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**1H2006 Results**

**July 27, 2006**

# EDP: KEY CONSOLIDATED FINANCIAL FIGURES



## Income Statement

€ million

	1H06	1H05	Change	%
<b>Gross Profit</b>	<b>1,992</b>	<b>1,913</b>	<b>+79</b>	<b>4.1%</b>
<b>EBITDA*</b>	<b>1,058</b>	<b>963</b>	<b>+95</b>	<b>9.9%</b>
<b>EBIT*</b>	<b>622</b>	<b>560</b>	<b>+62</b>	<b>11.0%</b>
<b>Financial Results</b>	<b>(19)</b>	<b>(103)</b>	<b>+84</b>	<b>81.6%</b>
<b>Net Profit</b>	<b>375</b>	<b>318</b>	<b>+56</b>	<b>17.7%</b>
<b>CAPEX</b>	<b>482</b>	<b>516</b>	<b>-34</b>	<b>-6.6%</b>

\* Excluding discontinued operations and capital gains (1H2005: €14.8m from 40% of Edinfor, €12.6 from transfer of BCP to EDP's pension fund and €19.3m from REE)

1. EDP's consolidated **net profit** in the 1H2006 **rose 18% YoY** (+€56m).
2. In the Iberian electricity market, our **liberalized generation business** benefited from the increase in wholesale prices in 1H2006, contributing for a **significant YoY increase in gross profit** (+€72m).
3. In **Iberian electricity supply**, the revision of the commercial strategy during 2006 allowed an improvement in the negative supply gross margins in 2Q06 vs. 1Q06 (+€66m).
4. EDP's **renewable energy** installed capacity in Iberia rose 85% to 1,108MW allowing a strong growth in its contribution to consolidated gross profit (+€54m).
5. Recovery of the **gas activity's** gross margin during 2Q06 as a result of the renegotiation of supply contracts (+€12m).

6. In **electricity distribution in Portugal**, allowed revenues set by the regulator increased by 9.3% YoY but gross profit rose just by 1.4% YoY (€84m difference). This **negative deviation reflects higher than expected costs with energy purchases**, which should be recovered through tariffs in 2008.
7. The Royal Decree-Law 03/2006 in Spain had a negative impact on EBITDA (-€44m) due to the potential withdraw of the economic value of the CO<sub>2</sub> licenses granted for free related to generation sales to the pool between Jan-06 and Feb-06 and the netting of intragroup transactions in the Spanish pool at a provisional tariff of €42.35/MWh from Mar-06 onwards.
8. **Energias do Brasil** gross profit penalized by a **negative tariff deviation in distribution (-€47m)** due to higher than expected non-controllable costs, **to be recovered in the next annual tariff revisions**. One-off impact on operating costs with lay-off of 19% of total workforce (-€19m) and positive impact of 21% appreciation of BRL/EUR.
9. Improvement of **Financial Results** (+€84m) backed by the full recovery of the loss registered in 2005 in respect to the fair value of the interest rate swap associated with CMECs following the positive impact of the recent increases in interest rates (+€148m). This was partly offset by the booking of a provision of €44m in 1Q06 related to financial guarantees given by EDP on Electra's debt (Cape Verde).
10. EDP's consolidated **net financial debt** decreased by €103m from Dec-05 to €9,361m in Jun-06

# GROSS PROFIT UP 4% SUPPORTED BY RENEWABLES AND REAL APPRECIATION



## Income Statement € million

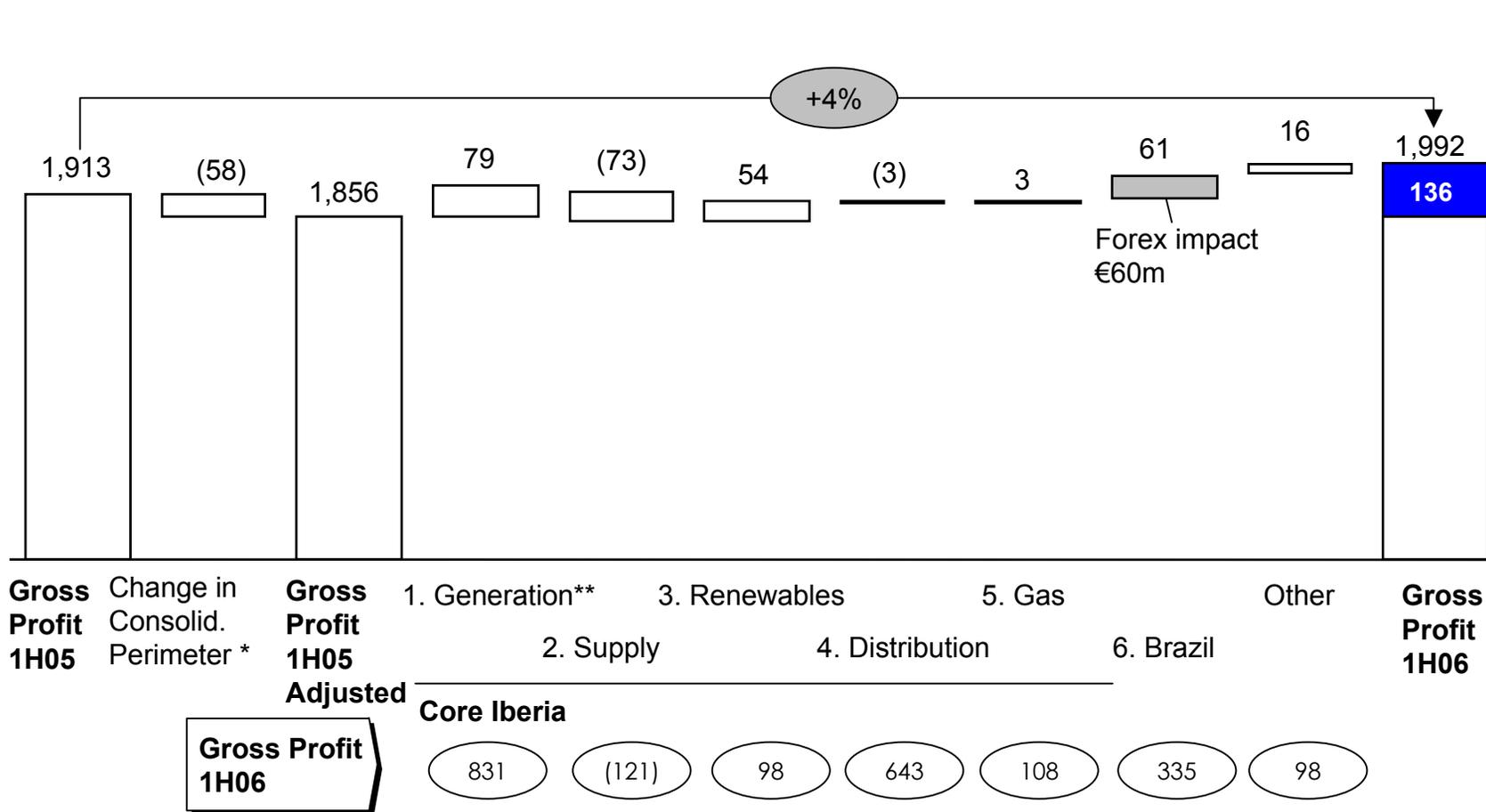
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# GROSS PROFIT UP 4% SUPPORTED BY CAPACITY INCREASES IN RENEWABLES IN IBERIA AND FOREX IMPACT IN BRAZIL



Gross profit evolution: 1H06 vs. 1H05  
€ millions



- Higher gross profit in generation mitigates losses in supply
- Significant growth in renewables installed capacity (+1,108MW)
- Tariff Deficit in Portugal (€84m) and RD-L 03/06 (€12m) penalises Iberian Distribution
- BRL/EUR appreciation (+€60m) compensates negative tariff deviation in Brazilian distribution

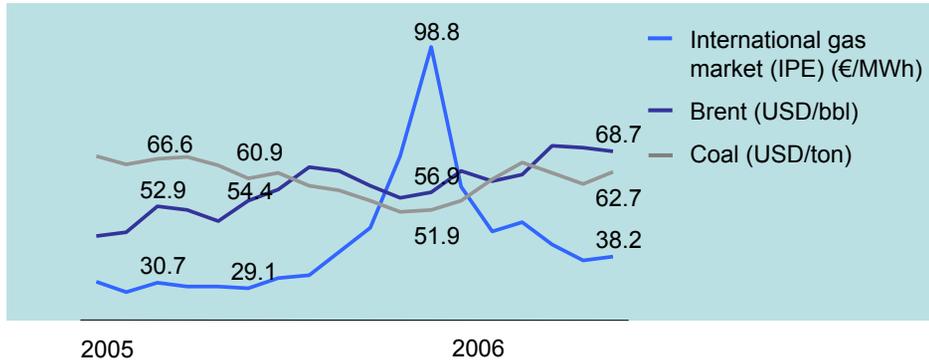
\* Change in consolidation perimeter resulting from the disposal of Comunitel and initial full consolidation of Portgás

\*\* Includes €20m in 1H2006 from energy trading activity

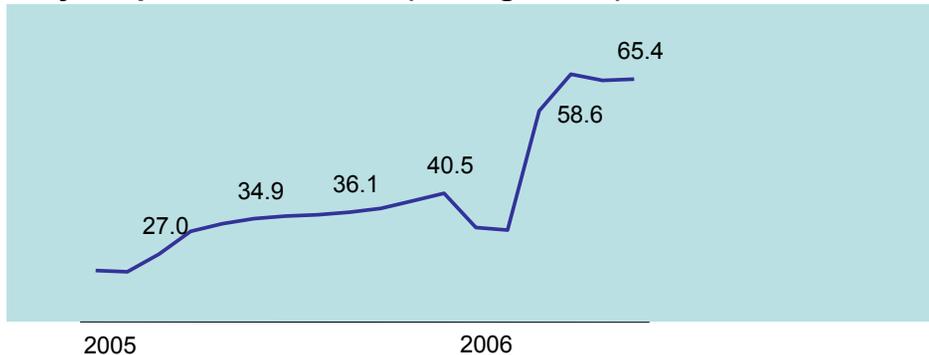
# INCREASE IN IBERIAN ELECTRICITY POOL PRICES DRIVEN BY FUEL PRICES



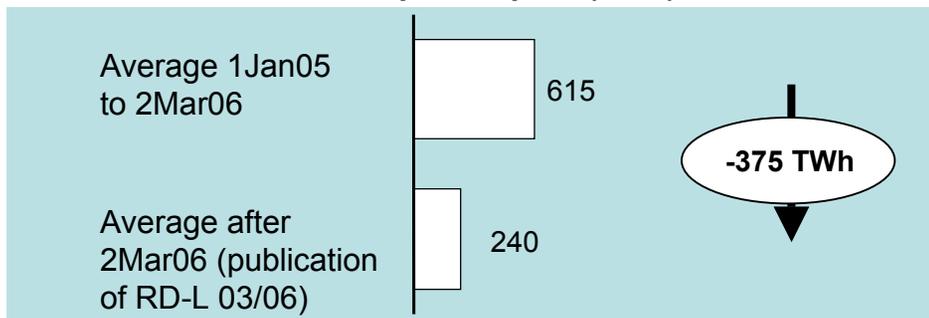
## Commodities price performance



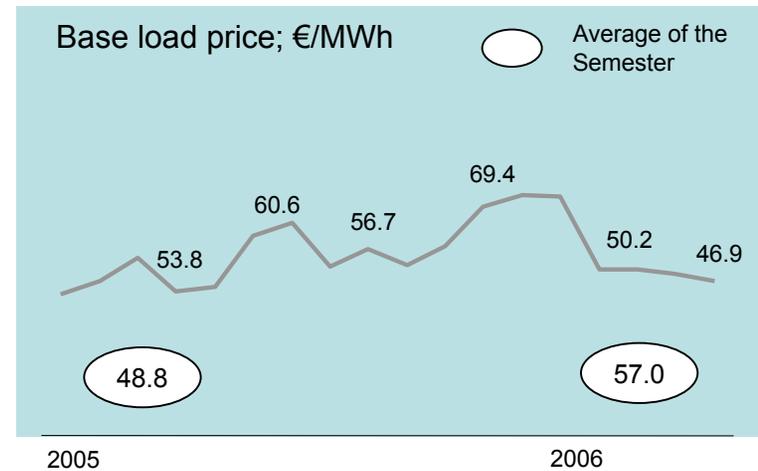
## Hydro production index (average= 100)



## Volumes traded in the Spanish pool (TWh)



## Spanish pool market – price performance



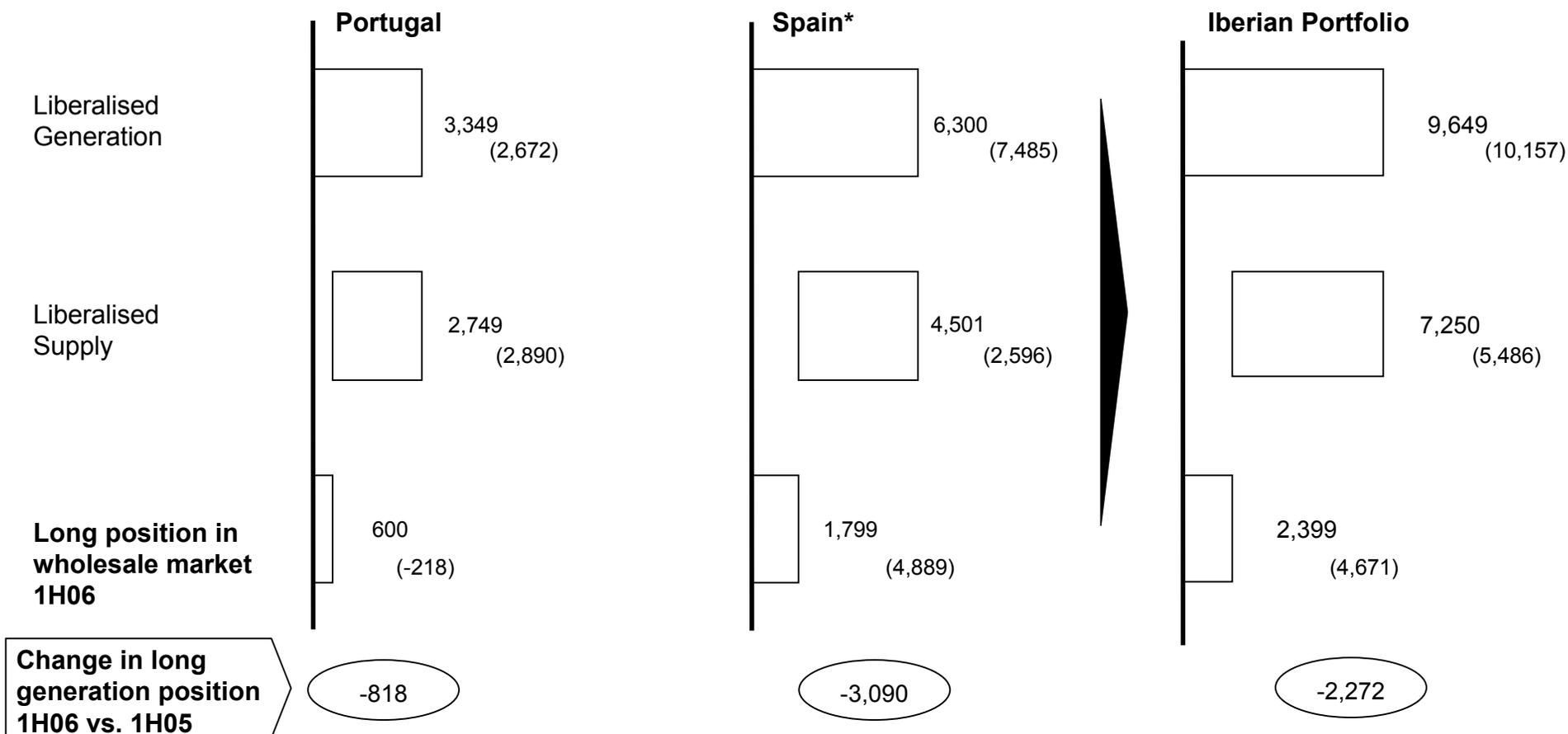
**Increase of the average price in 1H2006 vs. 1H2005 (~+8€/MWh) but with a downward trend in 2Q2006**

# MORE BALANCED LIBERALIZED GENERATION/SUPPLY PORTFOLIO IN IBERIA



Volumes produced and supplied in the market  
1H06. GWh

( ) 1H05



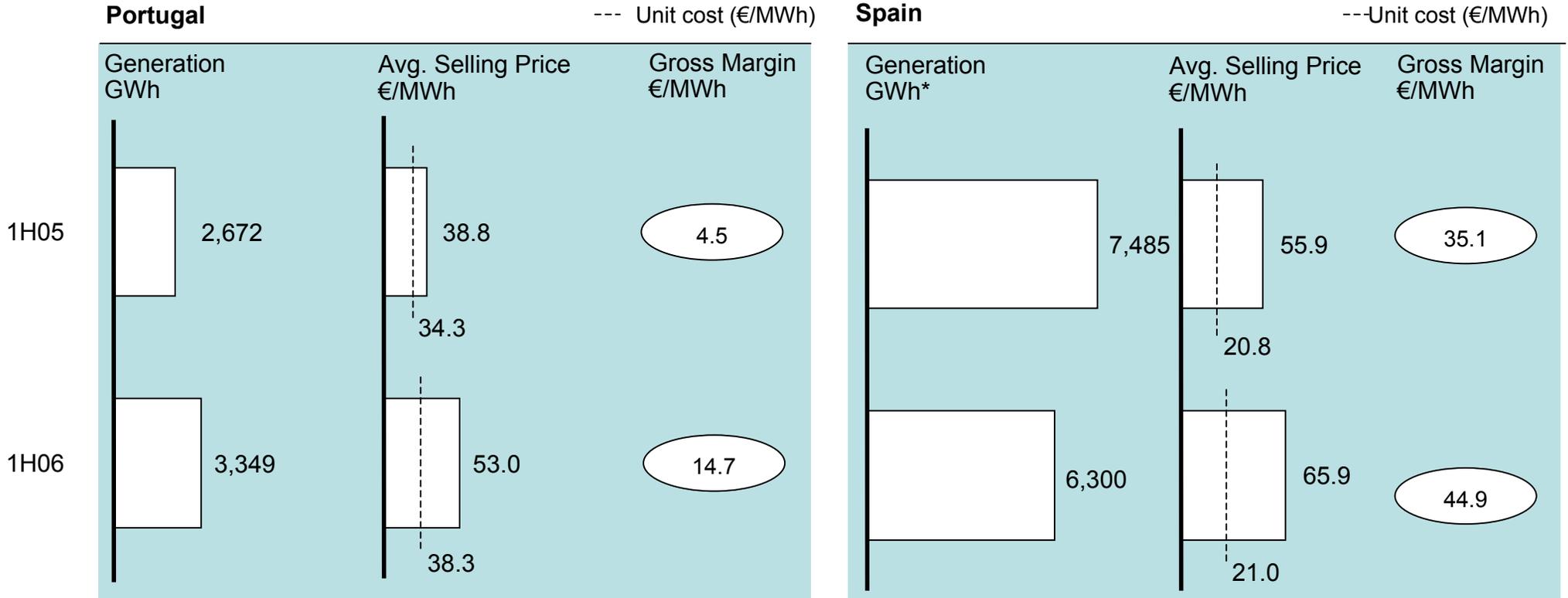
Increase in long position in Portugal supported by the start up of the 400MW Ribatejo III CCGT in March 2006 and client portfolio reduction

Reduction of long position in Spain due to (i) the higher number of customers and (ii) output reduction as a result of programmed maintenance works at Aboño 2 coal plant and Castejón CCGT

More balanced Iberian portfolio between liberalised electricity generation and supply

\* Excluding pumping

# HIGHER GROSS MARGINS AND ADDITIONAL INSTALLED CAPACITY IN PORTUGAL OFFSET SPANISH VOLUME REDUCTION



- Start of new CCGT Unit in March 2006 and improved hydro conditions in the 1H06
- Upward revision of selling price to the supply activity in October 2005
- Increase of unit costs in line with Brent

- Programmed stoppages at Aboño 2 coal plant, Castejón CCGT and Trillo nuclear plant
- Average selling price reflects peak load sales

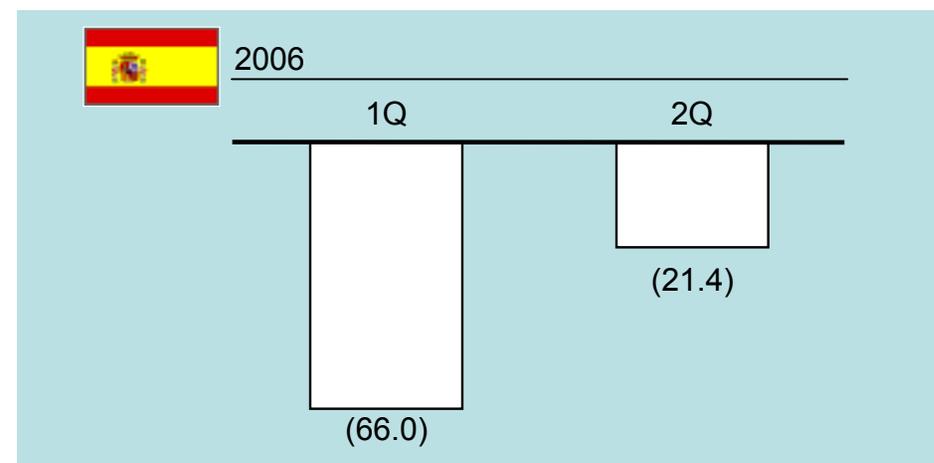
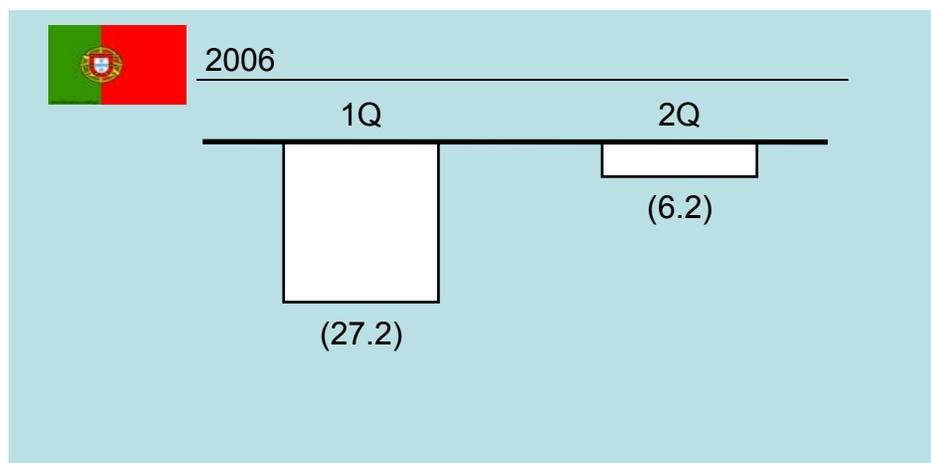
**+€50m in gross margin 1H06 vs. 1H05**

\* Excluding pumping

# SUPPLY: RECOVERY OF THE COMMERCIAL ACTIVITY IN THE 2Q2006



## Gross Profit of the liberalised supply activity Million euros



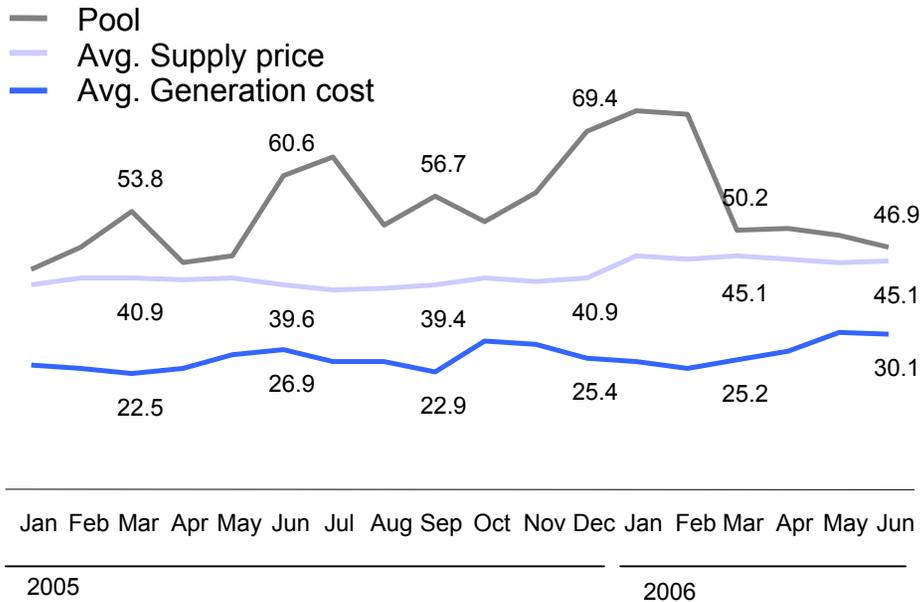
Segment	Metric	Portugal		Spain	
		1Q	2Q	1Q	2Q
B2B	GWh	1,561	1,144	2,279	2,097
	Clients	6,870	6,038	2,375	2,262
B2C	GWh	24	20	63	62
	Clients	1,066	1,044	57,206	58,814

- Reduction of clients in Portugal or renegotiation of contracts with better pricing conditions, in line with the strategy defined
- Adjustment of the strategy in Spain, following the publication of the RD 3/2006, to limit the contracted volumes to the generation capacity and reduction of the pool price vis-à-vis 1Q06

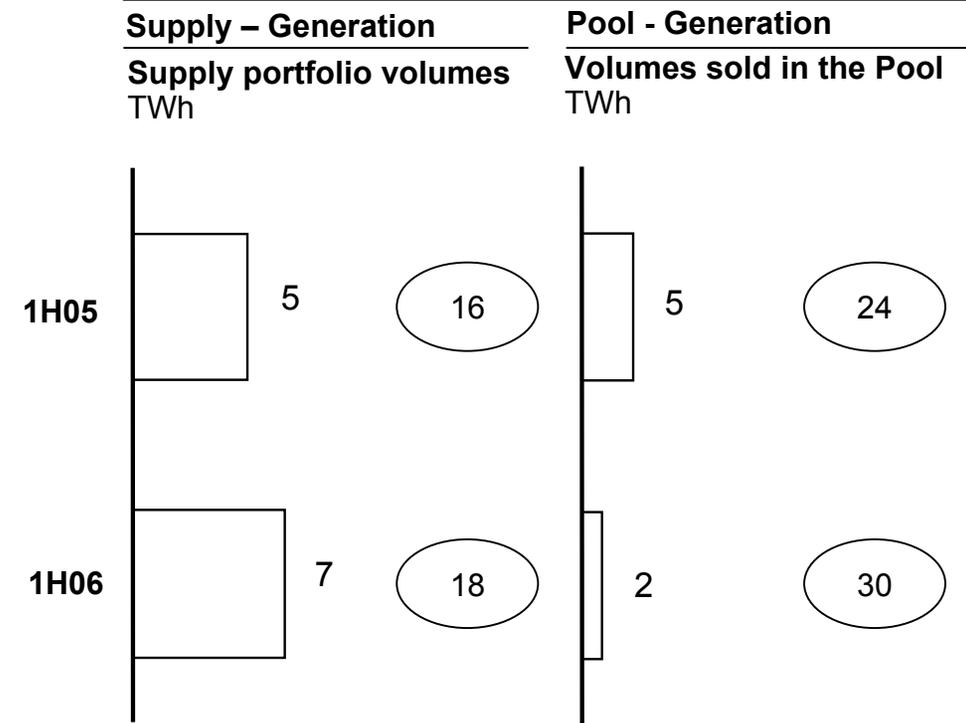
# ON AN INTEGRATED PERSPECTIVE, NEGATIVE MARGINS IN SUPPLY WERE MORE THAN OFFSET BY INCREASED MARGINS IN GENERATION



**Generation and Supply margins vs. Pool Price**  
€/MWh



**Vertical Integration in Iberia**

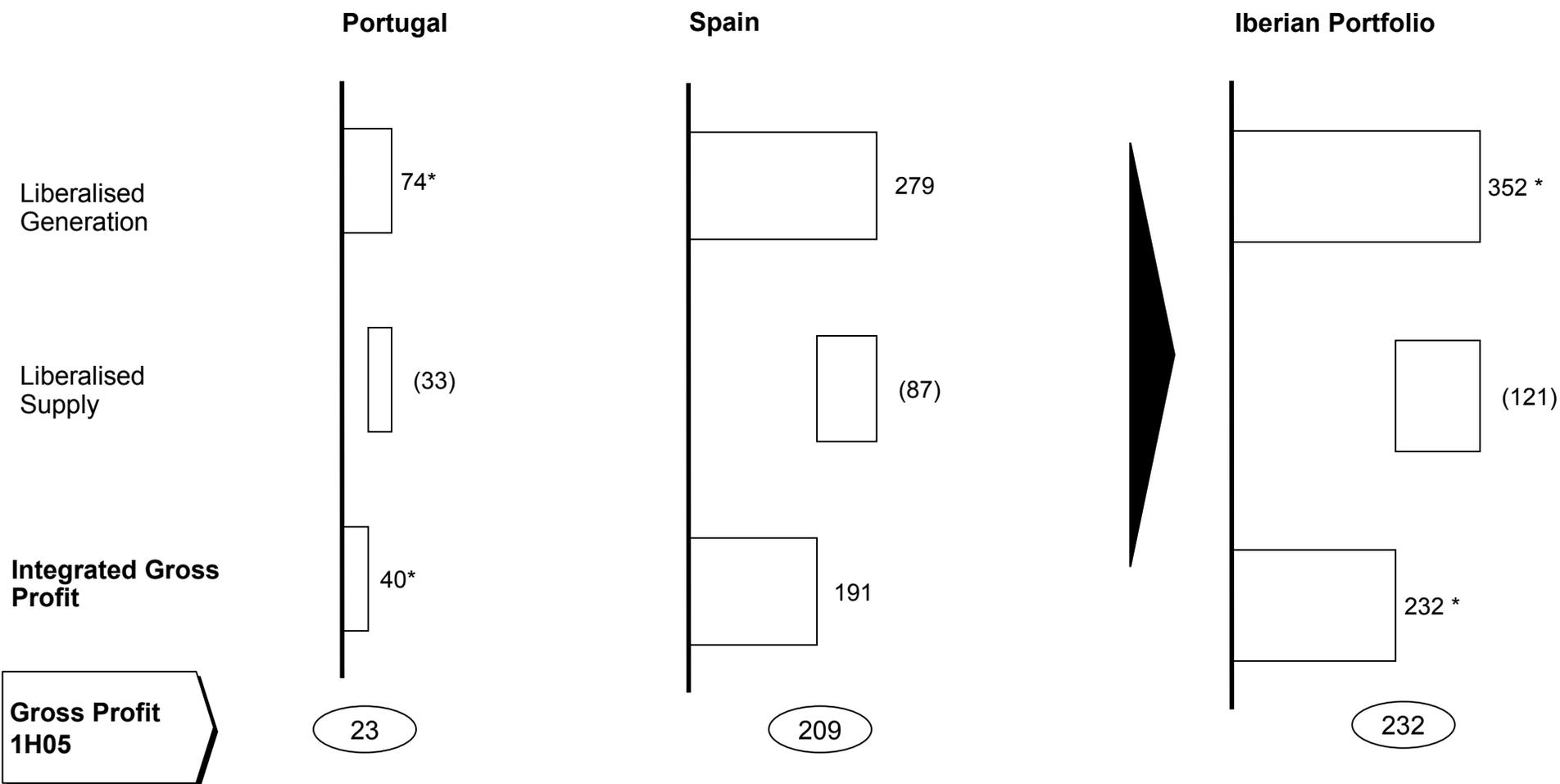


- Supply sales at a price systematically above the average generation cost
- Upward trend of the average selling price to clients
- Maintain current strategy of selective reduction of the client portfolio in Portugal and adjustment of the Spanish portfolio in light of the R-DL03/06

# STABILITY OF THE LIBERALISED ACTIVITY'S GROSS PROFIT IN IBERIA

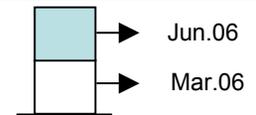


**Gross Profit**  
1H06 € Million

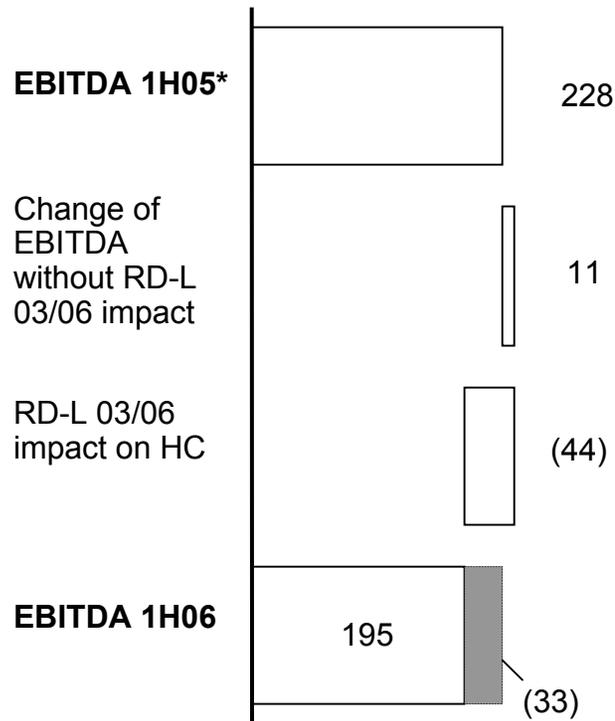


\* Includes €20m from energy trading activity

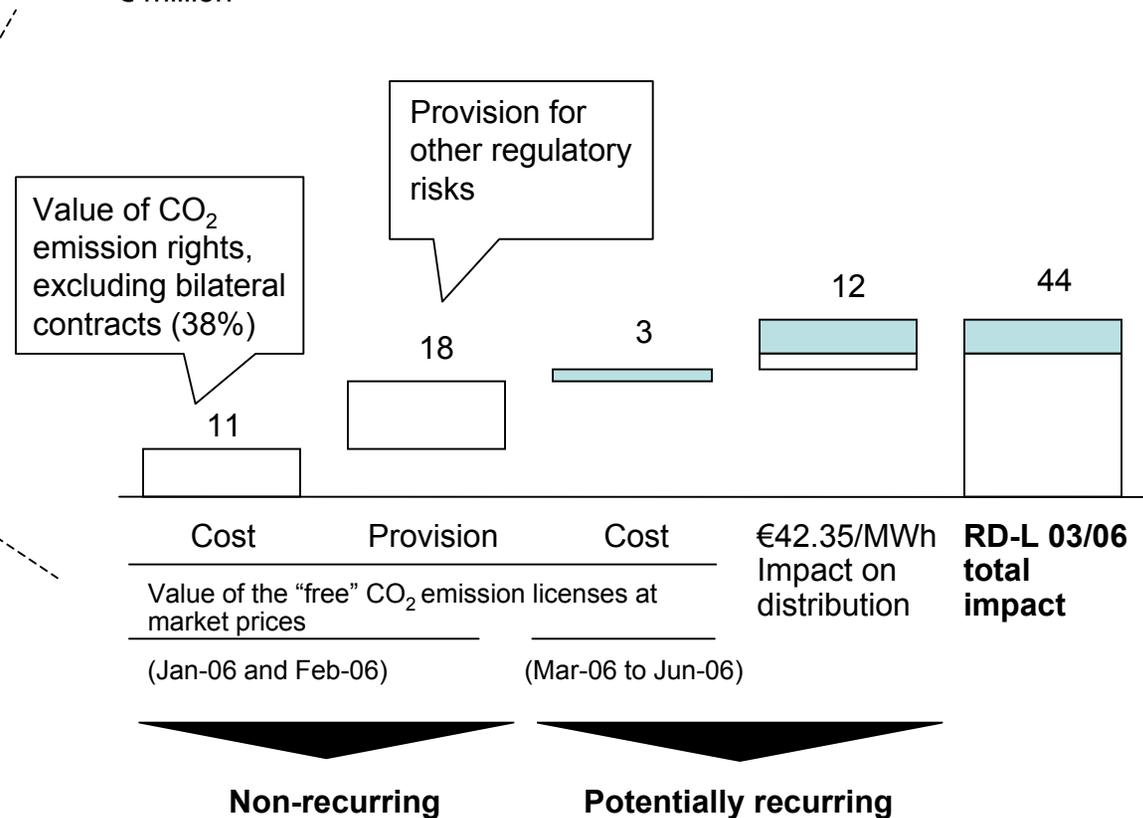
# PROVISIONAL IMPACT OF THE REAL DECRETO-LEY 03/2006 ON HC ENERGIA RESULTS



**HC's EBITDA performance  
1H05 vs. 1H06**  
€ million



**Break-down of RD-L 03/06 impact on HC's EBITDA**  
€ million

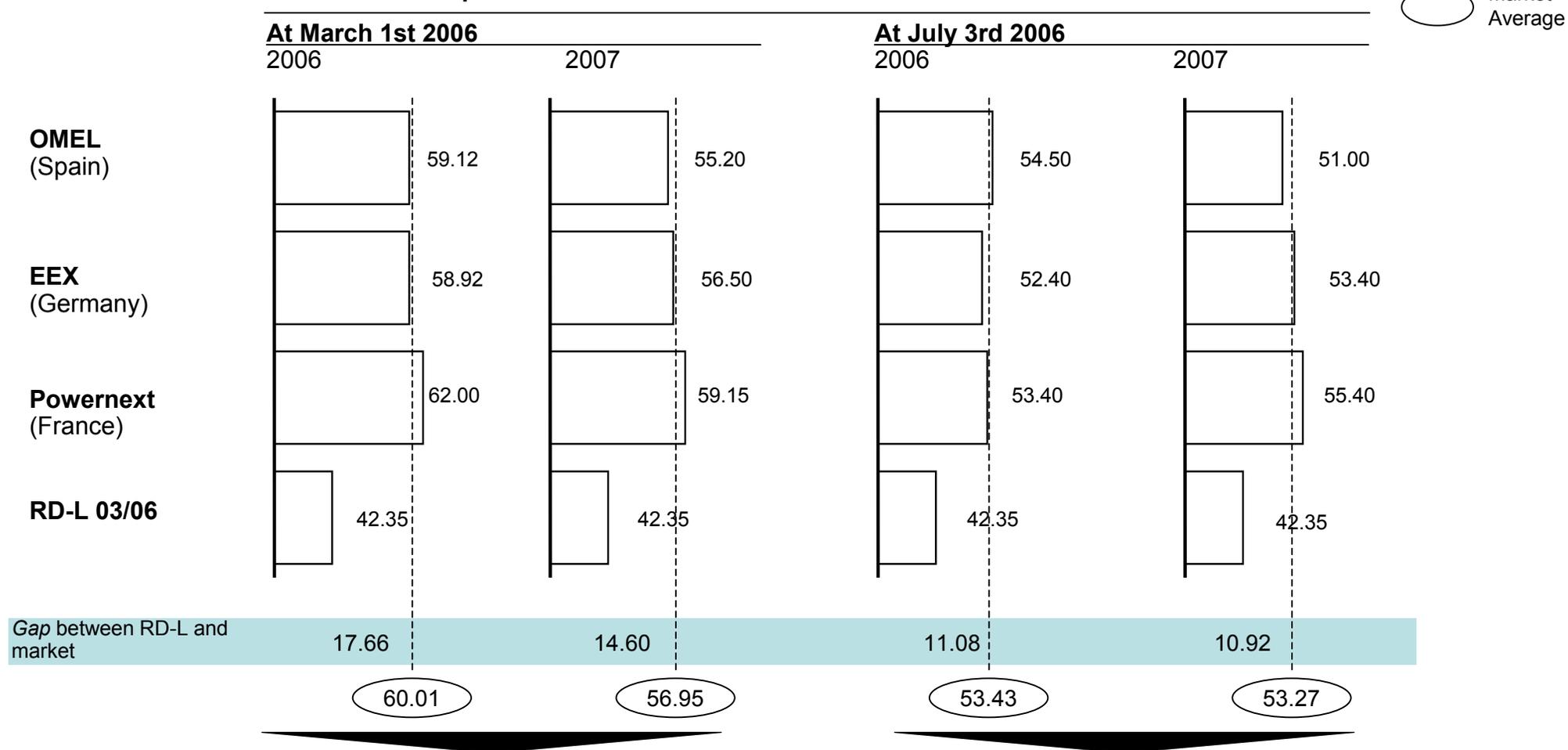


\*Figures adjusted for the transfer of Spanish renewables business to NEO perimeter

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



## Forward market prices

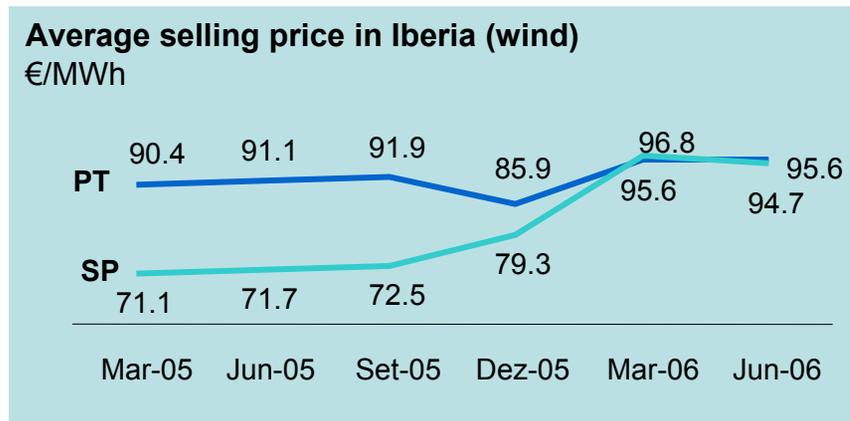
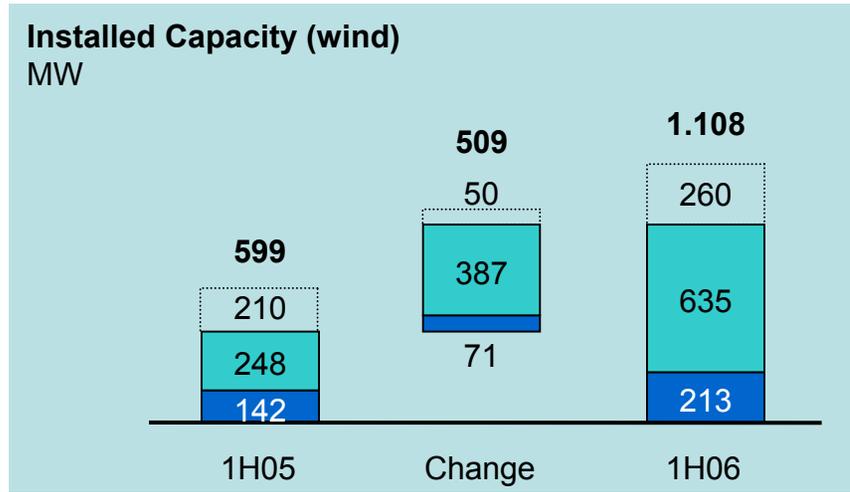


On the date of its publication, RD-L 03/06 tariff was already below market prices

Even following the price decline of CO2 emission rights, the RD-L tariff is below market prices

Prices are sustainable above €50/MWh with a minimum gap of €10.92/MWh to that of RD-L 03/06 (€8.29/MWh in the 1Q06)

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



MW gross in Iberia \*  
 Spain  
 Portugal

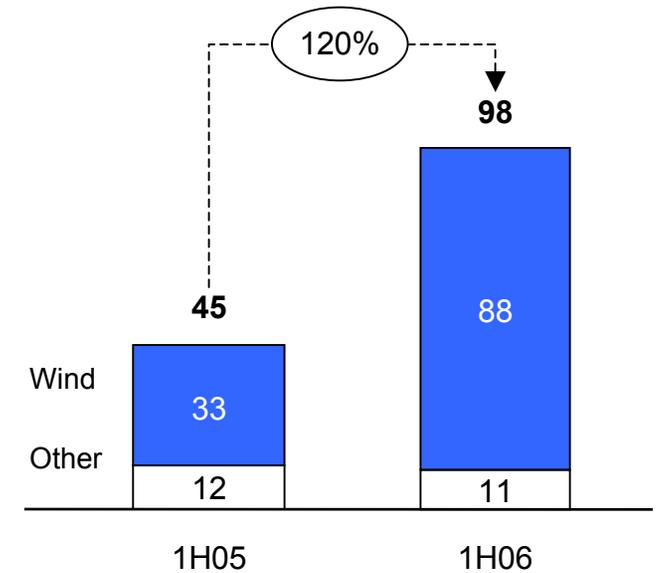
+85%

+121%

+4,9%

+32%

### NEO Gross Profit € million



**Gross Profit +€54m in wind farms due to higher output (+€36m) and higher selling prices in Spain (+€17m)**

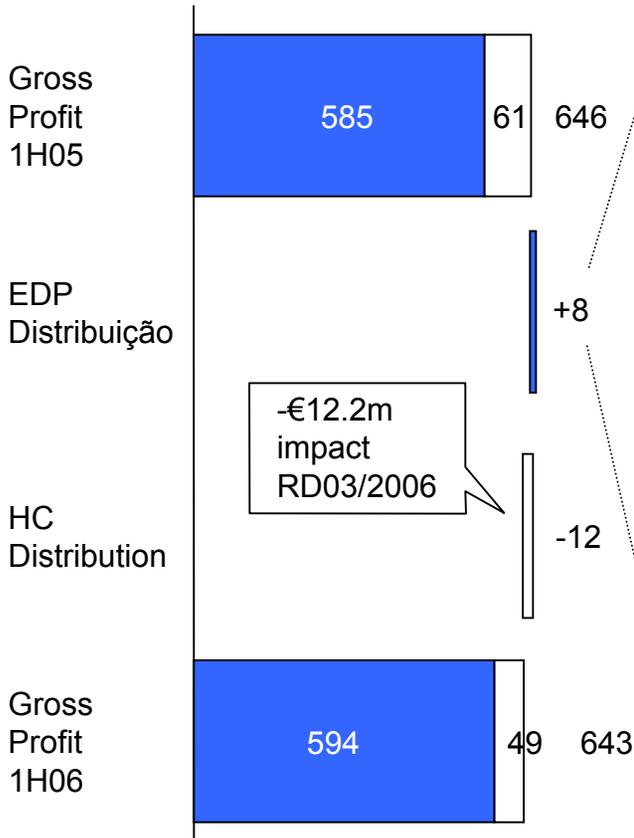
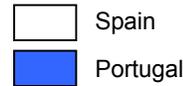
\* MW which do not contribute to EBITDA (equity consolidated)

# ELECTRICITY DISTRIBUTION: INCREASE OF ELECTRICITY PURCHASE COSTS AND RD 03/2006 WITH NEGATIVE IMPACT ON GROSS MARGIN



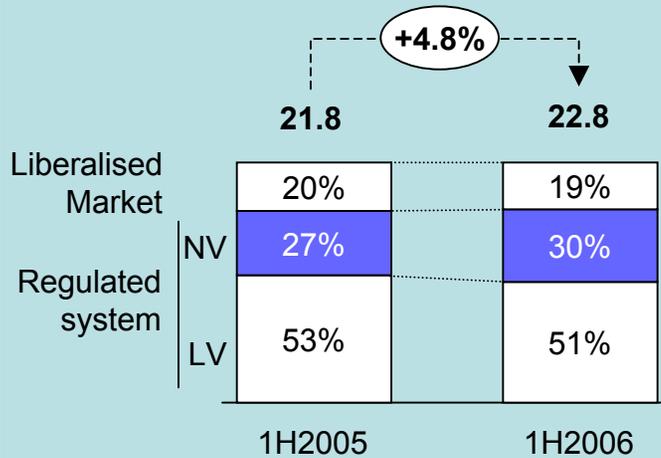
## Gross profit evolution

(€ million)



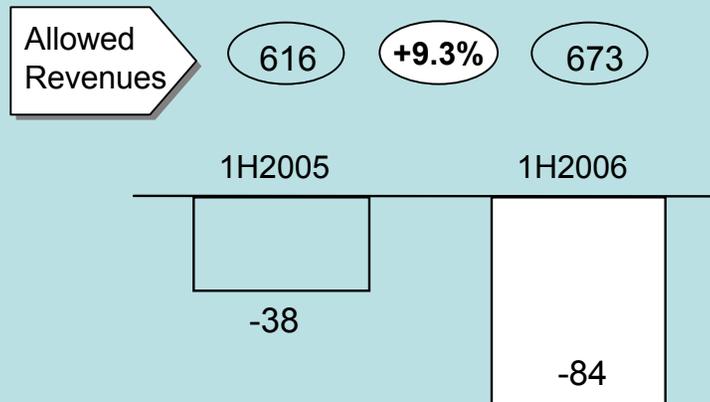
## Portugal - Electricity consumption evolution

TWh



## Tariff Deviation

(€ million)



○ Annual Growth

Higher growth (+6.1%) in regulated system (namely in higher voltage levels)

- Through the transfer of clients from the liberalised market back to the regulated market
- Co-generators option to purchase electricity from the regulated market

Increase of negative tariff deviation due to higher than expected demand in regulated system and lower than expected renewables output which implied unexpected electricity purchase needs which were satisfied at high prices

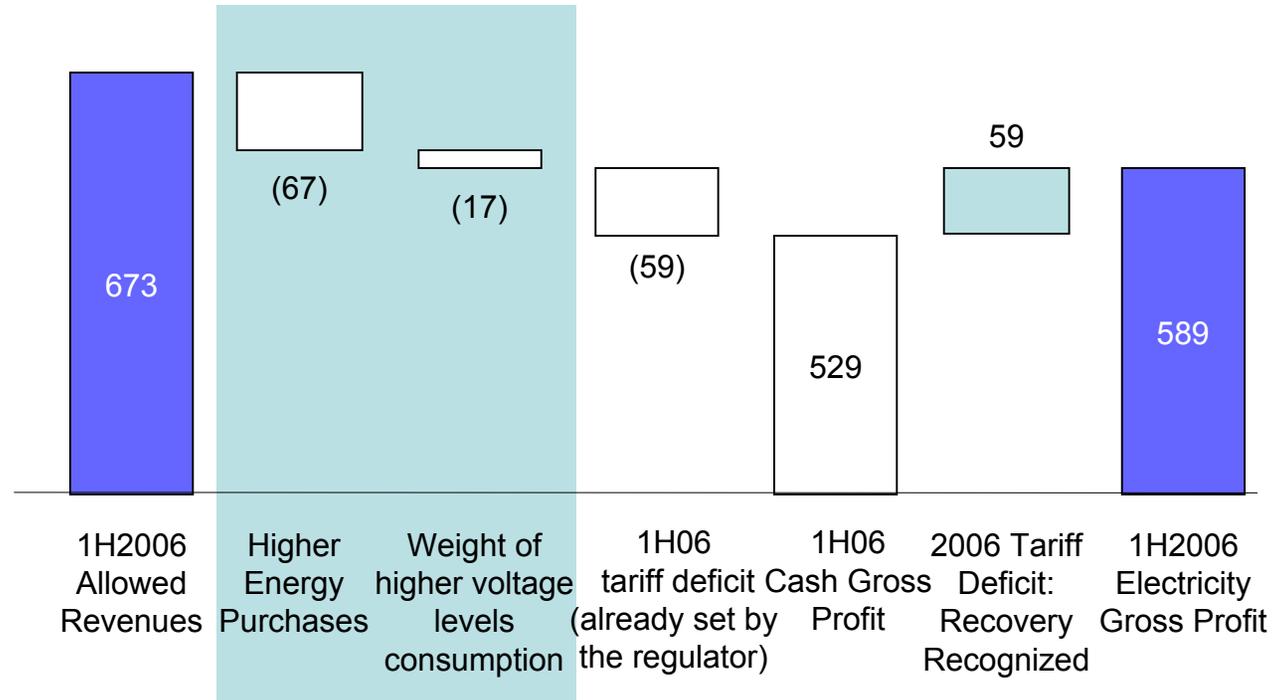
# EDPD GROSS PROFIT REFLECTS LACK OF SHORT TERM PASS THROUGH OF ENERGY ACQUISITION COSTS AND RECOGNITION FOR RECOVERY OF 2006 TARIFF DEFICIT



**9% increase in Allowed Revenues not fully received through tariffs to final clients:**

- Tariff Deficit of €59m for 1H06 previously set by the regulator in 2006 tariff calculations
- High costs with unexpected energy purchases (not in 2006 tariff calculations) due to new regulated clients (leaving the market) and Special Regime low output (15% below ERSE's forecasts)
- Increase in the weight of higher voltage levels in total regulated consumption which are charged lower average electricity tariffs. (in 1H2006 consumption in liberalised market was 18% below ERSE's forecast)

**1H2006 EDP Distribuição electricity gross profit \***  
(€ million)



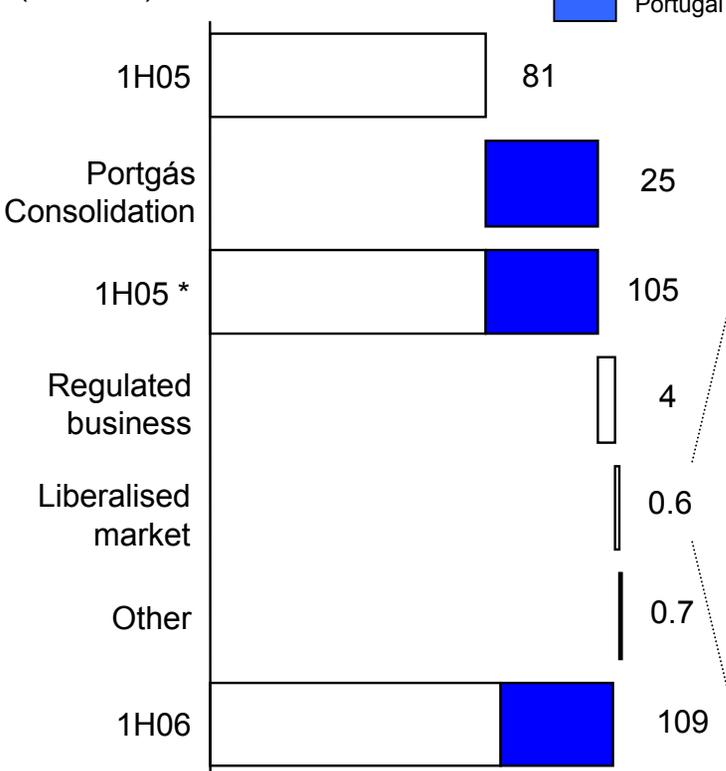
**Gross profit reflects negative impact of energy purchases pass-through mechanism – tariff deviation will be recovered in 2008**

\* Does not include services provided, other sales and costs with materials (€5m)

# INCREASE IN REGULATED BUSINESS THROUGH PORTGÁS ACQUISITION AND INCREASE IN SUPPLY ACTIVITY COMPENSATE THE OVERPRICING IN GAS SOURCING (SPOT MARKET – 1Q06)

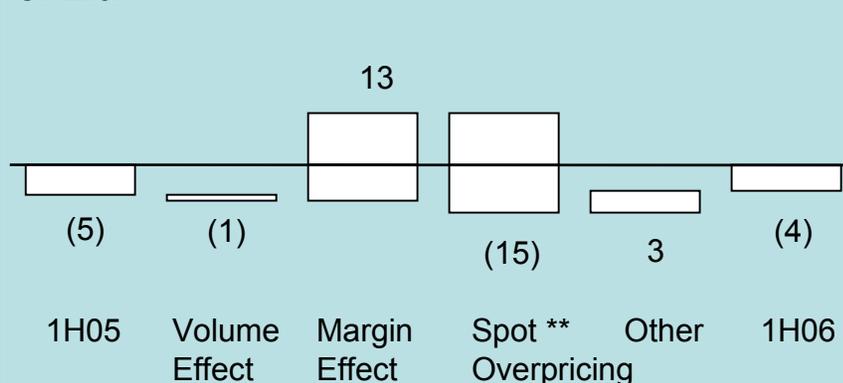


**Iberian gross profit evolution**  
(€ million)

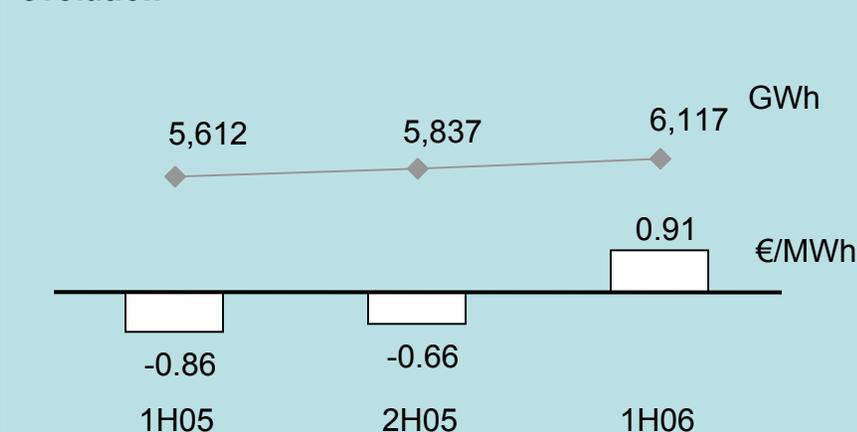


**Increase in regulated revenues due to higher penetration rate in our distribution networks and acquisition of remaining 50% stake in Bilbogás**

**Gross profit evolution in gas liberalised market**  
€ million



**Gas volumes contracted and unit margins evolution \*\*\***



**Recovery of supply activity in 2006 through better margins following the renegotiation of acquisition contracts and new clients with better margins**

\* Portgás Pro-forma

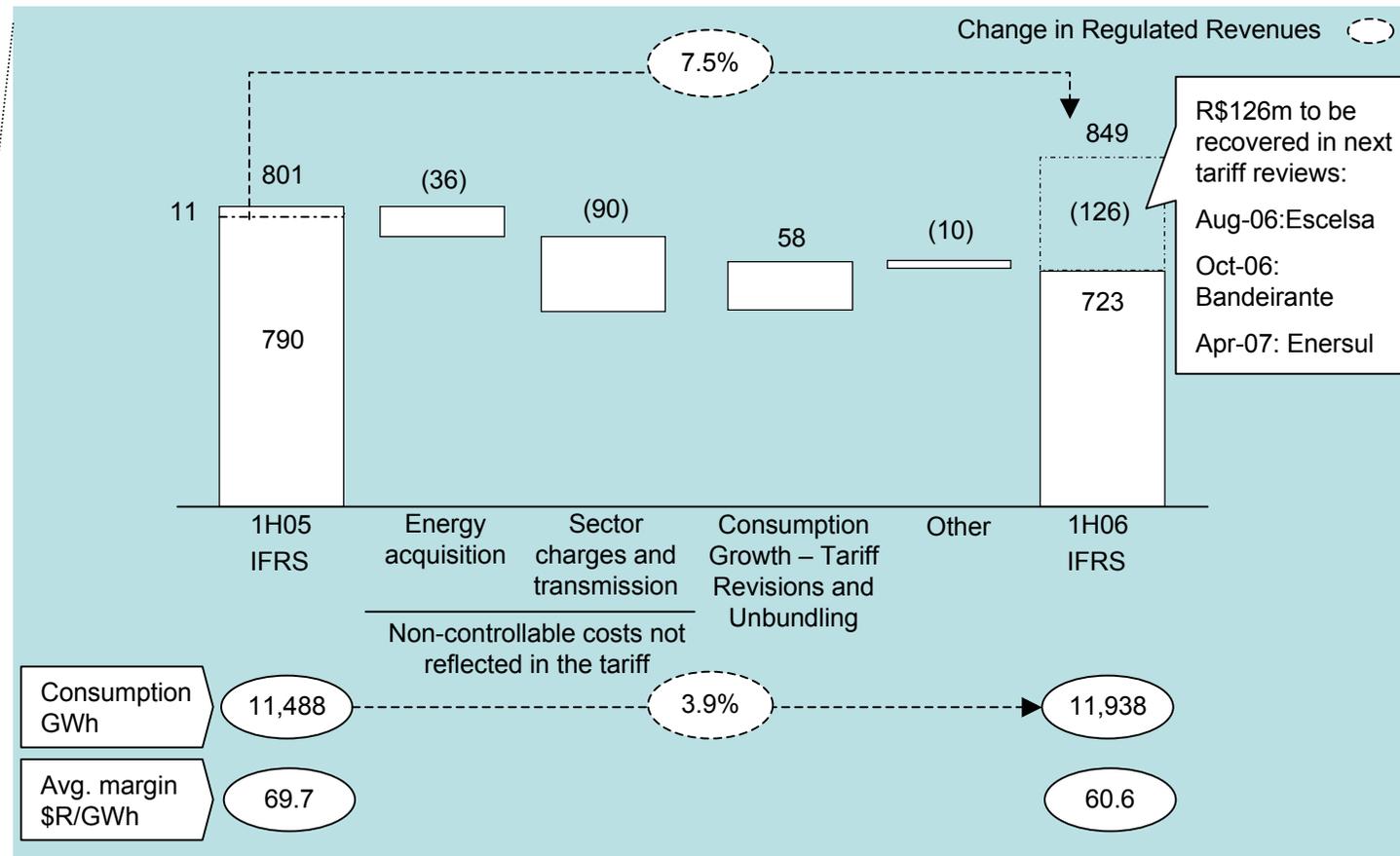
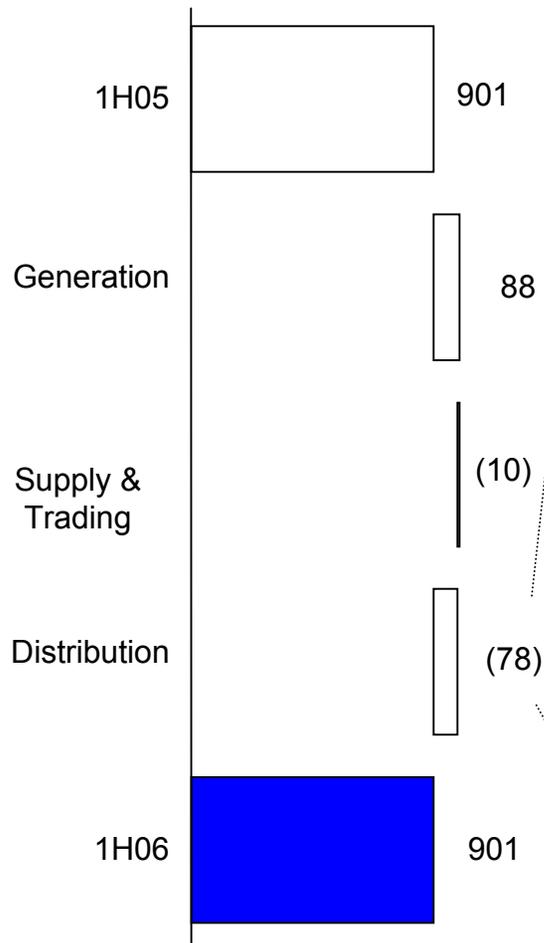
\*\* Overpricing from natural gas acquisition in the Spot market in the 1Q2006, €14.51€/MWh above sourcing contracts with Gas Natural (1,036GWh)

\*\*\* Excluding the impact of overpricing from gas acquisition the Spot market and only considering the margins and volumes vis-à-vis the sourcing contract with Gas Natural

# GROSS PROFIT IN BRAZIL PENALIZED BY HIGHER NON-CONTROLLABLE COSTS TO BE RECOVERED IN THE NEXT TARIFF REVIEWS



**Gross profit evolution**  
(R\$ million)



**Gross profit negatively impacted by the fact that direct costs increases are not immediately recognised in the tariffs – differences will be recovered in the next tariff reviews / adjustments**

# EBITDA UP 10% SUPPORTED BY GROSS MARGIN GROWTH



## Income Statement € million

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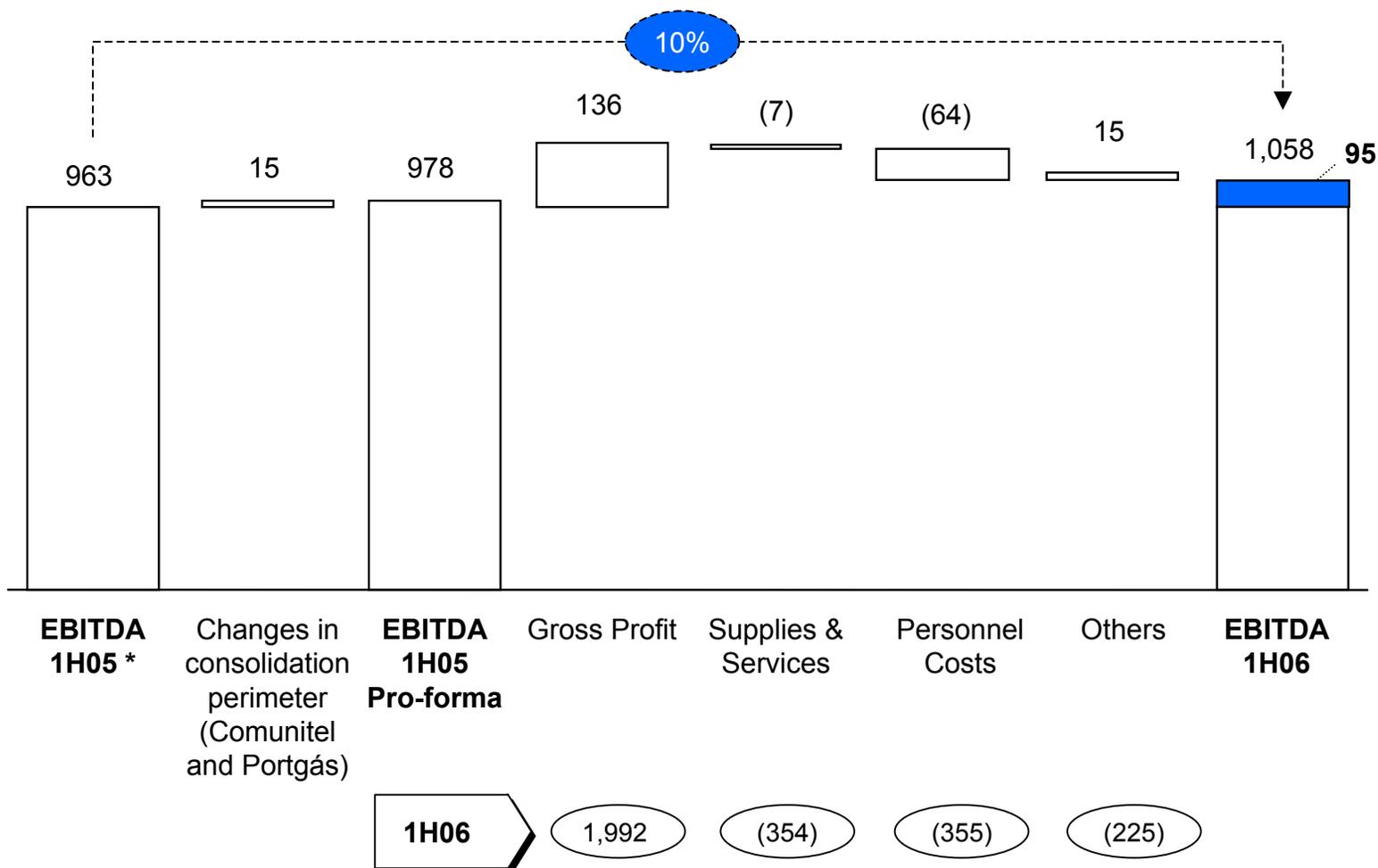
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# EBITDA PERFORMANCE SUPPORTED BY GROSS MARGIN GROWTH



## EBITDA evolution between 1H2005 and 1H2006

€ million



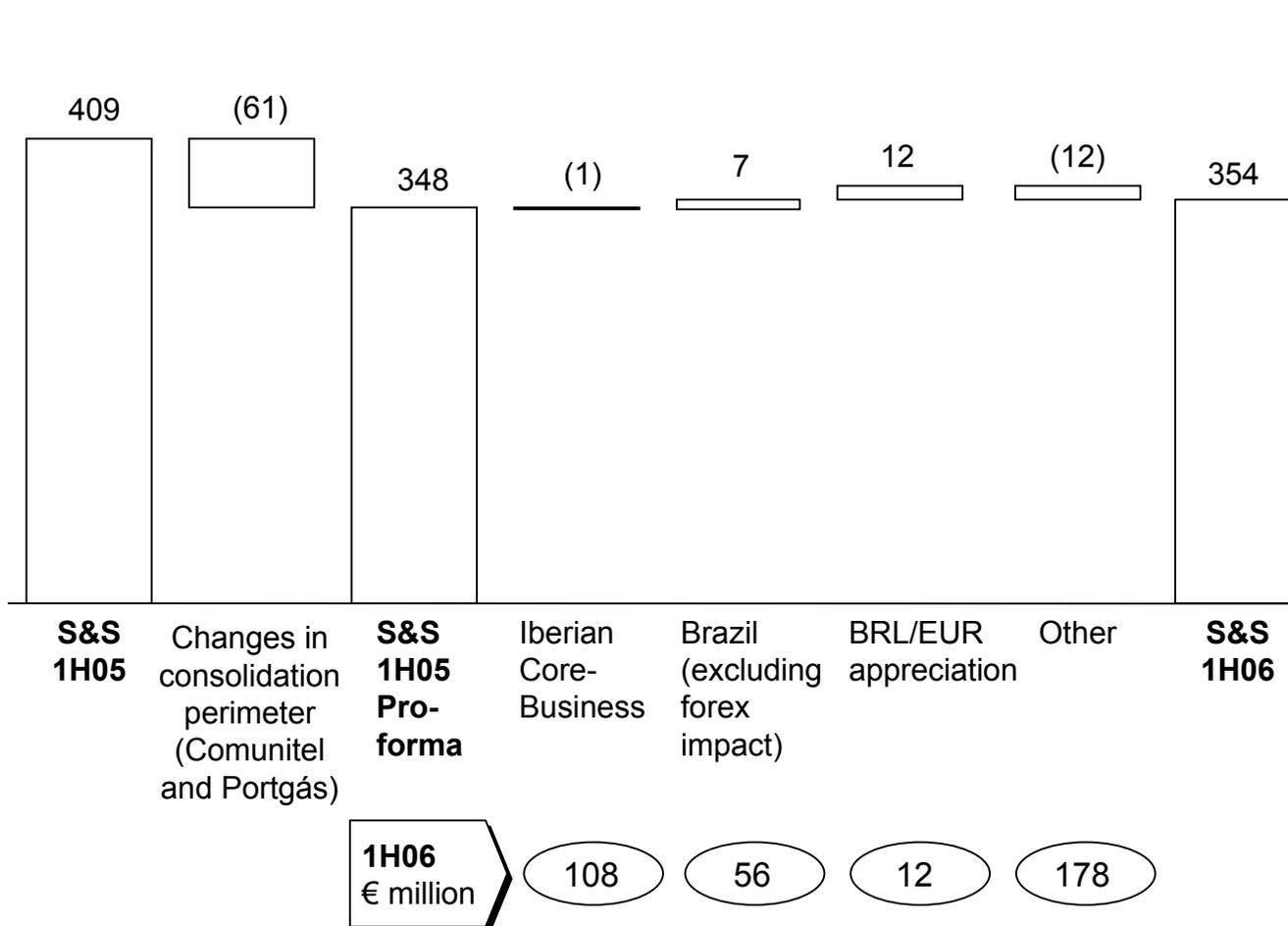
- Increase in S&S in Iberia and Energias do Brasil
- Increase in Personnel Costs due to forex effect and Redundancy Plan impact in Brazil, and ordinary annual wage rises
- Increase of other costs due to provisions related the 1H2005 tariff deficit in Spain, mitigated by the impact of the Real Decreto-Ley 03/2006 in 1H2006

\* Excluding discontinued operations and capital gains (1H2005: €14.8m from 40% of Edinfor, €12.6 from transfer of BCP to EDP's pension fund and €19.3m from REE)

# COSTS WITH SUPPLIES & SERVICES: STABLE EXCLUDING FOREX IMPACT



## Supplies & Services performance 1H06 vs. 1H05 € million



### Iberian Core

- Decrease at EDPD's commercial costs (-€9.1m) through lower re-branding (-€3.2m), invoicing, billing and posting (-€6.2m) expenses...
- ...compensating the increase in O&M costs at our wind farms (steaming from the first time consolidation of DESA ) and IT and customer services at our gas business

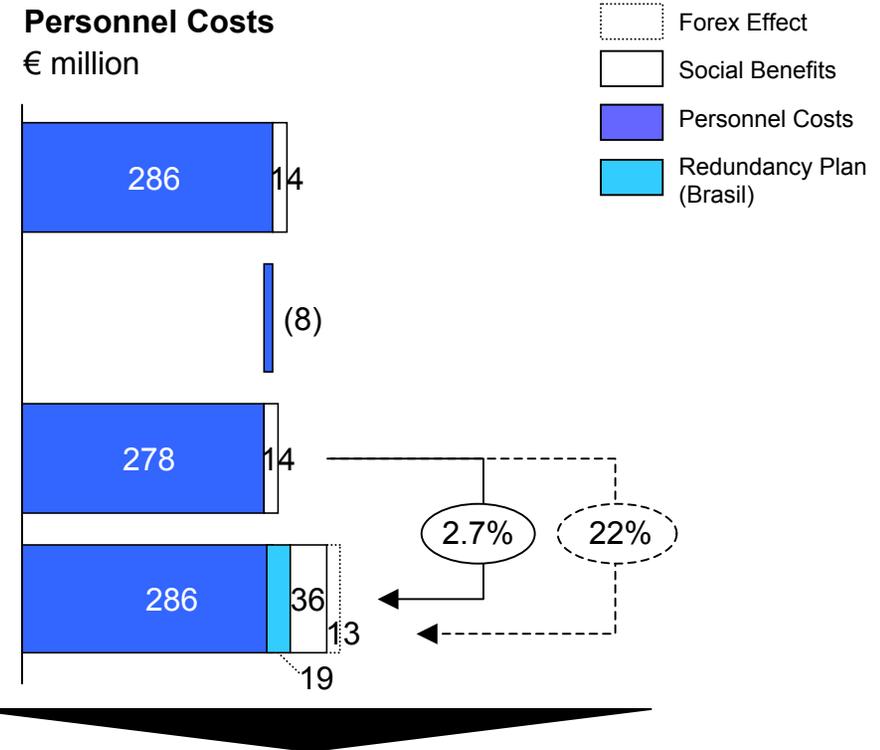
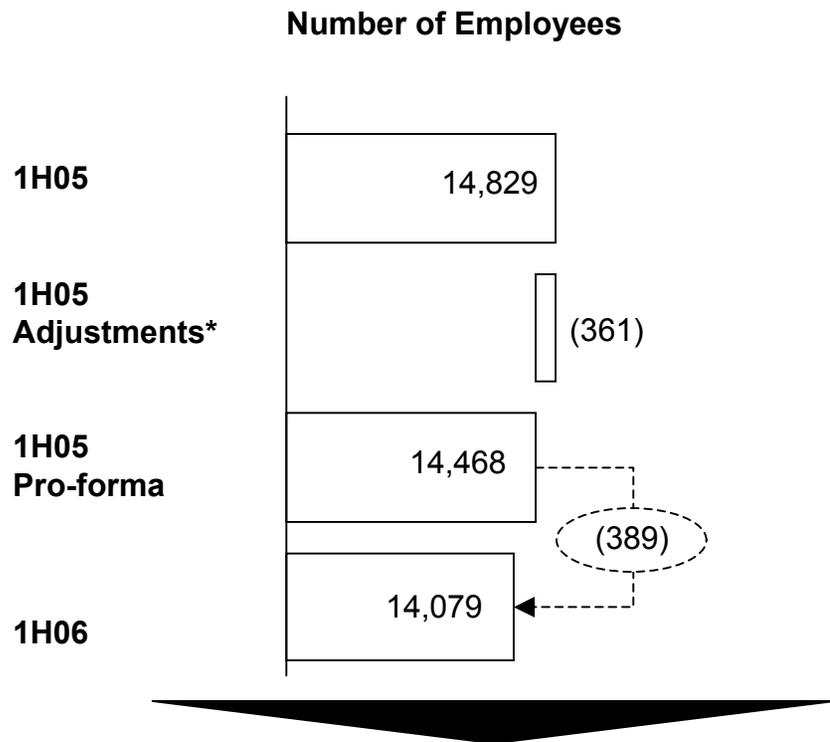
### Energias do Brasil

- Increased activity around the Programme for the Reduction of Electricity Losses (+€3m)
- Increase in costs with the improvement of the commercial service of our Discos

Decrease in "Other" at the level of EDP, S.A, namely at the level of IT and consulting costs

\* Includes de disposal of Comunitel (-€64.2m) and Portgás full consolidation (+€3.2m)

# PERSONNEL COSTS ROSE BY 2.7% YoY EXCLUDING NON RECURRING ISSUES



- **Reduction of 151 employees due to the extension of 2005 staff reduction incentives program PAR (-119 in EDP Distribuição)**
- Staff reduction at **ONI Portugal (-60)** and in **Brazil (-235) through the Redundancy Plan**, within the scope of the Vanguarda programme, which centralises shared services
- Increase of 78 employees at NEO after DESA's acquisition, and of 30 employees at HC Energia following the integration in the company of workers which were previously outsourced

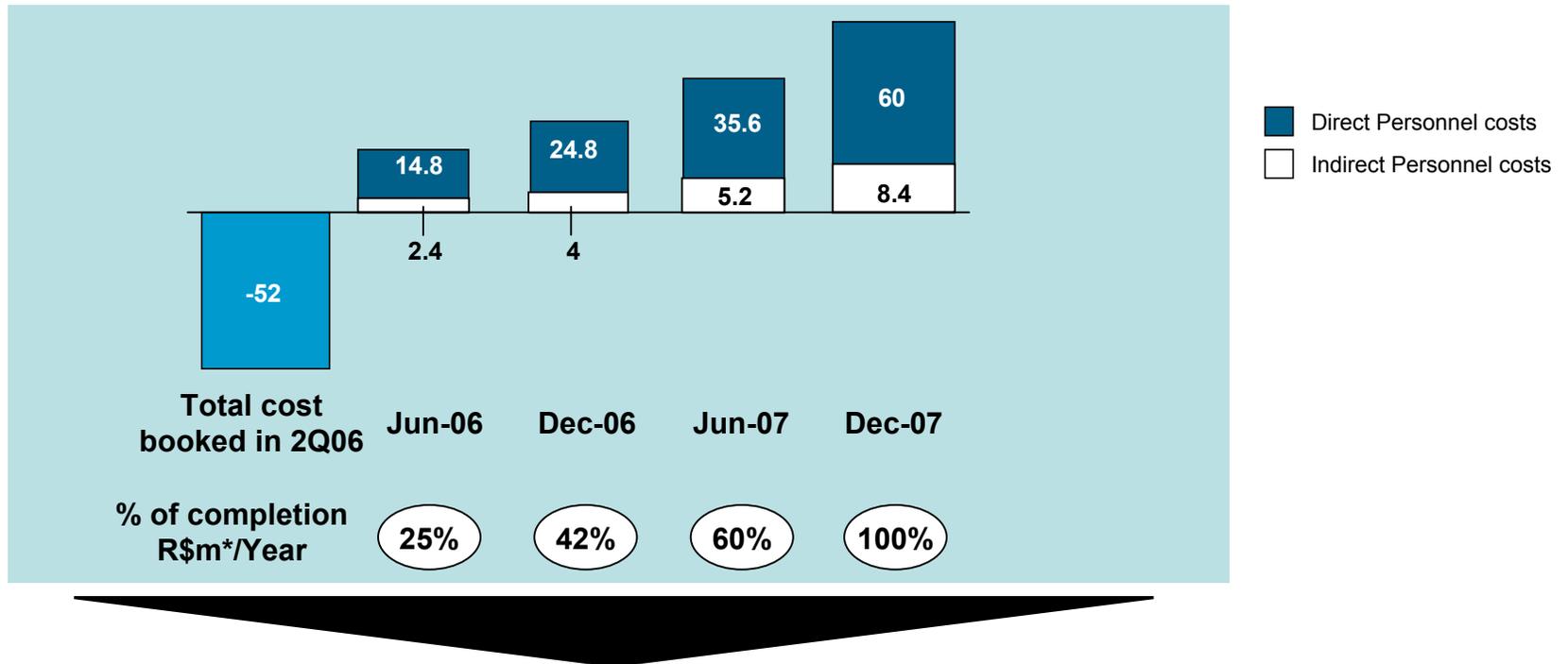
- Personnel costs reflect the change in the number of workers as well as **ordinary annual wage increases and career evolution**
- **Brasil's Redundancy Plan and forex effect** impacted significantly personnel costs
- Strong growth in costs with social benefits following the accounting in **2005 of an income related to the reduction of pension provisions**, following the valuation of the group's responsibilities

\* Includes de disposal of Comunitel (-€11.7m/-471 workers) and Portgás full consolidation (+€2.0m/+110 workers)

# THE IMPACT OF THE REDUNDANCY PLAN WILL IMPLY AN ESTIMATED COST SAVINGS OF R\$68 MILLION\*/YEAR FROM DEC-07 ONWARDS



Expected net annual cost savings of “Redundancy Plan” – R\$ millions\*



- Voluntary agreements closed with **651 employees** in 2Q06 will lead to the **lay-off of 19% of work-force until Dec-07**
- Considering replacements, net 16% reduction workforce until Dec-07
- **Total costs of the plan fully recognized in the 2Q06**
- Annual cost savings of R\$ 68 million\* after completion (Dec-07)
- **42% of the target total annual cost savings to be achieved by Dec-06**

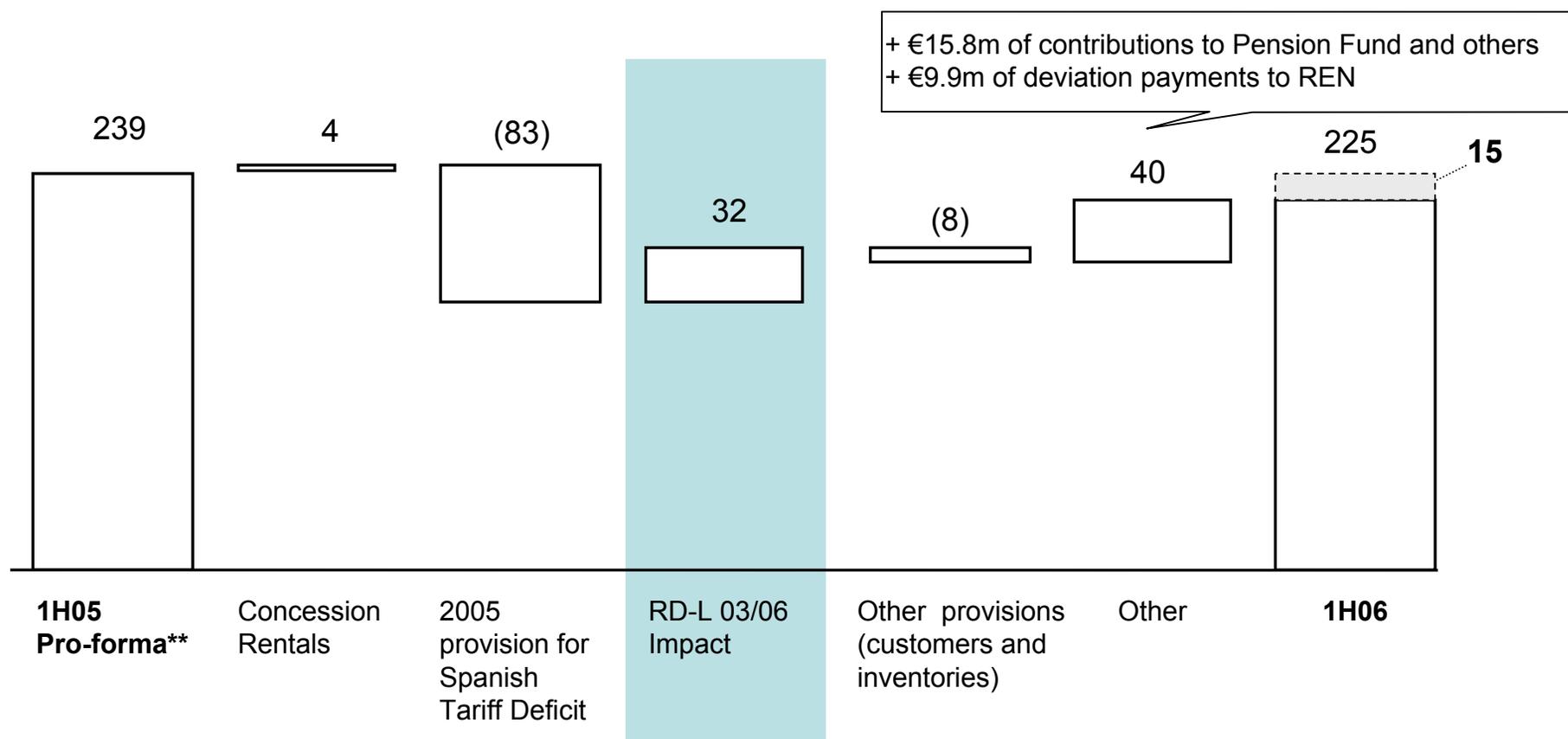
\* Current currency. Avg. BRL/EUR in 1H06: 2,69

# OTHER NET OPERATING COSTS: MAIN IMPACT COMES FROM PROVISIONS ON SPANISH REGULATION



## Other Operating Costs/(Revenues)

Excluding capital gains in the disposal of financial stakes in 2005 and 2006 \*  
€ million



\* 1H05 Capital Gains: €46.8m from the sale of Edinfor (€14.8m), REE (€19.3m) and BCP (€12.7m) – 1H06 capital Gains: €2.8m from small financial stakes

\*\* Includes the disposal of Comunitel (-€2.3m) and Portgás full consolidation (+€0.4m)

# NET PROFIT UP 18% SUPPORTED BY GROWTH IN RENEWABLES AND REVALUATION OF THE CMEC'S SWAP



## Income Statement € million

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<b>Financial Results</b>	<b>(19)</b>	<b>(103)</b>	<b>+84</b>	<b>81.6%</b>
<b>Net Profit</b>	<b>375</b>	<b>318</b>	<b>+56</b>	<b>17.7%</b>
<b>CAPEX</b>	<b>482</b>	<b>516</b>	<b>-34</b>	<b>-6.6%</b>

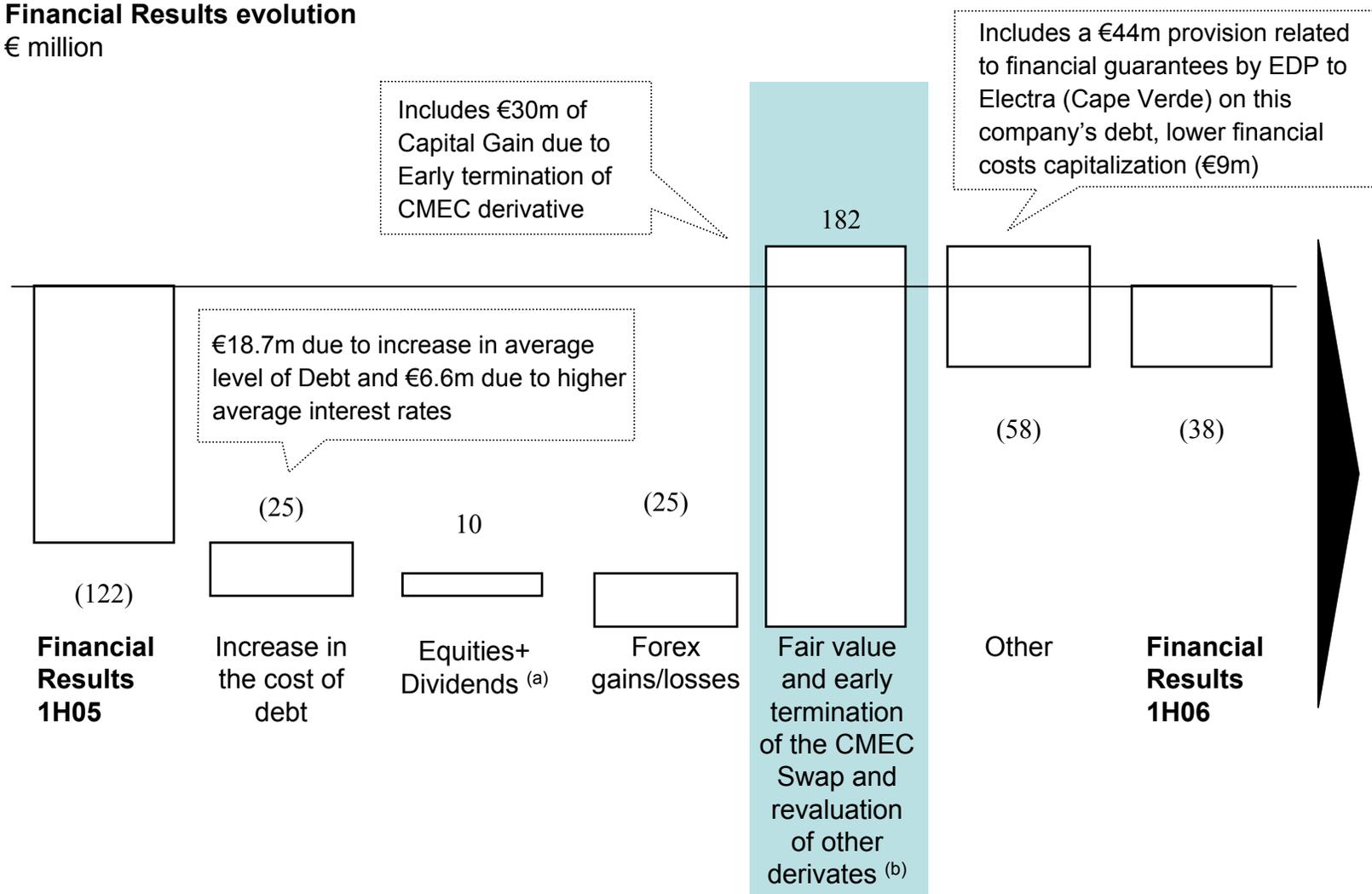
\* Excluding discontinued operations and capital gains (1H2005: €14.8m from 40% of Edinfor, €12.6 from transfer of BCP to EDP's pension fund and €19.3m from REE)

# REVALUATION OF THE CMEC'S INTEREST RATE SWAP SUPPORT THE POSITIVE PERFORMANCE OF FINANCIAL RESULTS



## Financial Results evolution

€ million



- Positive performance of the CMEC related interest rate swap in the period
- ... just partially offset by the impact of the increase of interest rates (3.4% to 3.8%) <sup>(c)</sup> and average debt...
- ... and the appreciation of the Brazilian Real against the USD

<sup>(a)</sup> Edinfor: +€4.8m, EGSA: +€1.3m, REN: +€35.1m, -€5.0m due to change in Portugás consolidation method and -€25.8m decrease in dividends following the disposal of our stake in Galp.

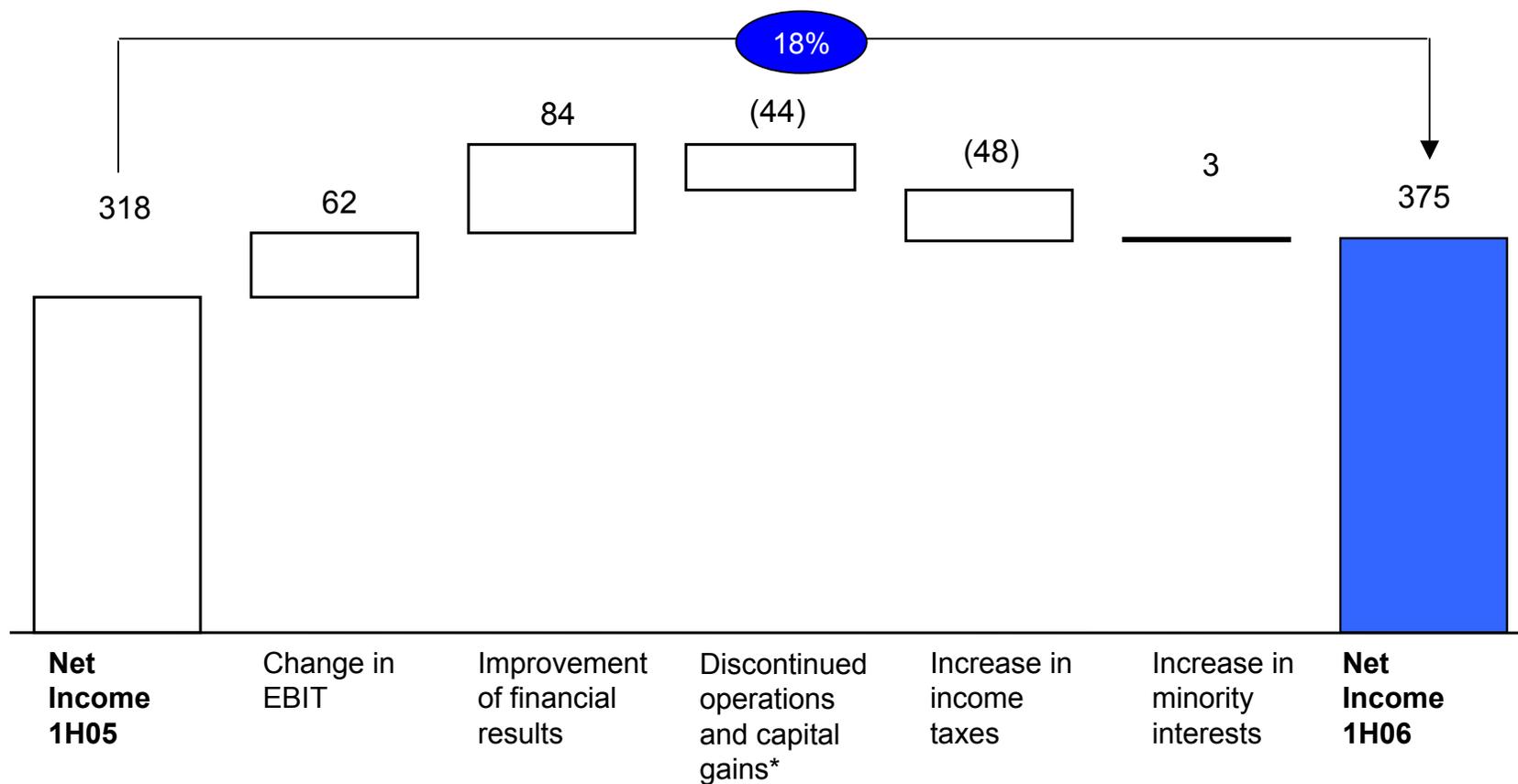
<sup>(b)</sup> +€148m from the fair value and early termination of the CMEC Swap

<sup>(c)</sup> Avg. interest rate of EDP, S.A. and Finance BV

# NET INCOME INCREASED 18%



**Net Income**  
€ million



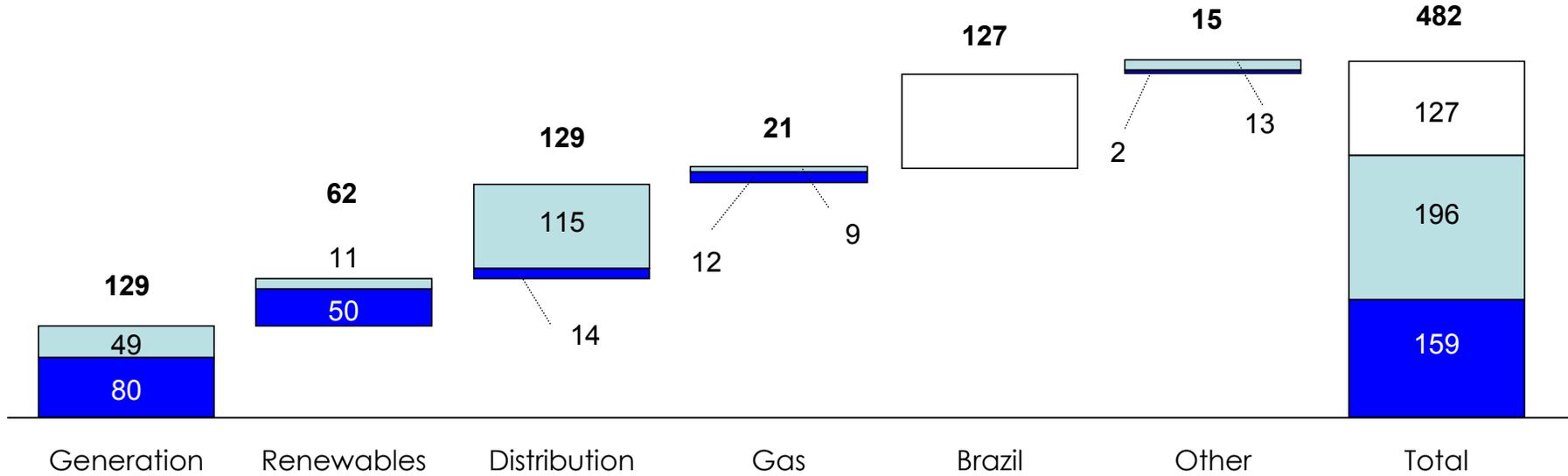
\* Discontinued operations and capital gains (1H2005: €14.8m from 40% of Edinfor, €12.6 from transfer of BCP to EDP's pension fund and €19.3m from REE)

# CAPEX SLOWDOWN DUE TO CONCLUSION OF PEIXE ANGICAL HYDRO PLANT, MORE CAPEX IN CCGTs & LCPD RELATED IN IBERIA



**EDP Consolidated Capex**  
€ million

Brazil  
 Portugal  
 Spain



## Ibéria



- 70% of total Group capex focused on the Iberian core business
- Capex in Iberia was driven by the construction of Catejon 2 400 MW CCGT, environmental investments at Sines, Aboño and Soto to reduce SO<sub>2</sub> and NO<sub>x</sub> as well as in the expansion and efficiency improvements of our distribution grid
- In Brazil our investments were focused on 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

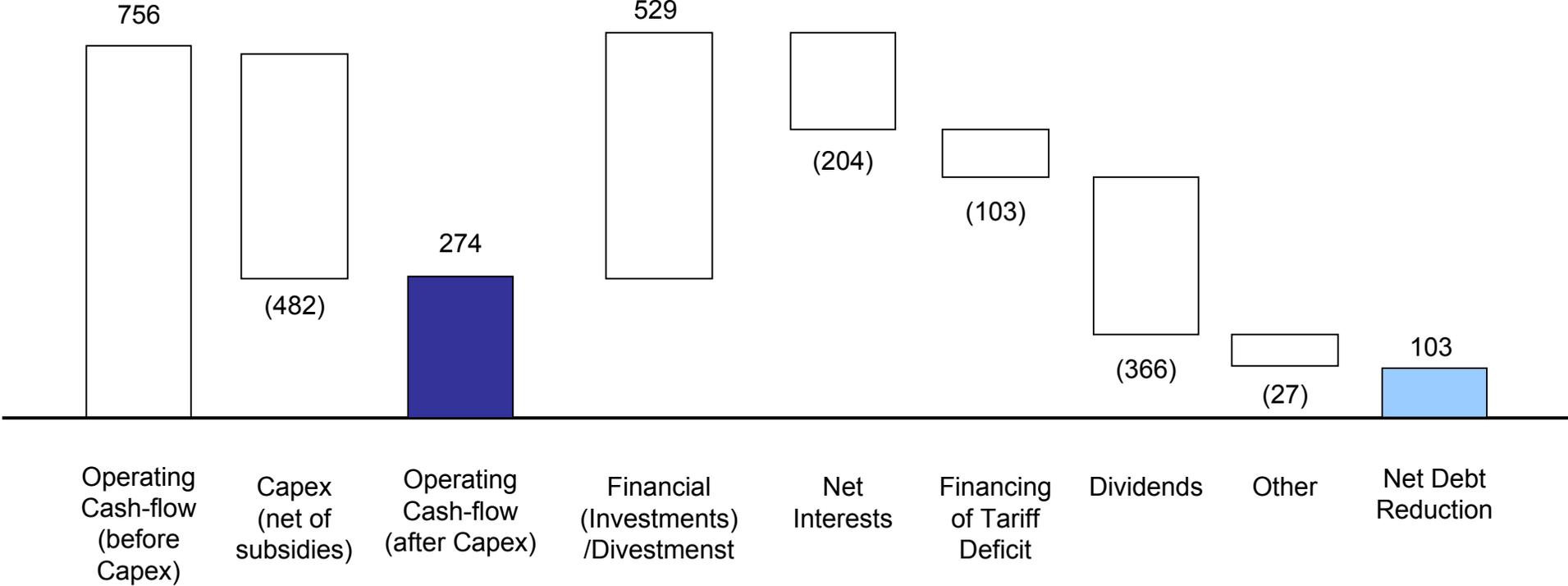
# CONSOLIDATED NET DEBT FELL €100m FOLLOWING THE FINAL SETTLEMENT FROM THE DISPOSAL OF OUR STAKE IN GALP



## Consolidated net debt Jun-06 vs. Dec-05

€ million

+576m from the sale of 14.3% stake in GALP  
 +€7.2m from the sale of 50% of EDP Bioelétrica  
 +€5.4m regarding the sale of Edinfor  
 -€58.7m from the increase in our stake in Portugás from 60% to 72%





**edp**

**feel our energy**