energias de portugal

1Q2006 Results

May 25, 2006

EDP: KEY CONSOLIDATED FINANCIAL FIGURES

Income Statement
€ million

	1Q06	1Q05	Change	%
Gross Profit	1.012	981	+30	3.1%
EBITDA*	569	561	+8	1.4%
EBIT*	352	362	-10	-2.9%
Financial Results	17	(75)	+136	-
Net Profit	237	217	+20	9.3%
CAPEX	196	191	+5	2.6%

* Excluding discontinued operations

Main Highlights (1/2)

1. EDP's consolidated net profit in the 1Q2006 **rose 9% YoY.**

2. The **regulated core business in Iberia** – comprising the PPAs and the electricity and gas distribution activities which represent 62% of the Group's consolidated gross profit - posted a stable performance in the 1Q06 (+€10m).

3. In the Iberian liberalized market, our **electricity generation activity** benefited from the sharp rise in wholesale prices during the first months of 2006, contributing for a significant increase in gross profit (+€48m) in the 1Q06.

4. In the **supply business in Iberia**, the low flexibility of older clients' contracts and the increase of electricity wholesale prices resulted in a deterioration of this activity's gross profit during the period (-€69m).

5. The publication of the **Royal Decree-Law 03/2006** in Spain had a negative impact (-€33m EBITDA) as a result of (i) the provisioning of the potential withdraw of the economic value of the CO_2 licenses granted for free related to generation sales to the pool between Jan-06 and Feb-06 (€11m); (ii) the settlement of a provisional €42.35/MWh on the unit cost of purchased electricity by the distribution companies during March (€4m) and (iii) the booking of a provision for other potential regulatory risks (€18m).

Main Highlights (2/2)

6. EDP's **renewable energy** installed capacity rose by 72% to 1,024MW surpassing for the first time the 1,000 MW threshold and allowing a strong growth of NEO's contribution to EDP's gross profit (+€30m). This was achieved both through organic growth (155 MW) and through acquisitions (Desa 224 MW and Tecneira 50 MW).

7. Good operating performance at **Energias do Brasil** and a 31% appreciation of the Brazilian Real during the period resulted in a healthy growth of our Brazilian operations' gross profit (+€60m).

8. The evolution of **operating costs** (personnel and supplies & services) remained under control, increasing by approximately 3% YoY, in line with +2.5% average increase of CPI (Mar-06).

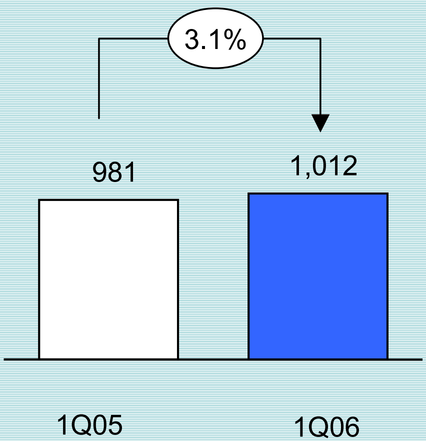
9. Improvement of **Financial Results** (+€92m) backed by the partial reversion of the 2005 provision following the positive impact of the recent increases in interest rates on the fair value of the CMEC derivative (+€103m). This was partly offset by the booking, this quarter, of a provision related to financial guarantees given by EDP on Electra's debt (Cape Verde).

10. EDP's consolidated **net financial debt** decreased by €333m from December 2005 to €9,130m.

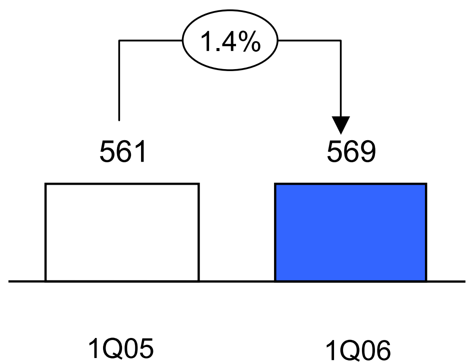
NET PROFIT UP 9% SUPPORTED BY GROWTH IN RENEWABLES, GOOD BRAZILIAN OPERATIONS AND REVALUATION OF THE CMEC'S SWAP

% change

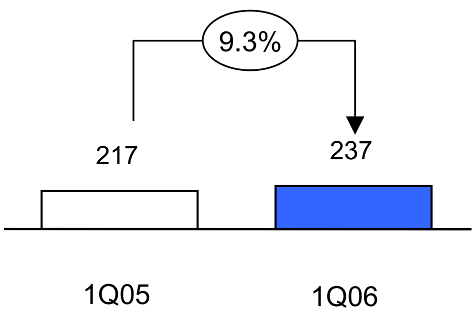
Gross Profit
€ million



EBITDA*
€ million



Net Profit
€ million



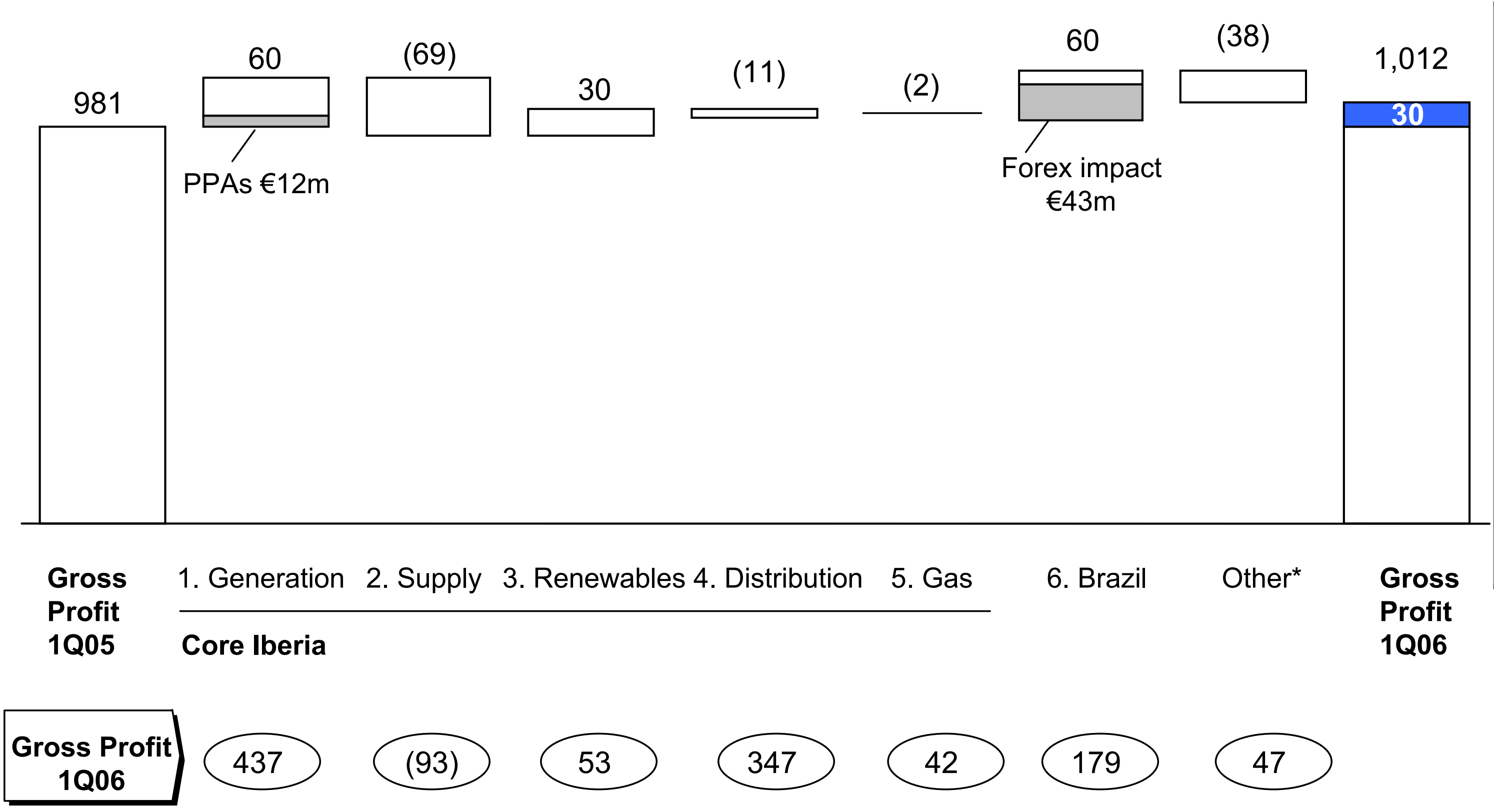
(1) Gross margin improvement in generation supported by high wholesale prices, (2) good performance in Brazil magnified by the appreciation of the Brazilian Real (3) negative impact in Spain from the Real Decreto Ley 03/2006 regulatory framework which penalized EBITDA performance

The increase in interest rates and the resulting revaluation of CMEC's *swap* had a positive impact on the Group's Net Income

* Excluding discontinued operations

GROSS PROFIT SUPPORTED BY CAPACITY INCREASES IN RENEWABLES IN IBERIA AND GOOD PERFORMANCE FROM BRAZIL

Gross profit evolution: 1Q06 vs. 1Q05
€ millions

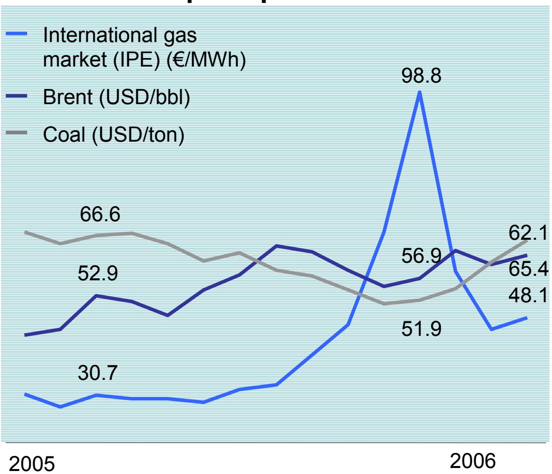


- **In Iberia the higher gross profit in generation was mitigated by the losses in supply**
- **Growth in renewables supported by the acquisition of Desa and the higher pool prices**
- **The improved operating performance in Brazil was magnified by the BRL appreciation versus EUR**

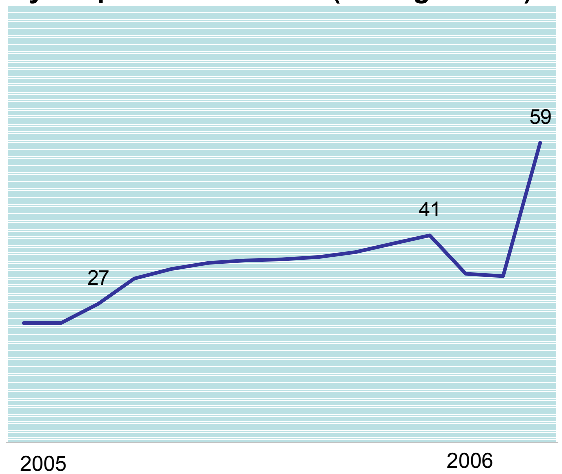
* Includes the consolidation perimeter impact from the disposal of Comunitel (-€39m)

IBERIAN ELECTRICITY PRICES DRIVEN BY (1) INTERNALIZATION OF CO2 COSTS, (2) FUEL PRICES AND (3) HIGHER DEMAND FOR PEAK CAPACITY

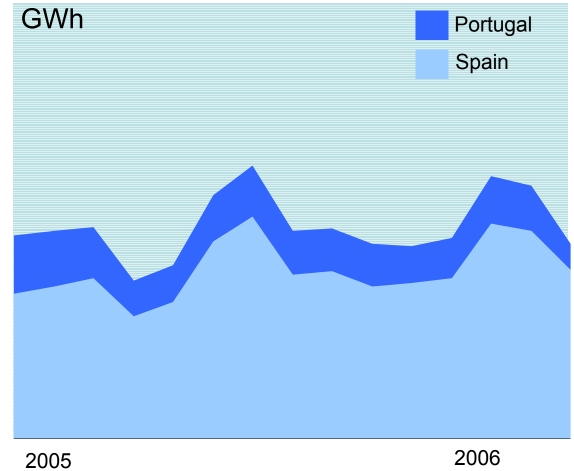
Commodities price performance



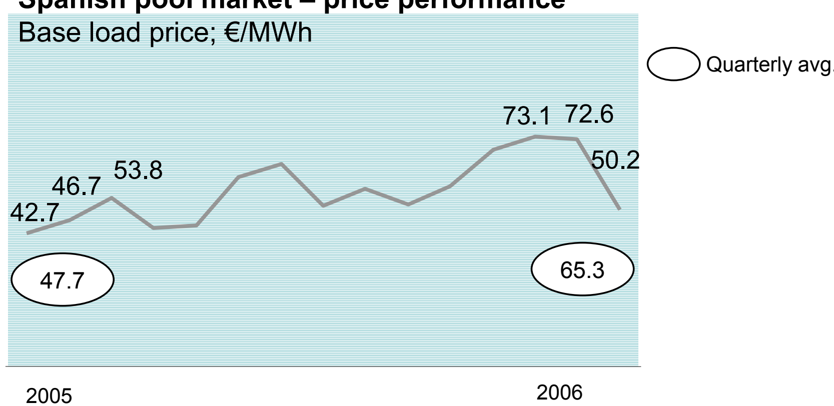
Hydro production index (average = 100)



Residual demand in the market*

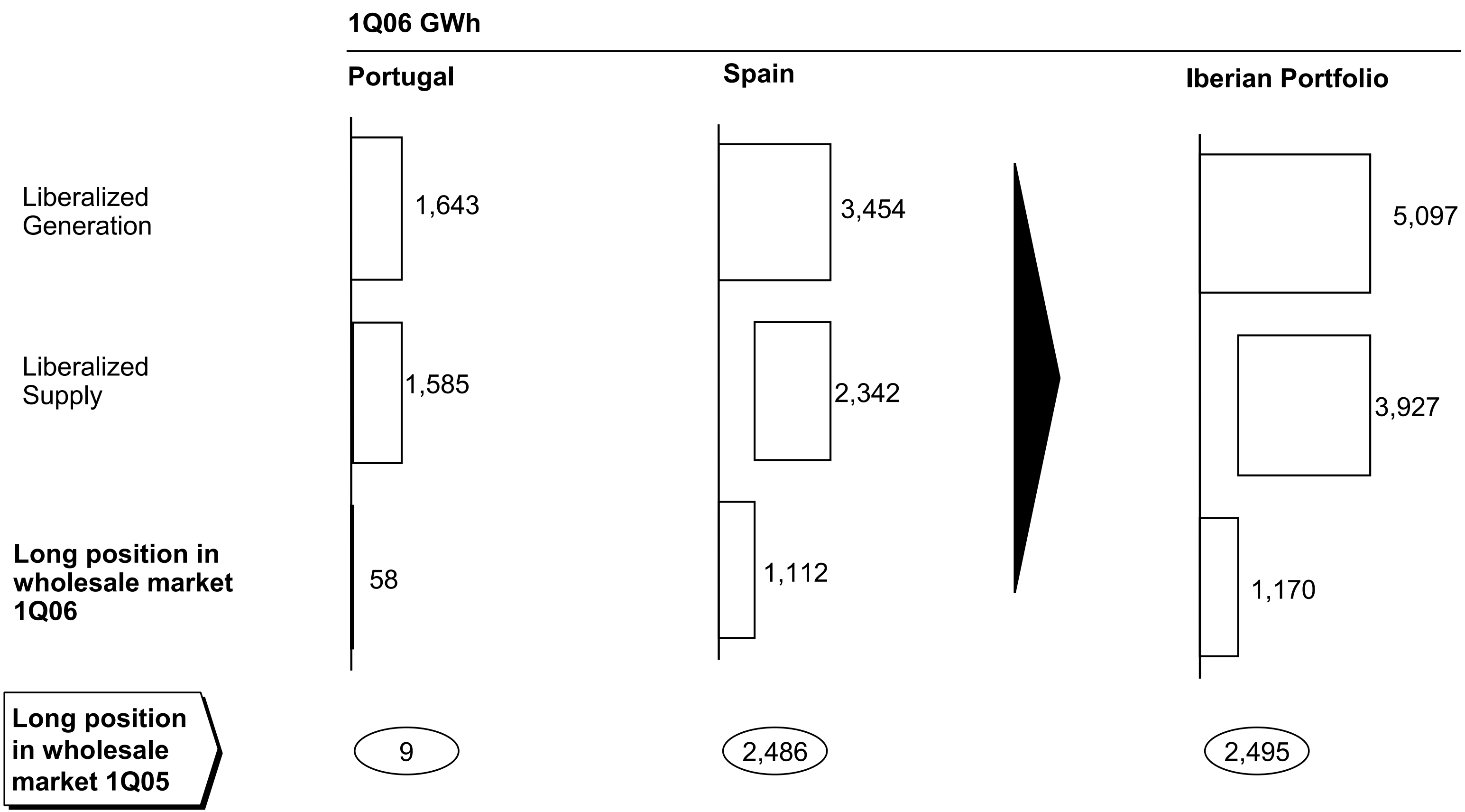


Spanish pool market – price performance



* Includes output evolution of marginal plants (fueloil plants and CCGTs) in the two markets

EDP'S LONG POSITION IN THE IBERIAN WHOLESALE ELECTRICITY MARKET WAS 1,325 GWh LOWER THAN IN THE 1Q2005



Slight increase of long position in Portugal supported by the start up of the third 400MW group of Ribatejo's CCGT

Reduction of long position in Spain due to (i) the Higher number of customers and (ii) maintenance works at Castejón CCGT

More balanced Iberian portfolio between liberalized electricity generation and supply but lower exposition to wholesale prices

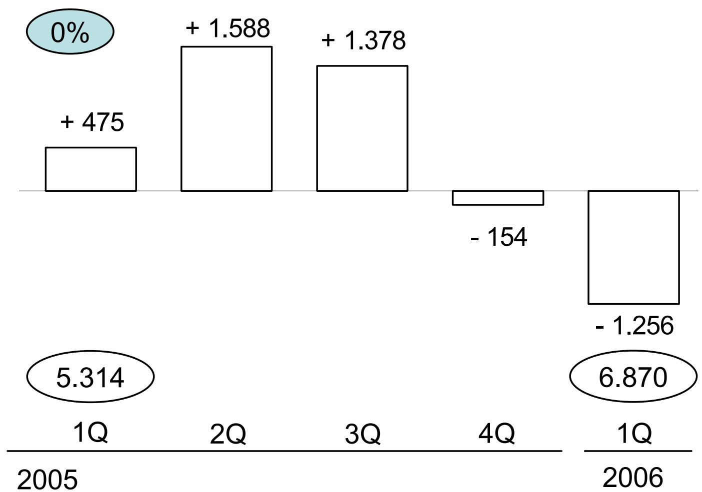
CURRENT CONTRACT PORTFOLIO CONDITIONS DRIVE DISTINCT COMMERCIAL APPROACHES FOR PORTUGAL AND SPAIN

% demand from customers outside of incumbent distribution areas

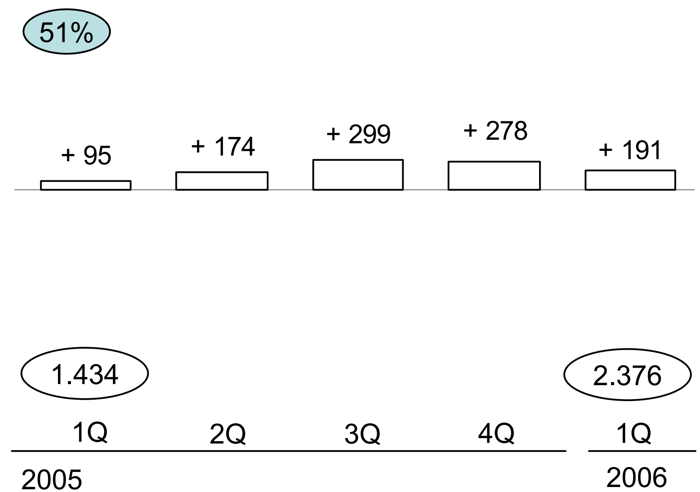
customers

Quarterly change in the number of liberalized B2B customers (electricity)

Portugal



Spain



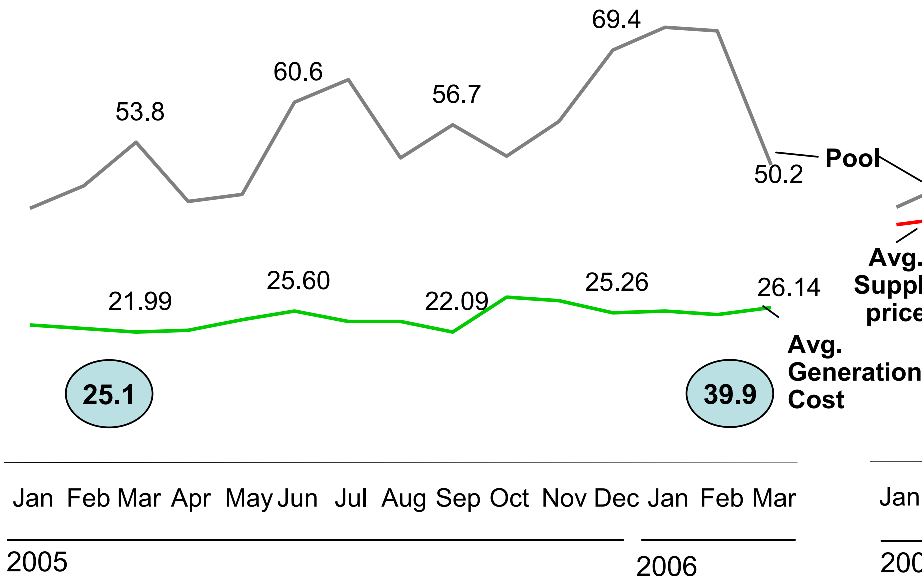
- **Older contracts' portfolio with lower flexibility for repricing or early termination**
- **Ongoing selective portfolio adjustment:**
  - **Repricing upon contract maturity and incorporation of adjustment clauses, or…**
  - **Termination of contract upon maturity.**

- **More flexible contracts has allowed the renegotiation of the less attractive ones**
- **New contracts only when selling price is above reference supply price**
- **New regulation, improved pricing and recent decline of wholesale prices should lead to better gross margins in supply**

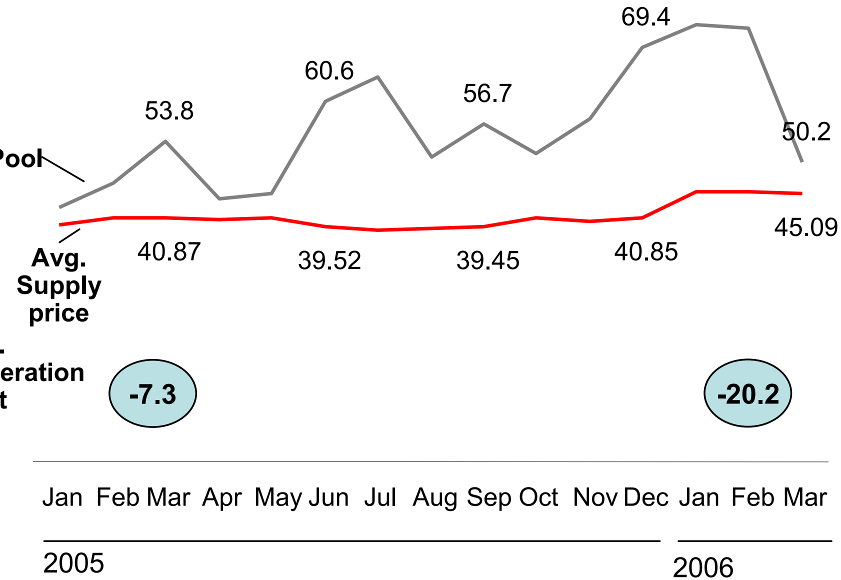
ON A GROUP PERSPECTIVE, NEGATIVE MARGINS IN SUPPLY WERE MORE THAN COMPENSATED BY THE INCREASE OF MARGINS IN GENERATION

Avg. Quarterly Spread

Generation margin in the liberalized market
Euro/MWh

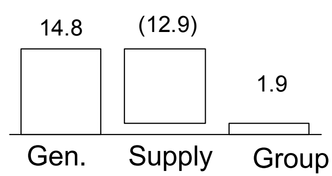


Supply margin in the liberalized market
Euro/MWh



Margin in generation went up by €14.8/MWh supported by higher wholesale prices in the pool

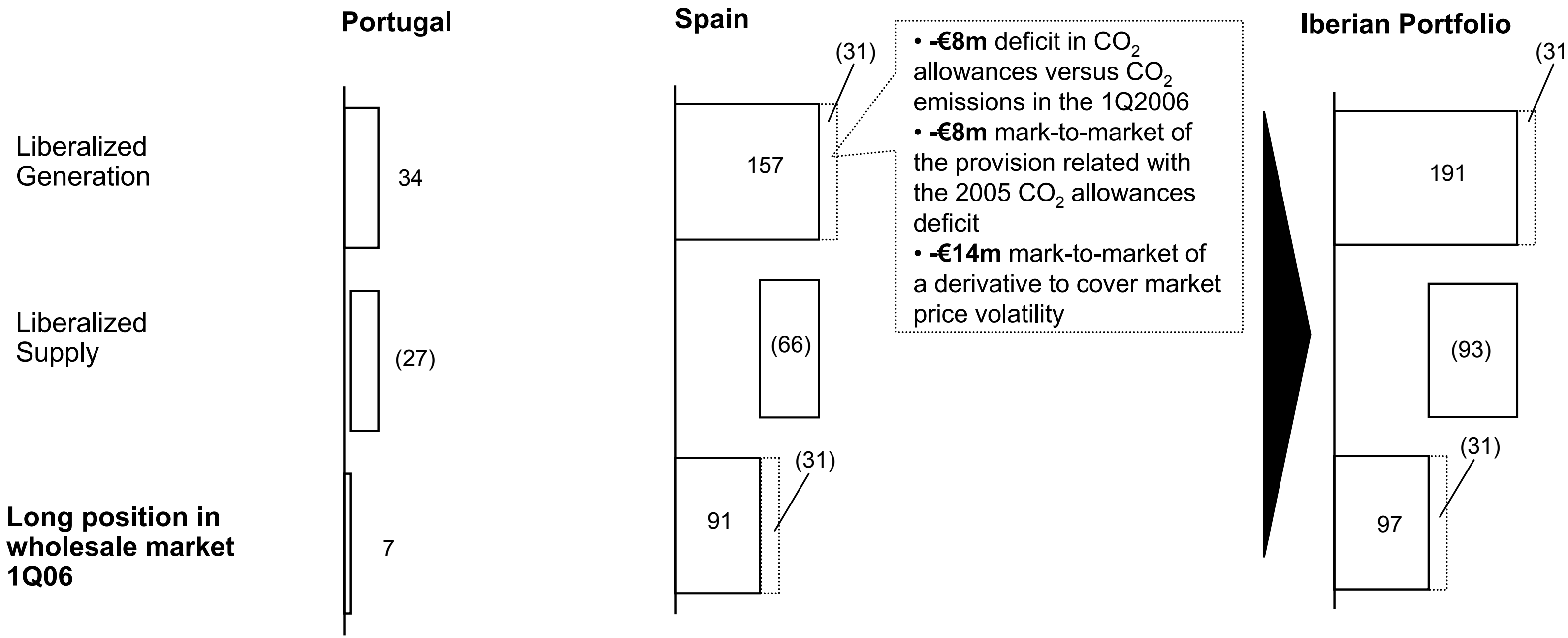
Change of margin per MWh
Euro/MWh



Margin in supply fell by €12.9/MWh due to the lack of flexibility of existing contacts which are not indexed to pool prices

DECLINE OF LIBERALIZED ACTIVITY'S GROSS PROFIT IN IBERIA ALSO INFLUENCED BY THE PROVISIONING OF CO_2 COSTS

Gross Profit 1Q06
€ million



Long position in wholesale market 1Q05	Portugal	Spain	Iberian Portfolio
	16	104	119

Effect of a longer position in liberalized generation but with a deterioration of supply margins in Portugal

Effect of (i) higher contracted volumes thus lower exposure to high pool prices; (ii) CO_2 costs; and (iii) fixing of selling price in OTC

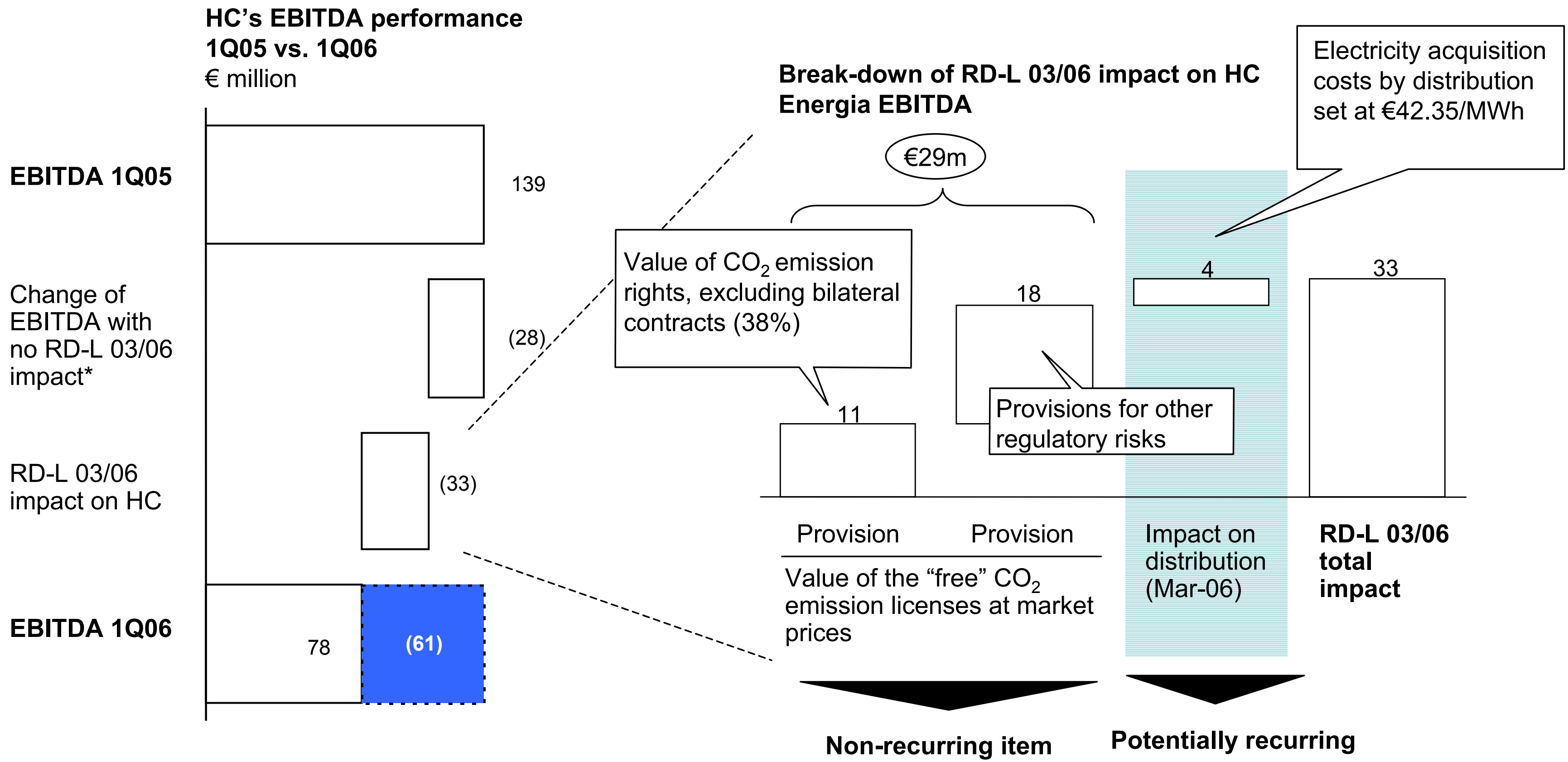
Improved integrated unit margin mitigated by CO_2 and OTC's effects in Spain, resulting in a €22m reduction in the Iberian gross profit

CHANGE OF REGULATORY FRAMEWORK IN SPAIN
IMPLEMENTATION OF THE REAL DECRETO-LEY 03/06

edp

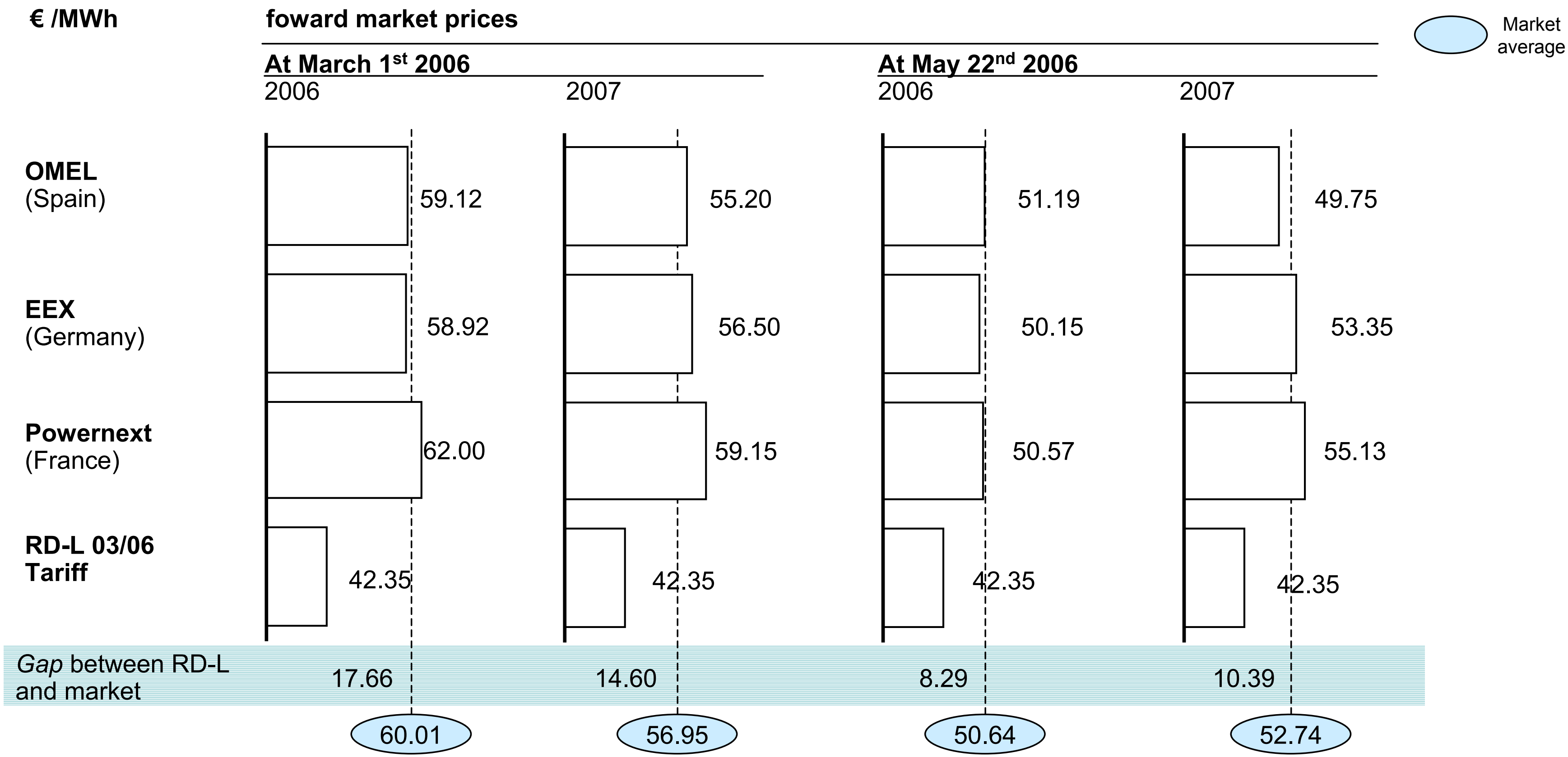
RD-L Implementation		Description
The main objective of the Real Decreto-Ley 03/06 is to limit the creation of high tariff deficits in the Spanish electricity system	**Companies may have to give back the value of the CO_2 emission licenses granted for free by the government**	• The government may reduce the system deficit through the attribution of a market value to the CO2 emission licenses previously granted for free to the electricity sector. • This measure should have a retroactive impact and companies may have to pay for the total CO_2 licenses granted for January and February 2006. • From March onwards, companies may have to give back to the system the value of CO_2 emission licenses previously granted for free only on the generation output sold in the pool (excluded bilateral contracts entered into by generation companies)
	New regulatory framework for the electricity market	• Electricity volumes acquired by the distribution companies from generation companies which are vertically integrated have to be netted against each other. • Definition of a provisional €42.35/MWh as the value the regulator will accept to pay the distribution companies on their electricity purchases. • A revision of this tariff, expected before year-end, will take into account the wholesale prices of the most relevant European electricity markets.

PROVISIONAL IMPACT OF THE REAL DECRETO-LEY 03/2006 ON HC ENERGIA



* This decline is driven by a non-recurring purchase of natural gas in the spot market at a higher than the existing contract's price (-€15.1m) and the transfer of Genesa to NEO perimeter

WHOLESALE TARIFF SET BY RD-L 03/2006 CLEARLY BELOW ELECTRICITY PRICES IN OTHER RELEVANT EUROPEAN MARKETS

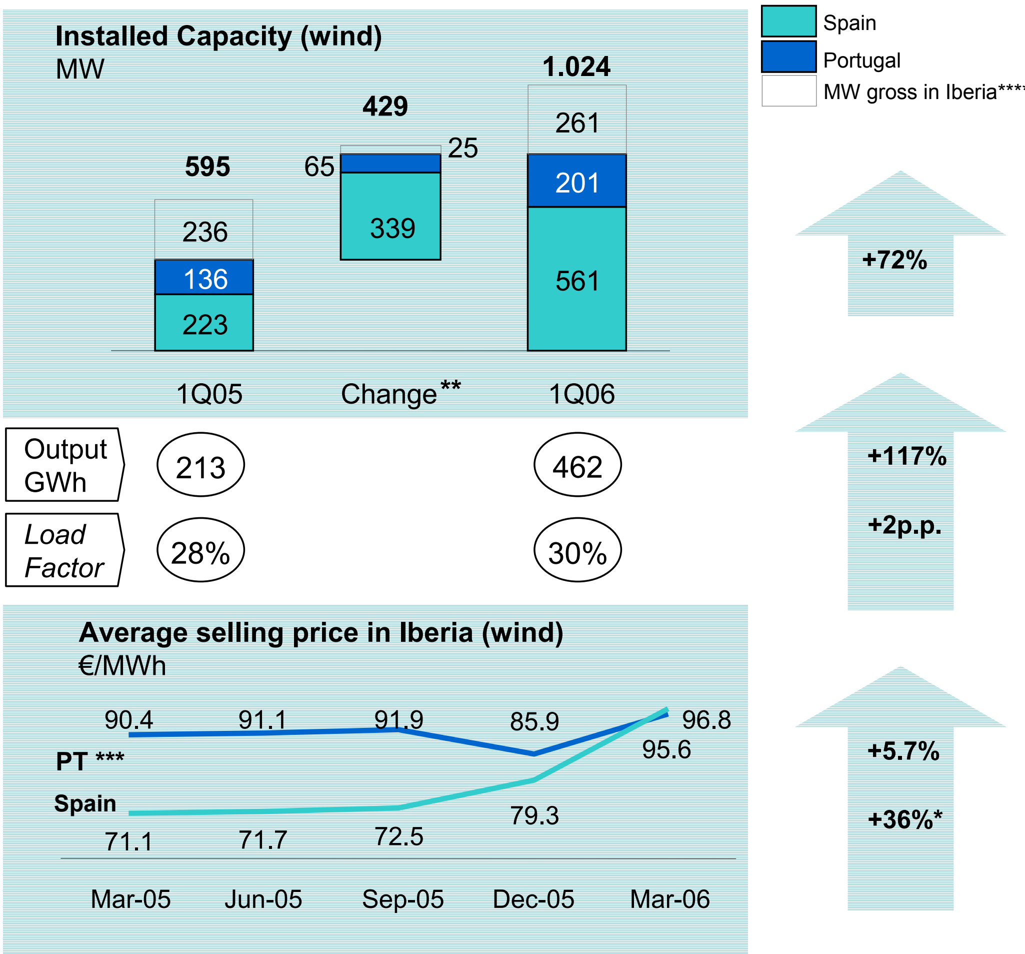


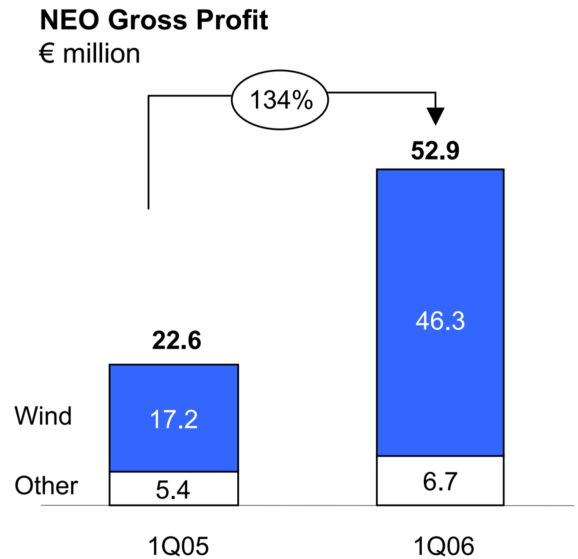
On the date of its publication, RD-L 03/06 tariff was already below market prices

Even following the price decline of CO_2 emission rights, the RD-L tariff is below market prices

Prices are sustainable above 50 €/MWh with a minimum *gap* of 8.29 €/MWh to that of RD-L 03/06

GROWTH IN IBERIAN RENEWABLES SUPPORTED BY CAPACITY INCREASES AND HIGHER SELLING PRICES IN SPAIN

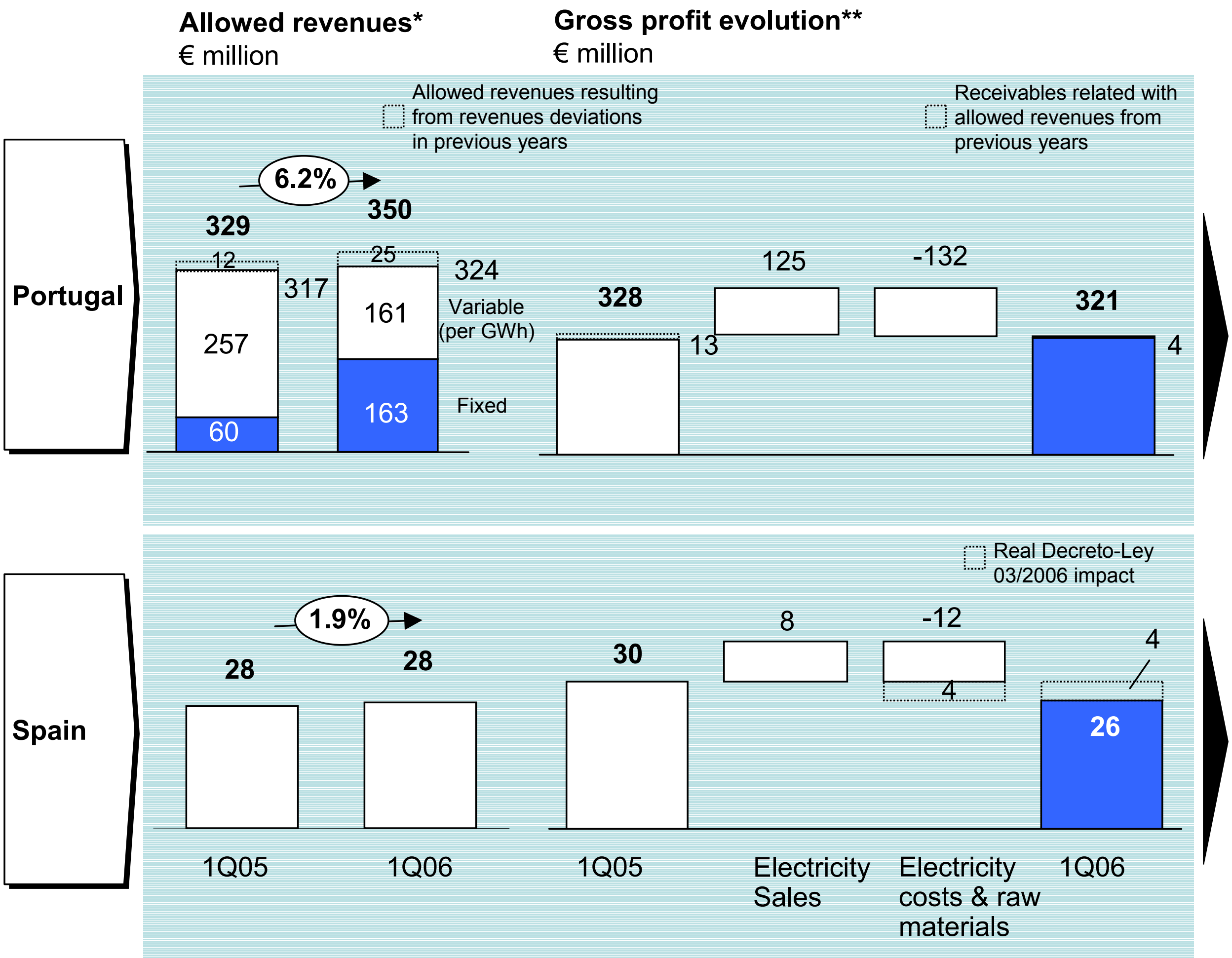




Gross Profit +€28m in wind farms due to higher output (+€18m), and higher selling prices in Spain (+€10m)

* Transfer of wind farms from tariff system to market price (pool)
** Acquisition of DESA in the end of 2005 represents 224MW, and the wind farms of Bolores and Eneraltius to Tecneira in early 2006 (50MW), plus the construction of new wind farms
*** Wind generation tariff in Portugal depends on the load factor of each wind farm
**** MW which to not contribute to EBITDA (equity consolidated)

INCREASE OF ELECTRICITY PRICE PAID TO REN AND RD 03/2006 WITH NEGATIVE IMPACT ON GROSS MARGIN IN DISTRIBUTION

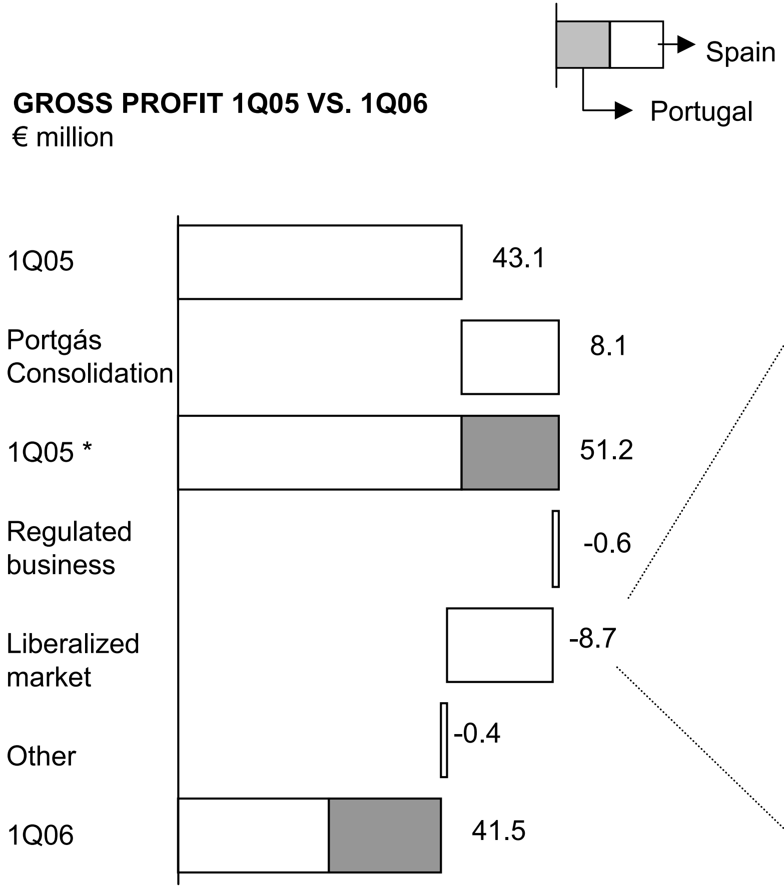


- Increase of allowed revenues due to:
  - Demand growth by 5.7%***, mitigated by decline of average revenue per MWh to €26.7/MWh (-3.4%)
- Higher electricity procurement costs due to higher consumption (+€25m) and higher procurement price (+€107m) as a result of higher fuel costs and general system costs (renewables and other).
- Receivables from previous years does not include accrued costs with high fuel prices in 2005 which generated the current tariff deficit
- Purchase of electricity by distribution in wholesale market at a price above €42.35/MWh generated a €3,9m loss

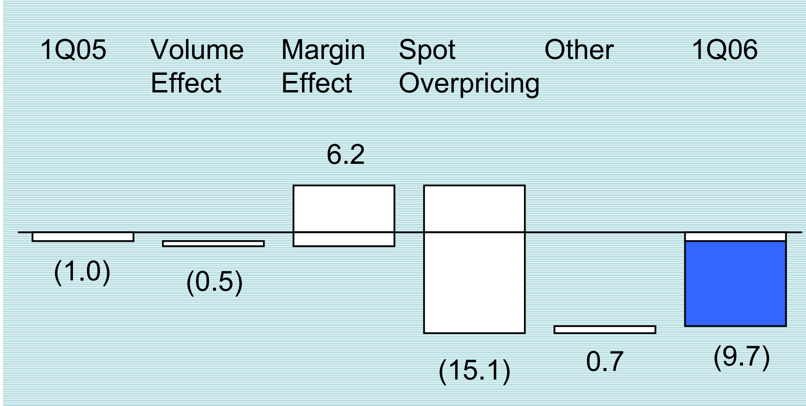
* Deviation between regulated revenues and tariffs received not recognized in P&L under IFRS
** Includes the net impact from other services and sales and costs with fuel and materials, which represents +€0.1m in Portugal and +€2.2m in Spain
*** Strong consumption growth in Portugal (+5.7%) with high contribution of cogenerators (+1.7p.p.), temperature effect and working days (+0.2p.p.) and adjustment on 2005 consumption level (+1.7p.p.).

CONSOLIDATION OF PORTGÁS AND INCREASE OF PROCUREMENT COSTS IN SPAIN FOLLOWING GAS ACQUISITION IN THE SPOT MARKET

GROSS PROFIT 1Q05 VS. 1Q06
€ million



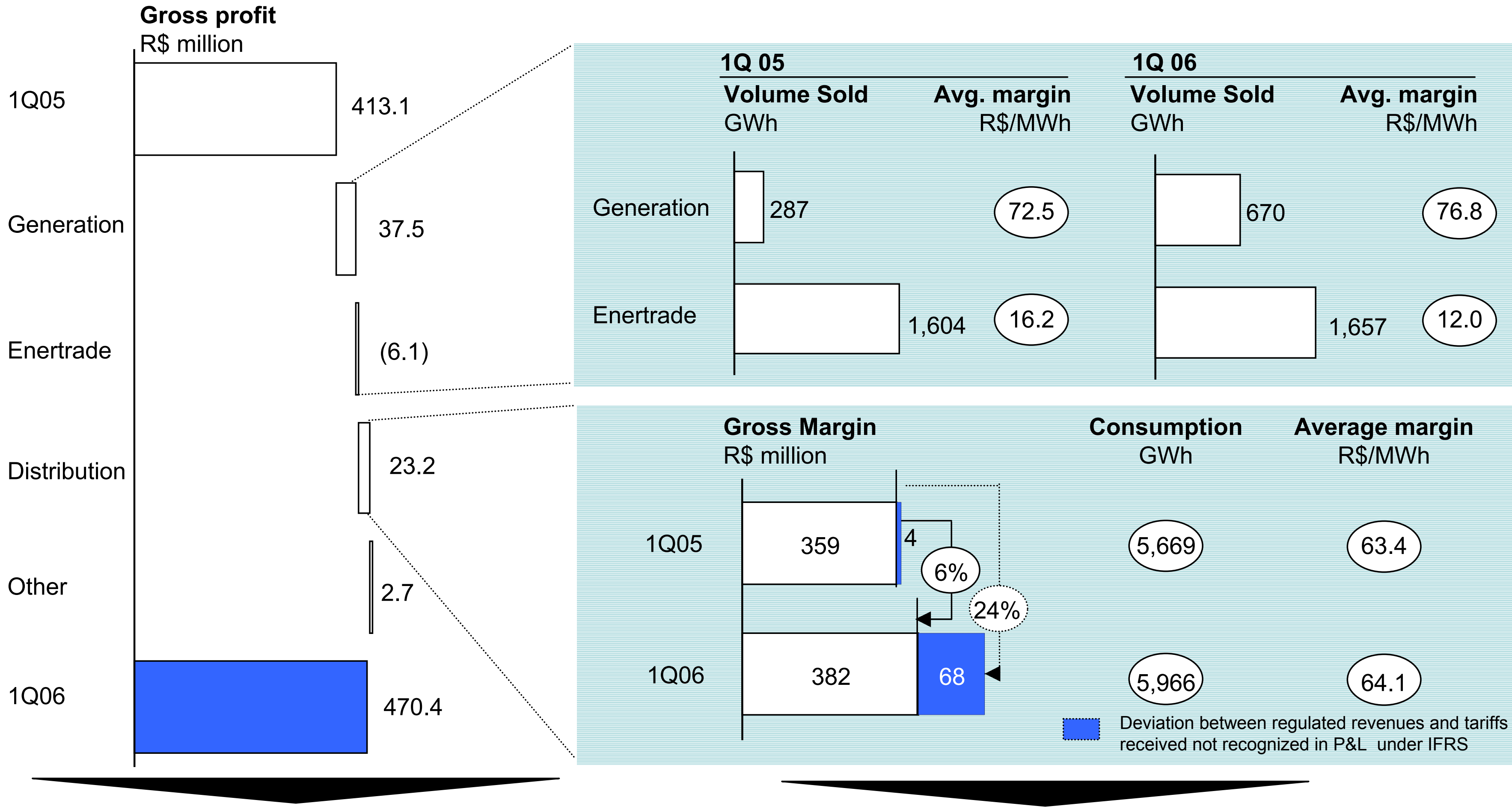
Gross profit in gas liberalized market
€ million



- **Improvement of gross margins in the segment of industrial clients following the renegotiation of the existing contracts**
- **Deterioration of the gas supply activity gross profit penalized by non-recurring natural gas acquisitions in the spot market at a higher prices than those foreseen in Naturgas' existing contracts**

* Portgás pro-forma, fully consolidated in 2005

GOOD PERFORMANCE FROM GENERATION BUT THE DISTRIBUTION ACTIVITY WAS ENERGIAS DO BRASIL GROSS PROFIT GROWTH DRIVER



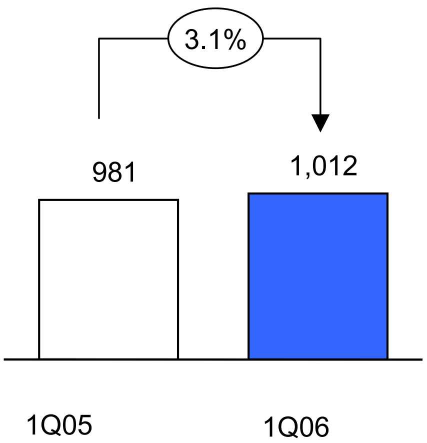
Increase of gross margin driven by distribution …

… namely in **Enersul** following the increase of average retail tariff. **Bandeirante and Escelsa figures are penalized by IAS/IFRS rules** given that retail tariffs in the period do not reflect the increase of non controllable costs that are to be passed to tariffs in the next tariff revision.

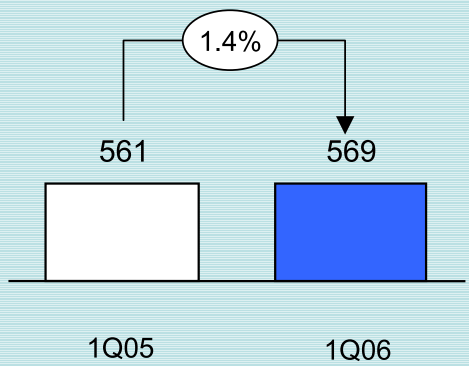
NET PROFIT UP 9% SUPPORTED BY GROWTH IN RENEWABLES, GOOD BRAZILIAN OPERATIONS AND REVALUATION OF THE CMEC'S SWAP

% change

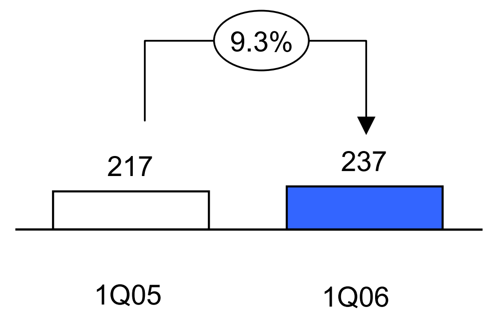
Gross Profit
€ million



EBITDA*
€ million



Net Profit
€ million



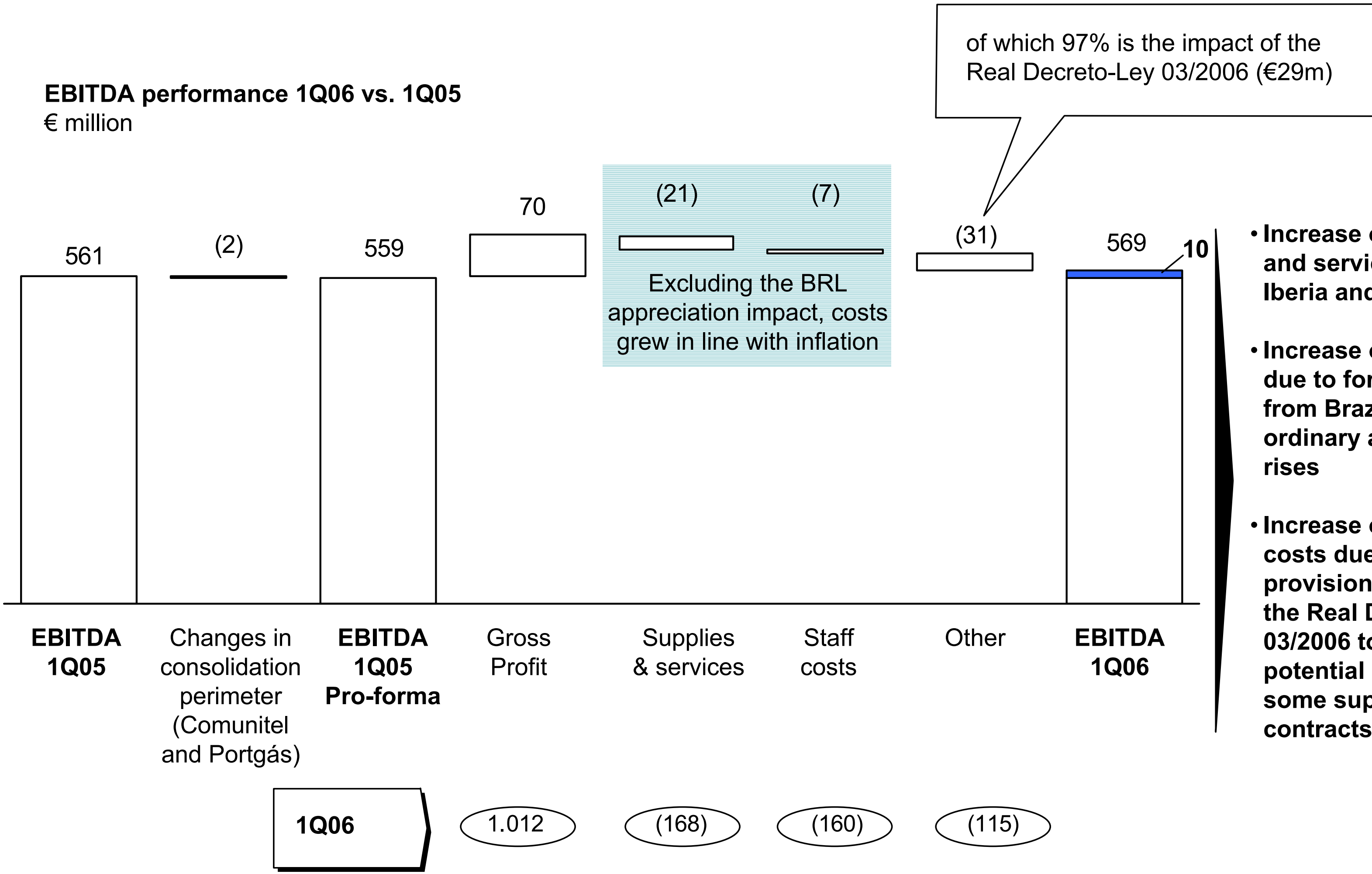
(1) Gross margin improvement in generation supported by high wholesale prices, (2) good performance in Brazil magnified by the appreciation of the Brazilian Real (3) negative impact in Spain from the Real Decreto Ley 03/2006 regulatory framework which penalized EBITDA performance

The increase in interest rates and the resulting revaluation of CMEC's *swap* had a positive impact on the Group's Net Income

* Excluding discontinued operations

EBITDA PERFORMANCE SUPPORTED BY GROSS MARGIN GROWTH

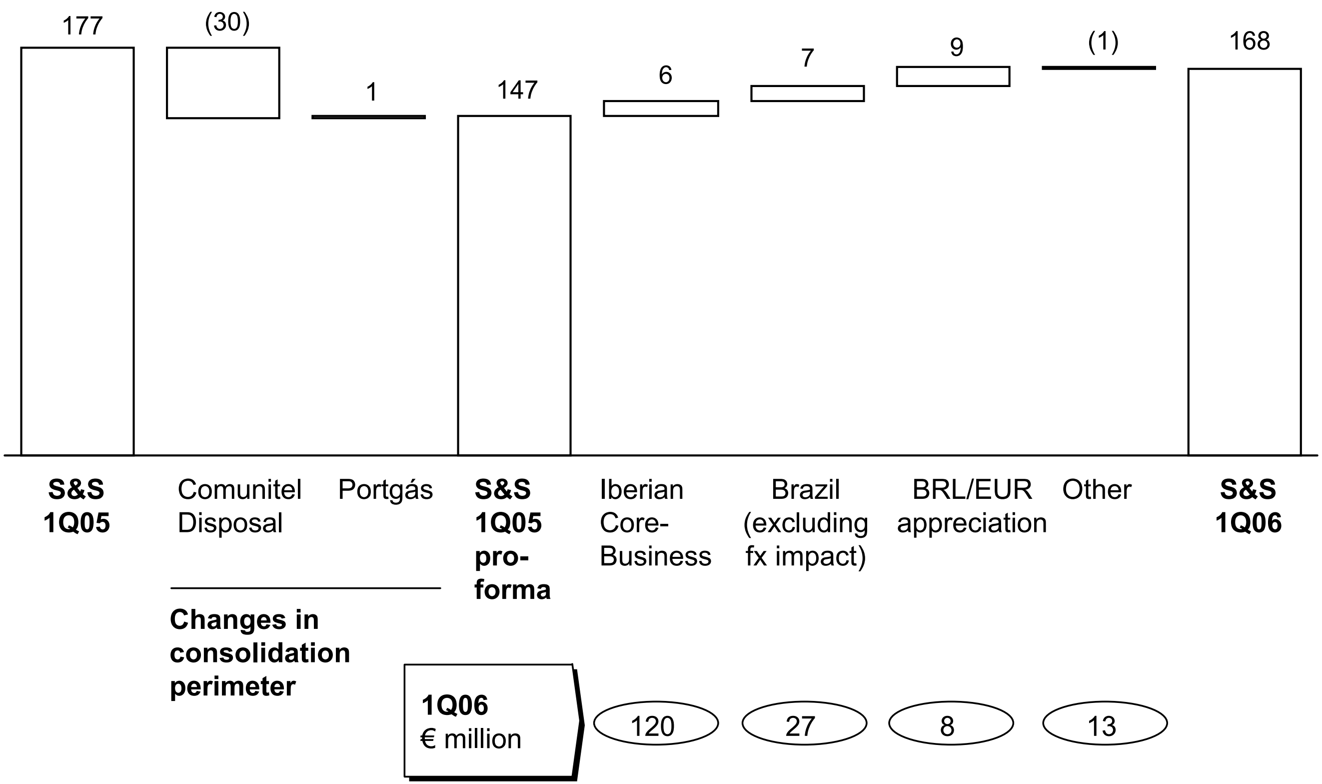
EBITDA performance 1Q06 vs. 1Q05
€ million



- **Increase of supply and services costs in Iberia and Brazil**
- **Increase of staff costs due to forex impact from Brazil and ordinary annual wage rises**
- **Increase of other costs due to provisions related to the Real Decreto-Ley 03/2006 to the future potential losses on some supply contracts**

THE MODERATE INCEASE IN SUPPLIES & SERVICES WAS AMPLIFIED BY THE APRECIATION OF THE BRAZILIAN CURRENCY

Supplies & Services performance 1Q06 vs. 1Q05
€ million



Core Iberia

Increase of wind farms O&M costs steaming from the first time consolidation of DESA and the end of the two years' guarantee period in some wind farms (€2.1m)

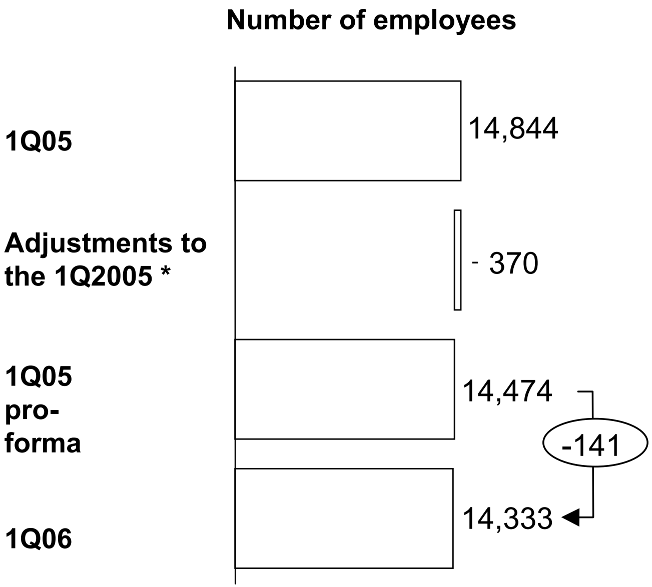
Dual-fuel and gas switching campaign from regulated system to liberalized market by Naturgas (€2.5m)

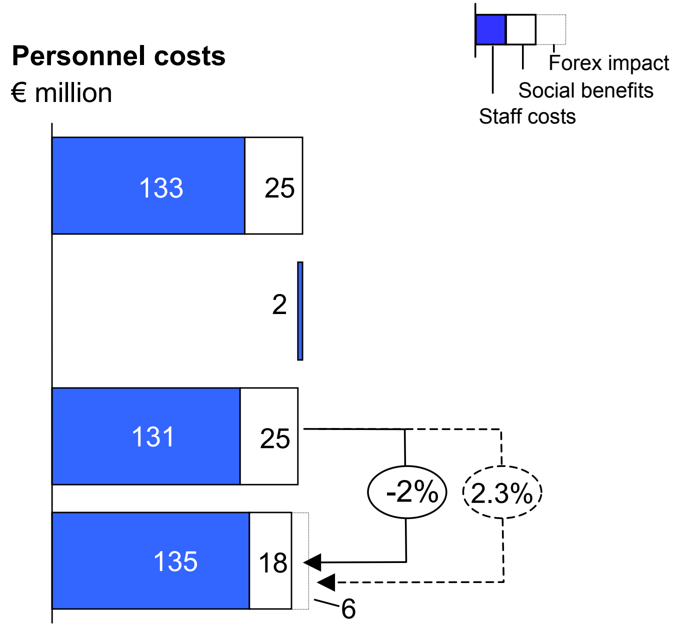
Brazil

Increased activity around the Programme for the Reduction of Electricity Losses

Increase in costs from the improvement of the commercial service of our Discos and the implementation of the Vanguarda efficiency improvement program

2. LABOUR COSTS PENALISED BY THE APPRECIATION OF THE BRAZILIAN REAL AND CHANGES IN THE CONSOLIDATION PERIMETER





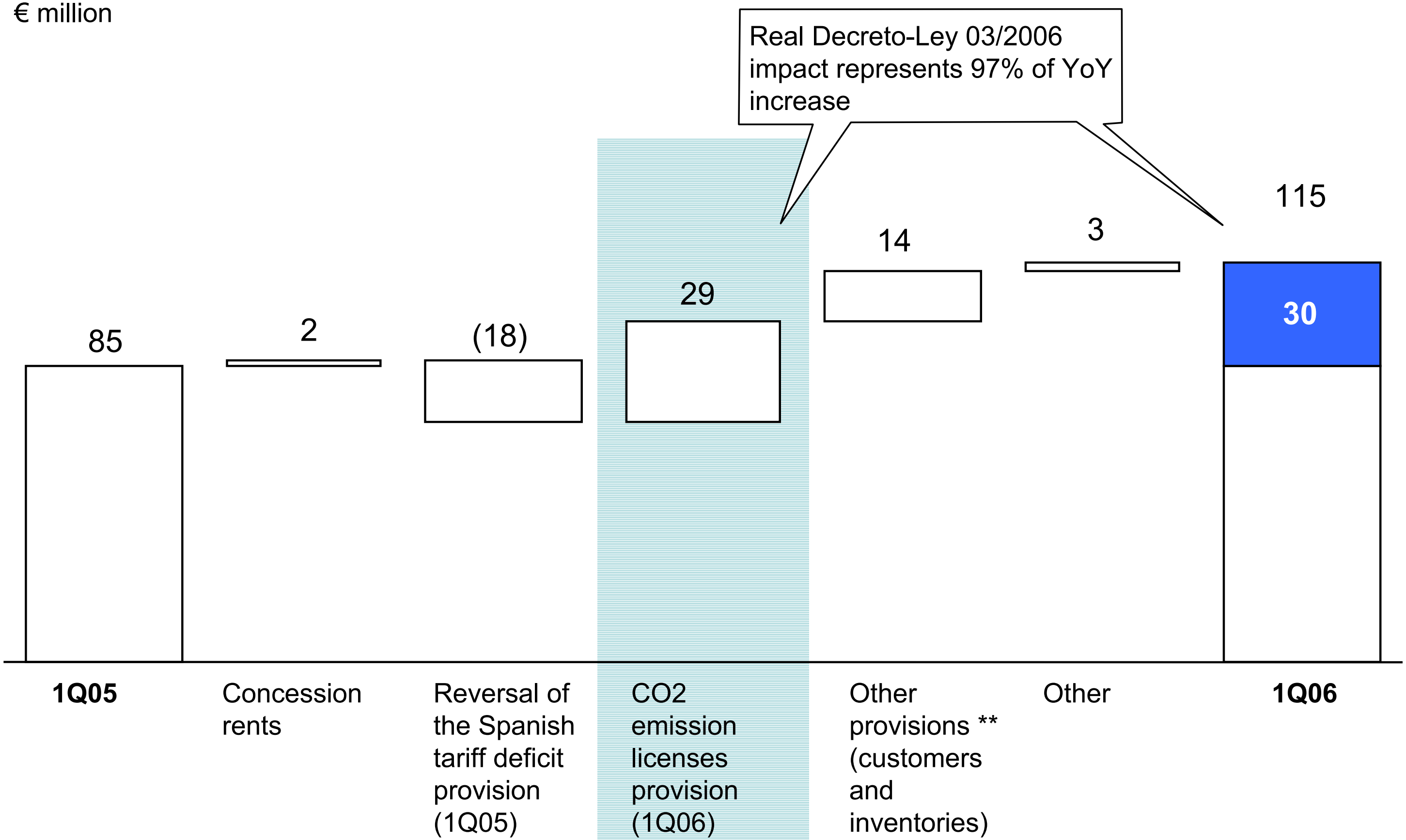
- **Reduction of 151 employees due to the extension of 2005 staff reduction incentives program PAR (-119 in EDP Distribuição)**
- **Staff reduction at ONI Portugal (-111) and in Brazil (-13)**
- **Increase of 53 employees at HC Energia following the integration in the company of workers which were previously outsourced**

- **Slight increase of staff costs** due to ordinary annual wage increases and career evolution, partially compensated by staff reduction.
- **Assuming flat BRL/EUR exchange rate, staff costs would have decreased by 2% YoY.**
- **Reduction of costs with social benefits,** namely pension fund liabilities due to an increase of the expected return of the fund.

* Includes the impact from Comunitel disposal (-€5.9m/-480 employees), the full consolidation of Portgás (+€1.0m/+110 employees), and accounting changes on the capitalization of HR costs (€2.8m)

OTHER NET OPERATING COSTS MAINLY AFFECTED BY THE ACCOUNTING OF THE REAL DECRETO LEY 03/2006 PROVISIONS

Other net operating costs*
€ million

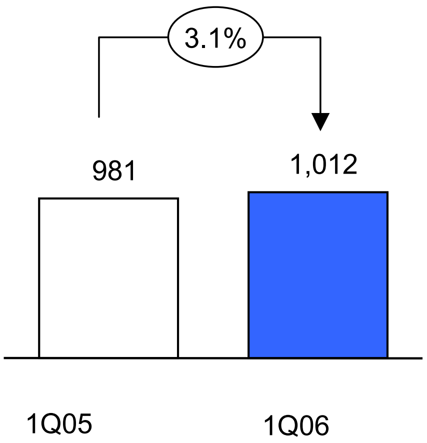


* Excluding discontinued operations
** Includes provisions in supply (due to doubtful debtors: €2.1m, and supply losses: €4.4m), in distribution (due to doubtful debtors: €2.5m) and 5 M€ provision related to the ONI-Transgás contract

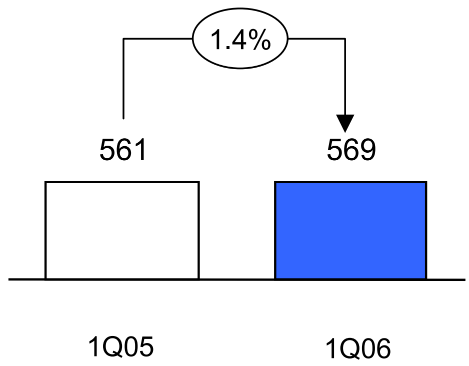
NET PROFIT UP 9% SUPPORTED BY GROWTH IN RENEWABLES, GOOD BRAZILIAN OPERATIONS AND REVALUATION OF THE CMEC'S SWAP

% change

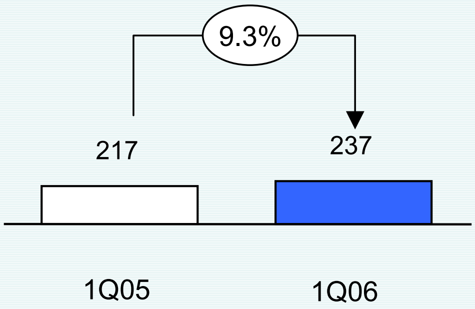
Gross Profit
€ million



EBITDA*
€ million



Net Profit
€ million



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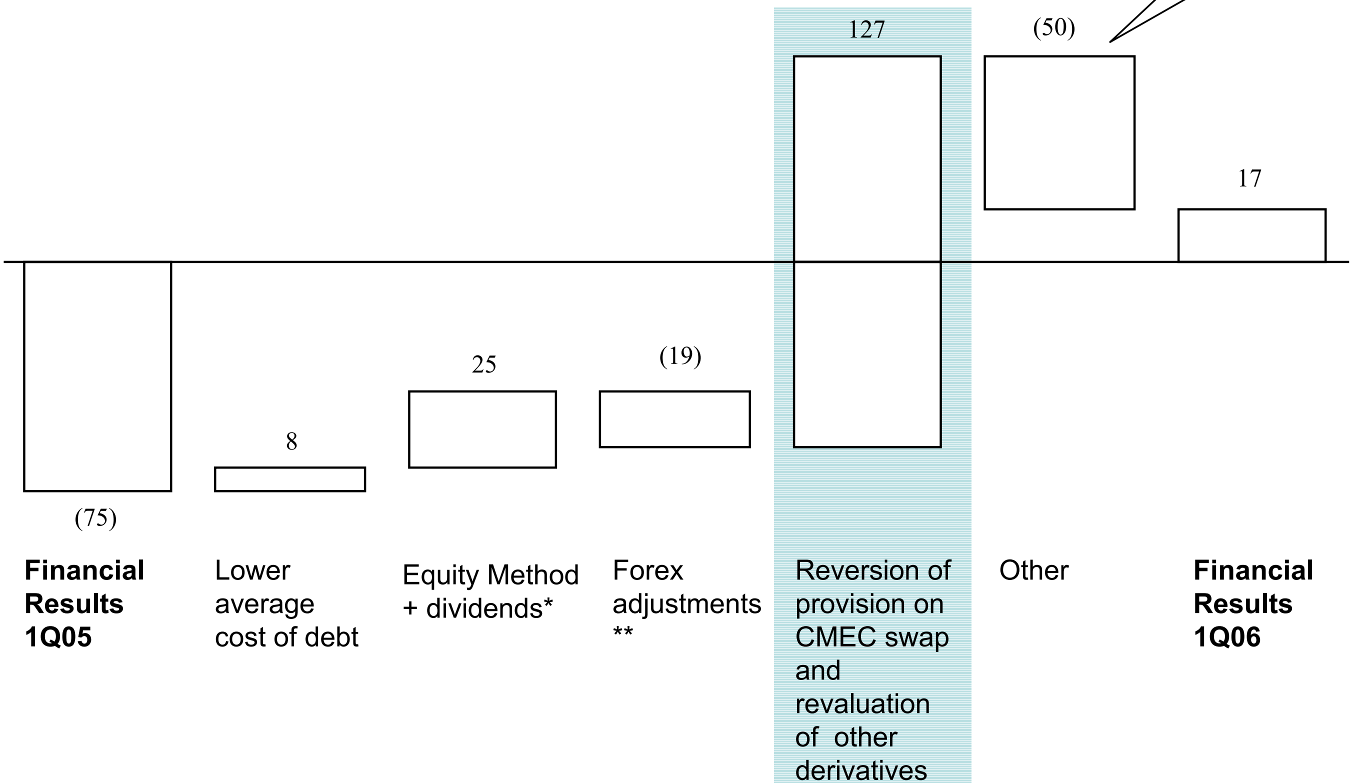
The increase in interest rates and the resulting revaluation of CMEC's swap had a positive impact on the Group's Net Income

* Excluding discontinued operations

REVALUATION OF THE CMEC's INTEREST RATE SWAP SUPPORT THE POSITIVE FINANCIAL RESULTS

Financial Results
€ millions

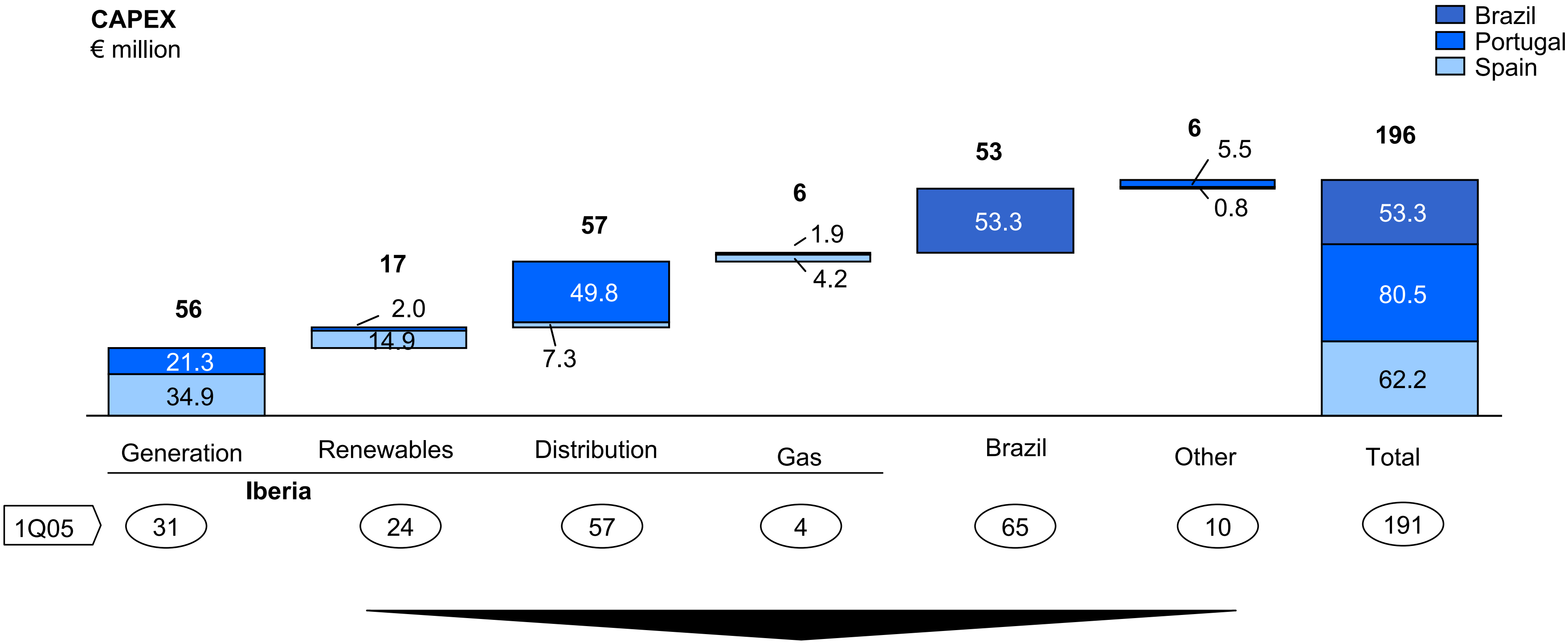
Includes a €44m provision related to financial guarantees by EDP to Electra (Cape Verde) on this company's debt



- **Financial results boosted by the partial reversion of last year's provision related to the CMEC interest rate swap (€103m)**
- **Mitigated by the provisioning on EDP's financial liabilities at Electra (€44m)**

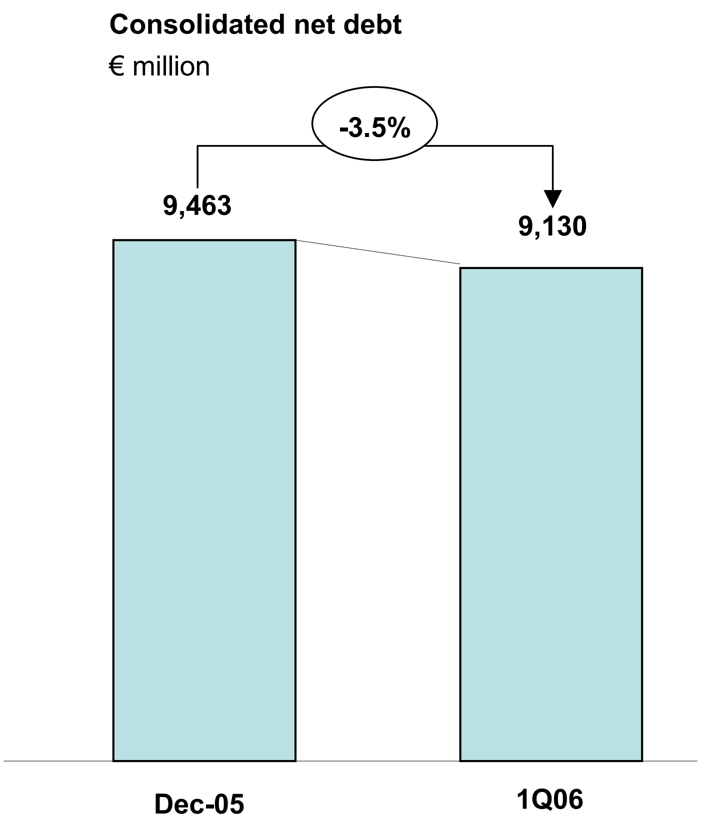
* REN: +€21.0m; Edinfor: +€7.3m; Turbogás: +€1.9m; DECA II : -€1.3m; full consolidation of Portgás in 1Q06: -€3.8m;
** -€20.7m of results from derivatives in Brazil related to hedge positions on USD denominated debt (Bandeirante and Escelsa), net of hedge instruments

TOTAL CAPEX IN LINE WITH LAST YEAR'S AND MORE WEIGHTED ON THE IBERIAN ENERGY BUSINESS



- **70% of total Group capex focused on the Iberian core business**
- **Capex in Iberia was driven by the construction of Catejon's CCGT 2nd 400 MW group, environmental investments at Sines, Aboño and Soto to reduce SO_2 and NO_X as well as in the expansion and efficiency improvements of our distribution grid**
- **In Brazil our investments were centered around the conclusion of the 452 MW Peixe Angical hydro plant and the extension of the distribution grid within the scope of the State sponsored "Universalização" program**

CONSOLIDATED NET DEBT FELL FOLLOWING THE FINAL SETTLEMENT FROM THE DISPOSAL OF OUR 14.3% STAKE IN GALP ENERGIA



EDP's net financial debt €333m (3,5%) lower from 31 December 2005 level mainly as a result of:

- **The settlement of the second (and last) installment in the amount of €576m related to the sale of EDP's 14.27% stake in Galp**
- **The payment during the 1Q2006 of €49m to REN concerning the hydro account mechanism**
- **The increase in working capital by €200m at EDP Distribuição essentially due to the first time implementation this year of bimonthly invoicing and collection**

edp

energias de portugal

1Q2006 Results

May 25, 2006