
Benefit obligation at the end of the year	-2,231,598	-2,123,333
Funded status of plan (underfunded)	-1,024,477	-1,194,325
Unrecognized net actuarial losses/(gains)	860,205	878,750
Unrecognized transition obligation	33,547	38,883
Prepaid/(accrued) benefit cost	-130,725	-276,692
Additional minimum pension liability recognized in OCI	-187,536	-271,509
Additional minimum pension liability recognized as intangible asset	-33,547	-38,883
Prepaid/(accrued) benefit cost / pension liability	-351,808	-587,084

The accumulated benefit obligation in excess of plan assets, is as follows:

	Group 2005	2004
	Euro 000	Euro 000
Accumulated benefit obligation	1,558,929	1,479,114
Fair value of plan assets	1,207,121	929,008
Minimum pension liability	351,808	550,106

As of December 31, 2005 and 2004 plan assets consisted of:

	Group 2005 Euro 000	Group 2004 Euro 000
Portuguese State bonds	28,479	75,701
Foreign public bonds	299,284	224,700
Bonds	305,539	168,115
Investment fund units	160,723	158,463
Shares	240,204	105,986
Own Shares	181	1,059
Buildings	184,639	185,757
Cash and cash equivalents	23,487	42,032
	1,242,536	961,813
Plan assets relating to others (REN)	-35,415	-32,805
	1,207,121	929,008

As at December 31, 2005, the plan assets include buildings rented to EDP Group companies valued at Eur 138 million.

EDP Group considered the target asset allocation mentioned below to be the appropriate for the stability and security of Pension Fund assets, level of periodic contributions and of the financing of the projected liabilities, taking into account investments restrictions, a risk profile and a level of returns:

a) Investment strategy for three years, except actual property currently rented to the EDP group companies that should be reduced:

- Bonds : 70% (min. 50%, max. 85%)

- Equities: 30% (min. 15%, max.40%)

- Property: max. 5% .

b) Asset returns measures against strategic benchmark.

c) Risk diversification policies.

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Assumptions regarding the discount rates and the rate of return on assets

The discount rates used for the pension plans of the EDP Group have been chosen by reference to an analysis of yields available on suitable bonds. The bonds selected were those whose duration and quality were regarded as appropriate considering the timing and the amount of the cash outflows associated to projected benefits for the several pension plans.

The assumptions to determine the overall expected rate of return on assets, were determined with reference to EDP s target allocation and the best expectations for the long term returns on each of the following assets classes:

	2005			Expected rate of return on assets		
	Weight	**Real return**	**Long term expected return**	**Weight**	**Expected return on year**	**Long term expected return [4]**
Bonds [1]						
Government bonds	18.0%	3.8%	5.0%	16.0%	3.5%	5.0%
Corporate bonds [2]	32.0%	4.8%	5.5%	49.0%	6.0%	8.6%
Equities						
Global equities [3]	30.0%	6.0%	7.0%	5.0%	8.0%	9.0%
Alternatives						
Property	5.0%	5.5%	5.0%	7.0%	7.0%	8.0%
Private equity	5.0%	15.0%	20.0%	10.0%	10.0%	15.0%
Hedge funds	10.0%	7.0%	10.0%	13.0%	7.3%	10.0%
Cash						
Money market & short term funds	0.0%	2.5%	4.0%	0.0%	2.8%	3.5%
Total	100.0%	5.7%	7.0%	100.0%	6.3%	8.8%

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(1) Includes euro and international bonds hedged into Eur.			6.4%			7.6%

(2) Includes fixed and floating rate bonds.
(3) Includes international equities hedged into Eur.
(4) Time horizon is 5 years.

Other post-retirement benefits

EDP provides comprehensive medical coverage, in addition to that provided by the Portuguese national health system, for retired employees (including those who have taken early retirement) and their dependents. Additionally, the Company provides a death benefit to its retirees survivors. The Company manages the program internally and assumes the full cost of funding the program net of employee contributions amounting to approximately 10% of the total medical expenses covered.

A summary of the components of the net periodic post-retirement benefit cost under U.S. GAAP is presented in the following table:

	Group	
	2005	2004
	Euro 000	Euro 000
Service cost	8,143	8,044
Interest cost	37,207	34,946
Amortization of net actuarial losses	9,904	7,886
Amortization of transition obligation	4,853	4,873
Net periodic post-retirement benefit cost	60,107	55,749

The following table sets forth the changes and the funded status of the plan under U.S. GAAP as of December 31, 2005 and 2004:

	Group	
	2005	2004
	Euro 000	Euro 000
Change in benefit obligation		
Benefit obligation at the beginning of the year	725,575	660,255
Service cost	8,143	8,044
Interest cost	37,207	34,946
Actuarial losses	-23,184	28,956
Curtailments / Settlements	1,999	15,793
Currency fluctuation	6,742	3
Other	9,510	1,699
Benefit paid	-22,349	-24,121
Benefit obligation at the end of the year	743,643	725,575
Unfunded status of plan	-743,643	-725,575
Unrecognized (gains)/losses	199,959	224,625
Unrecognized transition obligation	27,425	37,892
Accrued benefit cost	-516,259	-463,058

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In accordance with FAS 87, EDP Group has performed a sensitivity analysis regarding Other post-retirement benefits, in accordance with the growth assumptions used as at December 31, 2005 for the projected obligations. The figures obtained for the activity in Portugal were as follows:

	%		Obligations
	2006 to 2012	after 2012	projected Euro 000
Assumptions at December 31, 2005	4.5%	4%	727,105
Increase of 1%	5.5%	5%	811,779
Decrease of 1%	3.5%	3%	658,402

The assumed discount rate and salary growth rate used in determining the accumulated post-retirement benefit obligation was 4.6% and 3.5%, respectively, as of December 31, 2005 and 5% and 3.5%, respectively, as of December 31, 2004.

FAS 106 allows recognition of the cumulative effect of the liability in the year of adoption or the amortization of the obligation over a period of up to 20 years. The Company has elected to recognize the initial post-retirement benefit obligation of Eur 101,455 thousand as of January 1, 1995, over a period of 17.7 years, the average remaining service period of the employee group.

Defined Contribution Plans

Hidrocantábrico in Spain, Bandeirante, Escelsa and Enersul in Brazil have social benefits defined contribution plans that complement those benefits granted by the Social Welfare Systems to the companies employees, under which they pay a contribution to these plans each year, calculated in accordance with the rules established in each case. The payments in 2005 and 2004 were as follows:

	Social Welfare System		Defined Contribution plan		Total payments	
	2005	2004	2005	2004	2005	2004
Hidrocantábrico Group	16,107	18,452	3,798	2,885	19,905	21,337
Bandeirante	4,347	3,629	228	146	4,575	3,775
Escelsa	6,638	6,081	1,157	100	7,795	6,181
Enersul	4,789	4,145	5		4,794	4,145

Comprehensive income

For purposes of presenting its reconciliation of shareholders net equity and net income from Portuguese GAAP to U.S. GAAP, in 1998 the Company adopted FAS 130, Reporting Comprehensive Income . This standard requires reporting the components of comprehensive income, the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from non-owner sources, and the components thereof in an entity s financial statements. The non-owner changes in equity that have not been included in income include accounts such as foreign currency translation adjustments and unrealized gains and losses on available-for-sale securities and additional minimum pension liabilities, as well as unrealized gains/losses from effective cash flow hedges. The adoption of FAS 130 resulted in revised and additional disclosures for U.S. GAAP reporting purposes, but had no effect on the financial position, results of operations, or liquidity of the Company.

The comprehensive income for each of the two years in the period ended December 31, 2005 and 2004 is as follows:

	Group	
	2005	2004
	Euro 000	Euro 000
Net income in accordance with U.S. GAAP	1,108,911	238,599
Change in currency translation adjustment	142,610	936
Unrealized gains (losses) on investments	-18,840	475
Tax effect of unrealized gains (losses) on investments	7,860	-6,474
Cash-flow hedge	-16,066	-643
Tax effect on cash-flow hedge	3,931	177
Additional minimum pension liability	83,973	22,305
Tax effect on additional minimum liability	-23,093	-6,134
Comprehensive income	1,289,286	249,241

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Accumulated Comprehensive Income as at December 31, 2005 and 2004 is analyzed as follows:

	Group	
	2005	**2004**
	Euro 000	**Euro 000**
Change in currency translation adjustment	-428,955	-571,565
Unrealized gains (losses) on investments	-7,609	11,231
Tax effect of unrealized gains (losses) on investments	-93	-7,953
Cash-flow hedge	-16,709	-643
Tax effect on cash-flow hedge	4,108	177
Additional minimum pension liability	-187,536	-271,509
Tax effect on additional minimum liability	63,475	86,568
	-573,319	-753,694

Earnings per ordinary share

Basic earnings per share is based upon the weighted average number of Ordinary Shares outstanding during the year. Diluted earnings per share is computed on the basis of the weighted average number of Ordinary Shares outstanding during the year plus the effect of Ordinary Shares issuable upon the exercise of employee stock options using the treasury stock method. The Company established stock option plans, the shares issued under these plans had no effect on the weighted average Ordinary Shares outstanding, for the periods presented because the effect of such options was anti-dilutive. Ten Ordinary Shares equal one American Depository Share (ADS).

As at December 31, 2004, under IFRS, Group Edinfor was stated as a discontinued operation. Under U.S. GAAP, since EDP retained a 40% interest in Edinfor, substantially all cash flows have not been and will not be eliminated and EDP will have continuing significant involvement. As a result, under U.S. GAAP, such items are qualified as continuing operations.

Considering that there is a difference in the carrying amount of Comunitel as under IFRS goodwill was depreciated until December 31, 2003, whereas under U.S. GAAP goodwill ceased to be amortized from 2001 onwards, the gain on sale of this subsidiary was adjusted for U.S. GAAP purposes.

	Group	
	2005	**2004**
	Euro 000	**Euro 000**
Net income IFRS	1,071,102	42,815
Net income - U.S. GAAP	1,108,911	238,599
Net income from continuing operations:		
Net income IFRS	1,030,487	42,586
Net income - U.S. GAAP	1,100,479	238,599
Weighted average Ordinary Shares outstanding	3,639,274,980	3,039,526,910
Weighted average ADS outstanding	363,927,498	303,952,691

		Group 2005	2004
		Euro	**Euro**
Net income per Ordinary Share:			
Basic and diluted	IFRS	0.29	0.01
Basic and diluted	U.S. GAAP	0.30	0.08
Net income from continuing operations:			
Basic and diluted	IFRS	0.28	0.01
Basic and diluted	U.S. GAAP	0.30	0.08
Net income per ADS:			
Basic and diluted	IFRS	2.94	0.14
Basic and diluted	U.S. GAAP	3.05	0.78
Net income from continuing operations:			
Basic and diluted	IFRS	2.83	0.14
Basic and diluted	U.S. GAAP	3.02	0.78

The dividend per share for the years 2004 and 2005 was Eur 0.09243 per share and Eur 0.10 per share, respectively.

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Goodwill

For U.S. GAAP purposes, the goodwill for each reportable segment is as such:

	Balance January 1 Euro 000	Acquisitions Euro 000	Disposals Euro 000	Regularization Euro 000	Balance December 31 Euro 000
Goodwill under IFRS	2,070,909	57,391	-78,899	-2,577	2,046,824
Adjustments to US GAAP:					
Reversal of IFRS depreciation	66,335				66,335
Goodwill impairment	-11,553				-11,553
Disposals			-18,119		-18,119
Goodwill under U.S. GAAP	2,125,691	57,391	-97,018	-2,577	2,083,487

From January 1, 2002, goodwill is no longer amortized under U.S. GAAP but reviewed annually for impairment under FAS 142 Goodwill and Other Intangible Assets .

Goodwill amortization in 2002 and 2003, of Eur 11,896 thousand and Eur 54,439 thousand, respectively, is charged against IFRS earnings and reversed in the U.S. GAAP reconciliation.

Under U.S. GAAP, an impairment in goodwill of Eur 11,553 thousand related to the information technologies business was identified and charged against earnings in 2004, and the disposal of Group companies in 2005 resulted in the write-back of the reversal of amortization previously made under U.S. GAAP, in the amount of Eur 18,119 thousand (including the disposal of Comunitel in the amount of Eur 17,428 thousand).

Proportionate consolidation

Under IFRS, joint controlled entities are accounted under proportionate consolidation method. Under US GAAP the proportionate method is not allowed, consequently these entities are accounted for under the equity method. The differences in accounting treatment between proportionate consolidation and the equity method of accounting have no impact on reported stockholders equity or net income. Rather, they relate solely to matters of classification and disclosure.

The financial information relating to the companies consolidated by the proportionate method is detailed in Note 17.

Intangible assets

For concession rights and other intangible assets, subject to amortization under U.S. GAAP, the aggregate amortization expense for the current year and estimated aggregate amortization expense for each of the five succeeding fiscal years are:

Aggregate amortization expense	
2005	67,354

Estimated amortization expense	
2006	74,962
2007	79,463
2008	81,600
2009	85,870
2010	73,950

EDP Group pro-forma profit and loss account considering the acquisition of Hidrocantábrico Group as at January 1, 2004

As at December 31, 2004 and resulting from an additional investment of 56.2%, the Hidrocantábrico Group is consolidated under the full consolidation method in the balance sheet.

EDP Group pro-forma results of operations for the year ended December 31, 2004, under IFRS assuming the acquisition of the referred 56.2% interest in Hidrocantábrico Group had occurred on January 1, 2004, is analyzed as follows:

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	Consolidated income statement as reported Euro 000	Adjustments Euro 000	Consolidated pro-forma income statement Euro 000
Sales	6,788,403	745,752	7,534,155
Cost of sales	-3,943,506	-433,563	-4,377,069
Gross margin	2,844,897	312,189	3,157,086
Other operating income			
Services rendered	522,285	34,401	556,686
Other operating income	76,721	12,915	89,636
	599,006	47,316	646,322
Other operating expenses			
Supplies and services	-660,894	-60,377	-721,271
Personnel costs	-967,778	-58,627	-1,026,405
Other expenses	-684,362	-25,831	-710,193
	-2,313,034	-144,835	-2,457,869
Gross operating margin	1,130,869	214,670	1,345,539
Provisions	-64,289	1,469	-62,820
Depreciation and amortization	-749,340	-68,637	-817,977
Operating margin	317,240	147,502	464,742
Gains from the sale of financial assets	9,962	12,894	22,856
Financial income	391,831	8,374	400,205
Financial expenses	-660,318	-60,169	-720,487
Share of profit of associates	3,747	1,878	5,625
Profit before taxes	62,462	110,479	172,941
Income tax expense	-16,371	-34,994	-51,365
Profit after taxes	46,091	75,485	121,576
Attributable to:			
Equity holders of EDP	42,815	62,140	104,955
Minority interests	3,276	13,345	16,621
Profit for the year	46,091	75,485	121,576

49. Relevant and subsequent events

The relevant and subsequent events occurred after the issue of EDP IFRS consolidated financial statements, are the following:

Caixa Geral de Depósitos increases ownership in EDP s Share Capital

Since April 3, 2006 Caixa Geral de Depósitos, S.A. (CGD) holds, direct and indirectly, 186,405,192 EDP shares, representing 5.098% of the company s share capital and 5.117% of the total voting rights.

ANEEL approves a 16.75% tariff increase at Enersul s annual tariff readjustment process

The Brazilian electricity regulator, ANEEL, approved on April 6, 2006 a 16.75% annual tariff readjustment index for Enersul, for the period from April 2006 to March 2007.

Considering the financial adjustments included in the last period s tariffs (non-recurring items), which are associated to the recovery of tariff differences incurred in the past, the current tariff readjustment results in an effective average tariff increase of 10.33% to be applied to Enersul s tariffs from April 2006.

Within an annual tariff readjustment process, ANEEL recognizes in the tariffs of the distribution companies the pass-through of some cost components incurred in the previous twelve months, namely i) the annual change in non-controllable costs (Parcela A) and ii) the adjustment of the controllable costs (Parcela B) to inflation (IGP-M) corrected by an X Factor. In addition, the regulator also recognizes financial adjustments, which usually correspond to the recovery, for a twelve months period, of the non-controllable costs incurred in the past that were not covered through the tariffs.

Enersul s April 2006 tariff readjustment process includes the recovery of the deferred tariff increase defined in the 2003 revision process. By the time of Enersul s 2003 tariff revision process (April 2003 to April 2008 regulatory period) ANEEL approved a 50.81% increase, of which 32.59% were effectively applied to April 2003 tariffs, while the remaining was deferred in equal parts to be recovered through the annual tariff readjustments until April 2007.

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Payment of Dividends - Financial Year 2005

The General Shareholders Meeting of EDP - Energias de Portugal, S.A. held on March 30, 2006 approved the proposal of the Board of Directors for distribution of profits regarding the financial year ended December 31, 2005, providing a gross dividend per share of 0.10 Euros.

Early reimbursement of EDP s 22nd June bond issue

In accordance with the initial terms of the EDP 22nd June bond issue, as of April 10, 2006, 55,750 bonds have been redeemed.

Iberdrola increases ownership in EDP

In April 2006, Iberdrola increased its position in the share capital of EDP from 5,7% to 9,5%, being at the present, the major private shareholder.

Naturgas acquires full control of Bilbogas

Naturgas Energía Grupo, S.A. (Naturgas) EDP Group s company for gas transport, distribution and supply in Spain obtained in May 3, 2006 the control of 100% of the gas distribution company Bilbogas, S.A. (Bilbogas), following regulatory approval of the agreement signed with the Municipality of Bilbao, regarding the acquisition of the remaining 50% of Bilbogas share capital. This transaction amounted to Eur 35 million.

During the last months, Naturgas also concluded negotiations with local municipalities to acquire the remaining 45% in the share capital of two other gas distribution companies in the Basque Country: Gas Hernani and Gas Pasaia. The agreed value for both of these transactions amounted to approximately Eur 1 million.

EDP concludes the increase of its indirect shareholding in Portgás and Setgas

EDP concluded on May 11, 2006 the acquisition of a 49% shareholding in NQF Gás, S.A. previously owned by Endesa Gás. This transaction amounted to Eur 58.7 million, which comprises the amount of Eur 49.4 million for the share capital of the company and Eur 9.3 million for the respective shareholders loans. The agreement was conditional to certain proceedings, including the decision of non-opposition by the Portuguese Competition Authority, which were only fully achieved at the end of April.

With this transaction, EDP becomes the sole shareholder of NQF Gás, S.A., thus increasing its direct and indirect shareholdings in Portgás Sociedade de Produção e Distribuição de Gás, S.A. (Portgás) and Setgás Sociedade de Produção e Distribuição de Gás, S.A. (Setgas) to 72.0% and of 19.8%, respectively.

EDP issues Eur 1,500 million Eurobond in three series

EDP Finance BV issued Eurobonds in the total amount of Eur 1,500,000,000 as follows:

Eur 500,000,000 due June 14, 2010 with coupon equal to a floating rate of 3 months Euribor + 0.15%.

Eur 500,000,000 due June 12, 2012, with an annual coupon of 4.25 %.

Eur 500,000,000 due June 13, 2016, with an annual coupon of 4.625 %.

The issue was done under EDP Energias de Portugal, S.A. (EDP) and EDP Finance B.V. s Eur 7,000,000,000 Programme for the Issuance of Debt Instruments and application will be made for the Eurobond to be admitted to official listing on the London Stock Exchange to replace debt maturing in 2007. This issue aims to extend the average maturity of debt portfolio and diversifying the investor base.

The transaction was announced on May 30, 2006 and priced on June 2, 2006.

EDP starts a procedure for the sale of its shareholding in ONI

In a meeting held on the 22 June 2006, the Board of Directors of EDP Energias de Portugal, S.A. (EDP), decided to grant a mandate to the Executive Committee in order to start a procedure envisaging the potential sale of EDP s 56.61% shareholding in ONI.

For this purpose EDP shall engage an investment bank, which shall advise in such procedure, namely in relation to the identification of potential buyers and in the selection of the proposals. ONI is a Portuguese fixed-line telecom operator specialized in the rendering of voice and data services.

ONI s current shareholder structure is composed as follows: EDP (56.61%), BCP Group (23.06%), Brisa (17.18%) and GaIp Energia Group (3.16%).

Mibel (Iberian Electricity Market)

The MIBEL was defined in the International Agreement between the Portuguese Republic and the Kingdom of Spain for the Constitution of an Iberian Electricity Market.

On July 3, 2006, OMIP s commercial activity begun. OMIP is the managing entity responsible for the organization of the Portuguese division of MIBEL, ensuring the management of the MIBEL derivatives market, jointly with OMIClear - (Energy Markets Clearing Company) Sociedade de Compensação de Mercados de Energia S.A., a company constituted and totally owned by OMIP, which executes the role of Clearing House and Central Counterparty of operations carried out on the market.

The main objectives of OMIP are contribute to the development of the Iberian Electricity market, promote Iberian Reference Prices and supply clients with efficient risk management tools.