



Annual  
Report  
2005

Financial  
Report

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**Jorge Martins**  
(1940)

**untitled**, 1973

Oil on canvas  
80cmx80cm

This small work may serve as a metaphor for painting or, in a broader sense, for art itself. This is, after all, the word which colourfully appears on the canvas, illuminated by a woman grasping a torch as if searching for it or seeking to illuminate it for the observer. Together with this, we see variety of basic colours, signs and shapes associated with art, resembling items of the vocabulary used by painters.

Regardless of any message it may convey or any intentions it may reveal, this painting also reflects the wealth and technical mastery which, in the 1960s and 70s, Jorge Martins brought to bear on the possibilities of representing illusions of colour and light.

João Pinharanda

**Works in the EDP.arte Collection:** two paintings



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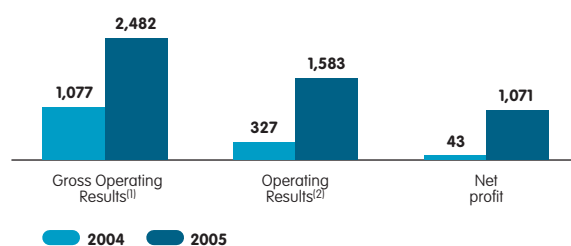
## 1. THE EDP GROUP

The EDP Group net profit reached EUR 1.0711 billion in 2005, compared with EUR 42.8 million in 2004.

Balance sheet		EDP Group	
EUR millions	2005	2004	
Tangible Fixed Assets	13,891.4	12,557.1	
Intangible Fixed Assets	3,508.8	2,964.3	
Investments in associates	351.3	316.8	
Available-for-sale assets	566.4	1,169.1	
Deferred taxes	892.7	852.2	
Customers	122.0	95.1	
Debtors and other sundry assets	374.6	153.7	
Total Non-current Assets	19,707.2	18,108.3	
Inventories	219.2	156.8	
Customers	1,463.5	1,161.8	
Debtors and other sundry assets	1,435.8	838.9	
Tax due	346.2	182.9	
Financial assets available for trading	275.6	56.2	
Cash and equivalents	585.5	230.7	
Assets held for sale	0.0	165.3	
Total Current Assets	4,325.8	2,792.7	
<b>Total Assets</b>	<b>24,033.0</b>	<b>20,901.0</b>	
Share capital	3,656.5	3,656.5	
Treasury stock	-38.1	-31.7	
Share premiums and shares	502.0	473.0	
Reserves	-1,665.7	-1,612.8	
Retained earnings	1,297.6	1,510.1	
Net profit attributed to majority interests	1,071.1	42.8	
Equity attributed to majority interests	4,823.4	4,037.9	
Minority Interest	1,287.8	743.9	
<b>Total Shareholders' Equity</b>	<b>6,111.2</b>	<b>4,781.8</b>	
Loans	8,600.7	7,181.1	
Staff benefits	1,843.2	1,985.2	
Provisions for liabilities and Charges	269.2	293.2	
Hydrological correction account	170.0	364.2	
Deferred taxes	369.7	286.4	
Creditors and other liabilities	137.7	199.0	
Total Non-current Liabilities	11,390.7	10,309.1	
Loans	1,983.6	1,960.8	
Creditors and other liabilities	4,371.8	3,570.1	
Taxes payable	175.7	210.4	
Liabilities held for sale	0.0	68.7	
Total Current Liabilities	6,531.2	5,810.0	
<b>Total Liabilities</b>	<b>17,921.8</b>	<b>16,119.2</b>	
<b>Total Liabilities and Own Capital</b>	<b>24,033.0</b>	<b>20,901.0</b>	

Statement of Income		EDP Group	
EUR millions	2005	2004	Var. %
Energy Sales	9,248.7	6,788.4	36.2%
Cost of Energy consumed	-4,222.0	-3,335.8	-26.6%
Variations in inventories and cost of raw materials and consumer goods	-1,591.2	-607.7	-161.8%
	3,435.5	2,844.9	20.8%
Other income	634.5	599.0	5.9%
Services Rendered	428.3	522.3	-18.0%
Other income	206.2	76.7	168.7%
Other costs	2,016.7	2,313.0	-12.8%
Supplies and Services	816.8	660.9	23.6%
Staff Costs	546.0	527.7	3.5%
Staff Benefits	200.3	440.1	-54.5%
Other costs	453.7	684.4	-33.7%
	2,053.3	1,130.9	81.6%
Provisions	12.5	64.3	-80.6%
Amortisation	996.5	835.2	19.3%
Compensation for Amortisation	-97.6	-85.9	-13.6%
	1,141.9	317.2	259.9%
Gains/Losses from divestiture of financial assets	440.7	10.0	4,324.1%
Financial Income	527.9	391.8	-34.7%
Financial Costs	-927.2	-660.3	-30.1%
Gains/(losses) from Associates	35.3	3.7	842.0%
<b>Earnings before Taxes</b>	<b>1,218.6</b>	<b>62.5</b>	<b>1,851.0%</b>
Profits Tax	152.2	16.4	829.6%
<b>Earnings after Taxes and before divestiture of discontinued operations</b>	<b>1,066.4</b>	<b>46.1</b>	<b>2,213.8%</b>
Discontinued activities	45.5	0.0	-
Minority Interests	-40.9	-3.3	-1,147.2%
<b>Net Profit</b>	<b>1,071.1</b>	<b>42.8</b>	<b>2,401.7%</b>

EDP Group  
(EUR millions)



In 2005, the EDP Group Gross Operating Results<sup>(1)</sup> rose by 131 percent, reflecting the consolidation of 100 percent of HC Energía, which benefited from pool tariff increases and a good operational performance by Energias do Brasil. Gross Operating Results<sup>(1)</sup> also include gains from the divestiture of financial assets amounting to EUR 440.7 million, EUR 397 million of which corresponded to the divestiture of a 14.3 percent stake in GalpEnergia.

<sup>1</sup> Includes the impact of the divestiture of financial assets and provisions.

<sup>2</sup> Includes the impact of the divestiture of financial assets.

Gross Operating Results <sup>(1)</sup> by Business		EDP Group	
EUR millions	2005	2004	Var. %
EDP Produção	802.4	835.6	-4.0%
Renewables	19.5	17.4	12.2%
EDP Distribuição	424.0	282.5	50.1%
EDP Comercial	-80.8	-6.1	-1,216.5%
Portgás	19.0	0.0	-
HC Energia	564.9	160.5	251.9%
Energias do Brasil	413.1	210.8	96.0%
ONI	19.3	-33.0	-
Others and adjustments	300.3	-391.2	-
<b>EDP Group</b>	<b>2,481.5</b>	<b>1,076.5</b>	<b>130.5%</b>

Despite the positive development of the binding generation Gross Margin, following an increase in the fixed tranche of the PPAs and the demand for efficient fuel at EDP Produção, EDP Produção Gross Operating Results fell by 4.0 percent. Generation at the EDP Produção power stations operating under the non-binding system amounted to 5,252 GWh, whilst EDP Comercial, the Group company which sells energy to customers in the liberalised segment, sold 6,314 GWh. The short-term interest of the Group in the liberalised Portuguese market is being satisfied by electricity purchases by EDP Produção from the Spanish pool. The performance of liberalised activities during this period reflects the combined effect of high pool tariffs witnessed in 2005 (an impact of EUR 54 million in 2005 in comparison with 2004) and the nature of certain contracts which EDP Comercial holds with its customers and which do not allow for final prices to be totally adjusted to any unexpected increase in electricity costs. EDP Comercial is involved in a process of renegotiating contracts with its customers in the light of current and expected developments in the price of electricity. These effects are being mitigated by the entry into operation of the third unit (392 MW) at the Ribatejo Power Station operating in the non-binding market.

In contrast, HC Energia has been producing for a long time and the Group's Iberian coverage is now evident. HC Energia produced 15,372 GWh and supplied 5,926 GWh of electricity to its customers in the liberalised segment. Due to its

long-term status, the company's Gross Operating Results benefited from high pool tariffs (which had an impact of EUR 215 million in 2005 in comparison with 2004). EDP also benefited from the consolidation of 100 percent of HC Energia for the first time in 2005.

Despite a strong increase in demand, the EDP Distribuição Gross Margin was adversely affected by a rise in fuel costs affecting energy acquisition. Operating Costs fell by 26.3 percent due to the accounting, in 2004, of the cost of the 2003-2004 HR Restructuring Programme, a programme from which EDP Distribuição is now benefiting. EDP Distribuição Gross Operating Results therefore rose by 50 percent.

Brazil continued to show strong growth. Sharp increases in Gross Operating Results were evident in all areas in 2005, due to an increase in the volume distributed and supplied, an increase in tariffs provided by the positive effect of tariff adjustments and the fact that uncontrollable costs were lower than those recognised by regulation. In addition, the EDP Group benefited from a 20 percent appreciation of the BRL/EUR exchange rate in 2005 (+EUR 69 million) as well as the reversal of a provision established in 2003 to deal with a potential devaluation of investments in the Lajeado project (+EUR 30 million).

Oni Gross Operating Results reflected improvements in the Gross Margin and greater control over Staff Costs and External Supplies and Services – apart from those associated with acquiring and retaining customers. In 2004, Oni Gross Operating Results were adversely affected by the reversal of a capital allowance of EUR 40 million accounted in 2002 and pertaining to the sale of Oni Way to Vodafone.

<sup>1</sup> Includes the impact of the divestiture of financial assets and provisions.

In 2004, a correction to the hydrological account was included under other adjustments which amounted to -EUR 316 million and, in 2005, a capital gain of EUR 397 million pertaining to the sale of a 14.27 percent stake in Galp for EUR 720.5 million. Some -EUR 23 million relating to adjustments to the capital gains from the sale of 3 percent of the REE (reflecting the difference between EDP accounts – using the sale price as opposed to the market price, and HC Energia accounts – using the sale price as opposed to the accounting par value) and EUR 12.4 million in capital gains following the transfer of 2.01 percent from BCP to the EDP Pension Fund.

Financial Profit		EDP Group	
EUR Thousands	2005	2004	Var. %
<b>Investments</b>	36,069	30,478	18.3%
Profits from investments in capital	36,069	30,478	18.3%
<b>Financing</b>	-472,978	-298,965	-45.6%
Net interest	-349,787	-301,075	-16.2%
Net exchange differences	68,722	13,889	394.8%
Other	-154,281	-11,780	-1,209.7%
<b>Financial Profit</b>	<b>-399,277</b>	<b>-268,487</b>	<b>-48.7%</b>

**Financial Profits** were influenced by the following:

- Net Interest rose by 16.2 percent (or 16.3 percent excluding capitalisation of interest) reflecting an increase in the debt following the full consolidation of HC Energia (formerly consolidated at 40 percent) in 2005 (+EUR 66.7 million), mitigated by a fall in the average debt cost from 4.34 percent to 4.18 percent (-EUR 13.7 million);
- In 2005, Exchange Earnings mainly reflected the effects of a 13 percent valuation of the BRL against the USD, affecting the debt expressed in USD in Brazil, compared with a 9 percent valuation in 2004;
- In 2005 Other Financial Gains and Losses included recognition of financial losses of EUR 118 million in the “marked-to-market” derivative security contracted by EDP to cover the effects of changes in interest rates on the actual value of the CMEC (this instrument will be “marked-to-market”

monthly on the profit and loss statement until Mibel becomes operational and the CMEC are effective) and the exact value of hedging facilities in Brazil (-EUR 56.6 million).

The increased contribution of Group Companies and Associates should also be noted. This rose by EUR 31.5 million and included the following positive effects: an increase in EDP's stake in Turbogás from 20 percent to 40 percent (+EUR 7.3 million), the REN contribution in 2005, which included the dividends distributed by GalpEnergia (18.3 percent held by REN) and the contributions of EEGSA (+EUR 2.3 million), subsidiaries of HC Energia (+EUR 1.6 million) and Edinfor (+EUR 1.3 million), which will start to be consolidated using the Equity Method from January 2005 onwards, following the divestiture of 60 percent of the company to LogicaCMG.

EDP Group Operating Investments amounted to EUR 1.427 billion in 2005, representing an annual increase of 17.1 percent in comparison with 2004. This was mainly due to investments in the electricity distribution network in Portugal, the construction of the Peixe Angical hydroelectric power station in Brazil and investments related to “Universalização” – the universal consumption programme for all low-voltage customers in Brazil.

Operating Investment		EDP Group	
EUR Thousands	2005	2004	Var. %
<b>Iberian Energy Market</b>	<b>932,388</b>	<b>861,318</b>	<b>8.3%</b>
<b>Electricity</b>	<b>879,502</b>	<b>804,684</b>	<b>9.3%</b>
Ordinary Regime Generation	258,121	233,321	10.6%
Portugal	202,233	200,208	1.0%
Spain	55,888	33,113	68.8%
Special Regime Generation	225,812	222,516	1.5%
Portugal	46,030	54,522	-15.6%
Spain	179,782	167,994	7.0%
Distribution	385,431	341,507	12.9%
Portugal	335,926	302,762	11.0%
Spain	49,505	38,745	27.8%
Supply	10,138	7,341	38.1%
Portugal	5,663	5,572	1.6%
Spain	4,475	1,769	153.0%
<b>Gas</b>	<b>52,886</b>	<b>56,634</b>	<b>-6.6%</b>
Spain	52,886	56,634	-6.6%
<b>Brazil Electricity</b>	<b>419,355</b>	<b>284,926</b>	<b>47.2%</b>
Generation	255,400	195,262	30.8%
Distribution	163,403	89,159	83.3%
Other	552	505	9.4%
<b>Fixed Telecommunications</b>	<b>34,070</b>	<b>25,531</b>	<b>33.4%</b>
<b>Information Technologies</b>	<b>0</b>	<b>20,424</b>	<b>-</b>
<b>Other</b>	<b>41,341</b>	<b>26,221</b>	<b>57.7%</b>
<b>Operating Investment</b>	<b>1,427,154</b>	<b>1,218,420</b>	<b>17.1%</b>

Note: The total operating investment is shown for each company independently of the EDP Group holding in the company and changes in internal ownership of the Group.

At EDP Produção, operating investments remained stable following completion of the second (2004) and third (2005) units at the Ribatejo Power Station. In 2005, EDP Produção acquired land for the thermoelectric power stations (Setúbal, Carregado and Tunes) from REN for EUR 40.6 million. In addition, EDP Produção completed construction work on the Venda Nova II Hydroelectric Power Station in August 2005 (EUR 6.0 million), carried out work on the Sines Power Station aimed at reducing SO<sub>2</sub> and NO<sub>x</sub> emissions (EUR 17.2 million) and began the construction project for the Baixo Sabor Hydroelectric Power Station (EUR 4.7 million). EDP Produção intends to invest around EUR 220 million in environmental work between 2005 and 2008 and EUR 360 million in construction work at Baixo Sabor, which is expected to be operational in 2011.

In 2005, 90 percent of EDP Distribuição's operating investment was spent on the distribution network, with a view to improving the quality of the service. Investment in the distribution network rose 5.6 percent during this period which, in conjunction with favourable weather conditions, led to a 14.4 percent improvement in equivalent power cut time (from 215 minutes in 2004 to 184 minutes in 2005).

Almost 50 percent of HC Energía's operating investments were channelled into special projects, namely wind farms. In 2005, the wind farms at Las Lomillas (50 MW – 50 percent of which is held by Genesa) and La Sotonera (19 MW) became operational. The Boquerón (22 MW) and Belchite (50 MW) wind farms began operating at the start of 2006 and it is envisaged that the La Brújula wind farm (73 MW) will begin operating in May. In 2005, HC Energía began building a second 400 MW unit at the Castejón Power Station (EUR 25 million), which is expected to be operational by the end of 2007. A total investment of EUR 200 million is estimated for this project. In addition, in 2005, HC Energía invested in environmental work (EUR 14.6 million in 2005) with a view to reducing SO<sub>2</sub> and NO<sub>x</sub> emissions in the Aboño and Soto power stations in order to comply with European Union directives by the end of 2007. Total investments for this project during the period 2005-2007 are estimated at approximately EUR 140 million.

Investment in the construction of the Peixe Angical Hydroelectric Power Station (EUR 452 million) rose to BRL 638.6 million (or EUR 232.7 million) in 2005, representing roughly 55 percent of Energias do Brasil's operating investment. EDP expects to make a further investment of BRL 170 million in the project in 2006, when it is envisaged that the power station will be operational. It should be noted that this investment sum corresponds to 100 percent of the project, in which EDP has a 60 percent holding. The project is also being financed by BNDES by means of a BRL 670 million loan. Additionally, Energias do Brasil's operating investments include BRL 119.4 million (EUR 43.5 million) associated with "Universalização" – the consumption universalisation programme for all low-voltage customers in the Bandeirante, Escelsa and Enersul concession areas.



Cash Flows		EDP Group
EUR millions		2005
<b>Net Profit</b>		1,071.1
Amortisation		952.0
Compensation for amortisation of subsidised assets		-90.7
Amortisation of concession rights		37.6
Net provisions		40.8
Interest on hydrological account		6.0
Exchange rate differences		-68.7
Consolidation of equity		-35.3
Deferred taxes		41.1
Minority Interests		40.9
Other adjustments		-342.1
Net interest and other financial costs		296.5
<b>Operational Cash Flow before Investment in Floating Capital</b>		1,949.2
Investment in floating capital		-96.2
Hydrological correction		-200.2
<b>Operational Cash Flow</b>		1,652.8
Operating Investment		-1,427.2
<b>Net Operational Cash Flow</b>		225.6
Divestiture of tangible assets		540.4
Investments		-775.7
Financing of 6.08% of the 2005 tariff deficit in Spain		-224.3
Net interest and other financial costs		-296.5
Dividends paid and distribution of profits		-336.0
Other non-operational variations		-58.0
<b>(Increase)/Reduction of Net Debt</b>		-928.4

## Debt

At the end of 2005, the Group Consolidated Debt rose to EUR 10.584 billion, roughly 74 percent of which was located in EDP, S.A., and EDP Finance BV. This increase of EUR 1.442 billion in comparison with the previous year is essentially the result of investments made to acquire wind power assets in Nuon in Spain and the consolidation of the respective debt, investments made in acquiring stakes in Portgás and Turbogás and the impact of variations in the exchange rate on the Energias do Brasil debt following a strong valuation of the BRL in 2005.

The EDP Group net debt at the end of 2005 amounted to EUR 9.723 billion.

Capital debt		EDP Group	
EUR thousands	2005	2004	Var. %
EDP, S.A. and EDP Finance BV	7,844,699	5,553,008	41.3%
HC Energia	717,658	1,647,229	-56.4%
Energias do Brasil	1,004,701	708,993	41.7%
ONI	315,712	622,538	-49.3%
Others	128,032	70,342	82.0%
<b>Subtotal</b>	<b>10,010,801</b>	<b>8,602,110</b>	<b>16.4%</b>
Interest payable	164,527	117,274	40.3%
OPTEP	315,000	315,000	0.0%
Fair value of debt	93,972	107,557	-14.3%
<b>Capital debt</b>	<b>10,584,300</b>	<b>9,141,885</b>	<b>15.8%</b>

During the year under analysis, EDP maintained its policy of concentrating the capital debt within EDP, S.A., and EDP Finance BV, with the exception of ONI, the Brazilian holdings and the debt contracted as part of project finance and basically associated with wind power projects.

Within this context, during the first quarter of the year the process of replacing the HC Energia long- and medium-term bank loan, opened immediately after the increase in EDP holdings in its share capital, was completed. It should be noted that for this purpose EDP took out a ("Club Deal") loan in December 2004 to the value of EUR 1.350 billion over two years. By the end of 2005, it had begun renegotiating the terms of this loan to extend it for a further year and reduce its spread, taking advantage of current favourable market conditions.

Also conforming to the Group's policy of centralising the financing of Iberian "core business" within EDP, S.A., and EDP Finance BV, in December 2005 a bank loan was taken out to the value of EUR 565 million to finance the acquisition, though NEO Energía, of wind power assets in Nuon in Spain.

With the aim of reducing financial costs, and also to extend and even out the maturity of the capital debt, EDP, S.A., held a public exchange offering of Eurobonds maturing in 2008 and 2011 for a new issue worth EUR 500 million maturing in 2015 with a 3.75 percent per year renewal certificate. This operation reduced the Eurobond 2008 debt by EUR 149 million and the Eurobond 2011 debt by EUR 247 million, thus reducing refinancing costs during these years. Favourable conditions in the capital market, with historically low interest rates and reduced spreads, thus enabled EDP to reduce future financial costs.

Following the exchange offer, EDP took advantage of the interest shown by investors to issue 15-year bonds (maturing in 2020) with renewal certificates of 4.125 percent to the value of EUR 300 million, destined to replace the short-term debt.

Two medium-/long-term loans were also taken

- A EUR 100 million bilateral loan from the European Investment Bank to finance the construction of the Ribatejo Thermoelectric Power Station for a period of 15 years and a grace period of two years, to extend the average maturity of the EDP, S.A., debt portfolio;
- A "Club Deal" loan to the value of EUR 240 million over a period of three years, to refinance the short-term loan.

At the beginning of January 2006, the process of updating and expanding the Euro Medium-Term Notes Programme was completed, under which EDP may issue bonds on the international capital market. The new programme, which involved an increase from EUR 5 billion to EUR 7 billion, complies with the requirements of the European Prospectus Directive which came into force in July 2005.

Concerning the Brazilian partners in the Group, it should be noted that the company restructuring process was completed with the vertical divestiture of production and distribution activities and the migration of minority interests to Energias do Brasil. This process culminated in the Energias do Brasil Initial Public Offering in July 2005, with EDP participating in the increase of capital by converting into capital USD 298 million worth of "Senior Notes" from Escelsa which it had acquired in 2002. As a result of this entire process, the company structure of the Brazilian partners has been simplified and its capital structure reinforced, thus providing it with the necessary conditions for self-sustainable financial development.

Also in 2005, four banks were selected and authorised to organise and handle the issue of five-year bonds in BRL for Bandeirante, Escelsa and Enersul to the value of BRL 700 million. The aim is to refinance the short-term debt, by extending the maturity of the companies' debt, taking advantage of current market conditions to improve average debt costs. Issues will receive a rating from Moody's and S&P, and it is hoped that the entire process will be completed during the first half of 2006.

In terms of maturity, the EDP Group Consolidated Debt comprises 18 percent short-term and 82 percent medium- and long-term debts.

Capital Debt		EDP Group		
EUR thousands	2005	2004	Var. %	
<b>Debt – Medium- and Long-Term</b>	<b>8,285,721</b>	<b>6,886,105</b>	<b>20.7%</b>	
Loans by Bonds and Shareholding Securities	3,785,590	3,505,428	8.0%	
Debts to Credit Institutions	4,280,229	3,115,386	37.4%	
Other Loans Obtained	219,902	245,291	-11.2%	
<b>Debt – Short-Term</b>	<b>1,819,052</b>	<b>1,843,562</b>	<b>-1.3%</b>	
Loans by non-Convertible Bonds	137,756	12,689	985.6%	
Debts to Credit Institutions	919,093	1,251,927	-26.6%	
Other Loans Obtained	762,203	578,946	31.7%	
<b>Subtotal</b>	<b>10,104,773</b>	<b>8,709,667</b>	<b>16.0%</b>	
Interest Payable	164,527	117,218	40.4%	
OPTEP	315,000	315,000	0.0%	
<b>Capital Debt</b>	<b>10,584,300</b>	<b>9,141,885</b>	<b>15.8%</b>	

In relation to short-term financing and cash flow management, EDP, S.A., continues to favour recourse to issues of the “Euro Commercial Paper” programme, an instrument that provides it with access to an enlarged investor base at very competitive costs, ensuring the necessary flexibility for efficient cash flow management.

At the end of 2005, EDP, S.A., held EUR 1.497 billion of lines of credit contracted and EUR 350 million of commercial paper with a firm commitment, which ensure liquidity and flexibility for the Group in terms of financial management.

At the end of 2005, the average rate of debt interest of EDP, S.A., and EDP Finance BV was 3.33 percent p.a., with 25 percent of the medium-/long-term debt at a fixed rate, and the same debt profile maintained in terms of consolidated taxes.

As regards currency, the EDP Group debt is mostly expressed in EUR (89.7%) with the exception of the debt contracted by the Brazilian companies, the financing of which is expressed in BRL (roughly 8.6 percent) and USD (roughly 1.4 percent).

## Rating

With regard to the medium and long-term ratings of EDP, S.A., and EDP Finance BV the following should be stressed:

- Moody's – the agency upwardly revised the A2 with Stable Outlook rating as a result of applying a new methodology of Joint Default Analysis to “Government Related Issuers” (GRI);
- Fitch – attributed an initial A rating with Stable Outlook. At the beginning of 2006, as a result of applying new methodology, Fitch upwardly revised the rating attributed to the unsecured EDP, S.A., and EDP Finance BV senior debt to an A+, but did not alter the corporate rating (A);
- S&P – at the start of 2006, a resolution of negative credit watch which the agency had attributed in 2004 following the announcement of the acquisition of HC Energía, and an A rating with Stable Outlook;

Rating		EDP, S.A., and EDP Finance BV			
Date	S&P	Date	Moody's	Date	Fitch
03-02-06	A / St / A1	23-06-05	A2 / St / P1	16-02-06	A / St / F1 <sup>(1)</sup>
30-07-04	A / CW(-) / A1	19-08-03	A3 / St / P2	23-07-05	A / St / F1
28-08-03	A / St / A1	12-06-02	A2 / St / P1		
30-05-02	A+ / Neg / A1	01-10-01	Aa3 / Neg / P1		
21-05-01	AA- / St / A1	05-08-99	Aa3 / St / P1		
05-08-99	AA / St / A1+				

(1) Non-guaranteed senior debt rating revised to an A+

Changes in Moody's methodology have also had a positive impact on the HC Energía rating, which was upgraded to an A3. The rating attributed by Fitch to this company was reaffirmed as BBB+.

Regarding the Brazilian partners in the Group, Escelsa's rating was reaffirmed as B+ with its outlook revised to positive by S&P. Marks of B2.br/B+ (both on the Brazilian scale) were attributed by Moody's and S&P respectively.

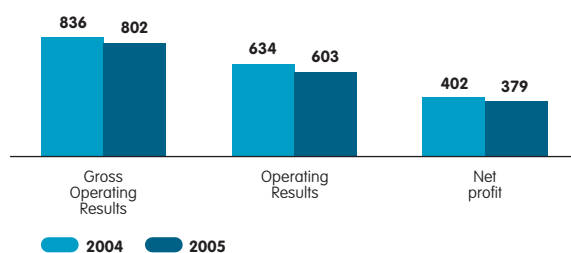
## 2. EDP PRODUÇÃO

At the end of 2005, Energy Management, which was within the consolidation perimeter of EDP Produção, was transferred to EDP, S.A. However, in order to ensure that the figures may be compared, the proforma figures for 2005 are presented here, which include this activity within the consolidation perimeters of EDP Produção.

Net Profit in 2005 was EUR 379.4 million, 5.7 percent below the figure recorded in 2004.

Statement of Income		EDP Produção		
EUR thousands	2005	2004	Var. %	
Volume of Trade	1,896,584	1,520,729	24.7%	
Energy Sales	1,931,713	1,461,118	32.2%	
Other sales	24,113	21,225	13.6%	
Services Rendered	-59,242	38,386	-	
Cost of Sales	900,650	479,322	87.9%	
Electricity	188,505	51,417	266.6%	
Fuel	707,846	422,699	67.5%	
Sundry Goods and Materials	4,298	5,207	-17.4%	
<b>Gross Margin</b>	<b>995,934</b>	<b>1,041,407</b>	<b>-4.4%</b>	
Operating Costs	193,540	205,844	-6.0%	
Supplies and Services – Third Parties	64,657	62,090	4.1%	
Supplies and Services – Group	32,089	26,910	19.2%	
Staff Costs	74,057	82,169	-9.9%	
Cost of Social Benefits	26,952	22,353	20.6%	
Profits from Electricity Generators	3,751	3,567	5.2%	
Other costs / (income)	-7,967	8,755	-	
<b>Gross Operating Results</b>	<b>802,394</b>	<b>835,563</b>	<b>-4.0%</b>	
<b>% of Volume of Trade</b>	<b>42.3%</b>	<b>54.9%</b>	<b>-12.6 p.p.</b>	
Amortisation	200,724	206,104	-2.6%	
Compensation for Amortisation	-1,144	-4,287	73.3%	
<b>Operating Results</b>	<b>602,814</b>	<b>633,746</b>	<b>-4.9%</b>	
Financial Profit	-65,602	-82,506	20.5%	
Taxes and Minority Interests	157,806	148,891	6.0%	
<b>Net Profit</b>	<b>379,407</b>	<b>402,350</b>	<b>-5.7%</b>	

EDP Produção  
(EUR millions)

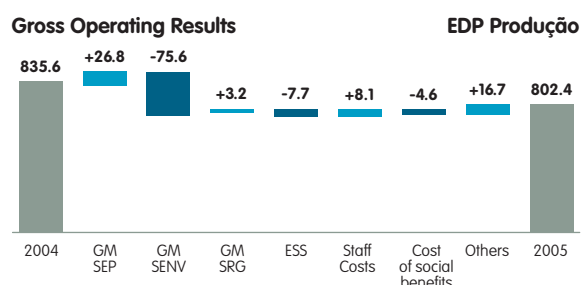


Gross Margin		EDP Produção		
EUR thousands	2005	2004	Var. %	
SEP				
PPA - Fixed Tranche	909,284	892,013	1.9%	
PPA - Variable Tranche	495,223	301,224	64.4%	
Steam (Barreiro) and Ash	6,455	6,524	-1.1%	
(-) Coal	207,535	184,644	12.4%	
(-) Fuel oil	248,325	86,336	187.6%	
(-) Natural Gas	8,043	11,883	-32.3%	
(-) Diesel	2,196	586	274.7%	
(-) Own consumption of electricity	8,244	6,455	27.7%	
<b>Gross Margin PPA</b>	<b>936,619</b>	<b>909,857</b>	<b>2.9%</b>	
SENV				
Electricity Sales	469,450	217,132	116.2%	
(-) Direct Costs	454,241	126,307	259.6%	
<b>Gross Margin SENV</b>	<b>15,209</b>	<b>90,825</b>	<b>-83.3%</b>	
PRE				
Cogeneration	67,975	54,643	24.4%	
Small-scale hydroelectric plants	7,440	10,807	-31.2%	
(-) Natural gas (cogeneration)	44,612	36,909	20.9%	
(-) Electricity purchases	947	1,901	-50.2%	
<b>Gross Margin PRE</b>	<b>29,856</b>	<b>26,641</b>	<b>12.1%</b>	

The SEP Gross Margin rose by 2.9 percent reflecting the stable profile of the return obtained through the Fixed Tranche of the PPAs and the recovery of fuel costs Through the Variable Tranche of the PPA. In accordance with the PPA, CO<sub>2</sub> emissions and licences for the SEP power stations are managed by REN and do not affect the EDP gross margin. The slight rise in the Fixed Tranche of the PPA during this period reflects updating in line with inflation, mitigated by: i) the reduced availability (km) of the hydroelectric plants (hydroelectric km: 1.037 in 2005 vs. 1.044 in 2004) and ii) the decommissioning, in December 2004, of 47 MW from the Tapada do Outeiro Power Station (whose contribution in 2004 was EUR 4.9 million). The margin for the acquisition of fuel (PPA variable tranche minus fuel costs) rose by EUR 17.8 million in 2004 to EUR 29.1 million in 2005, mainly as a result of i) the greater difference between the acquisition costs supported by EDP Produção and International Fuel Indices (used as a reference in calculating the PPA variable tranche) witnessed during the second half of 2005 and ii) the negative impact of the revaluation of coal stocks (EUR 5.6 million) on the 2004 fuel acquisition margin.

The Gross Margin in the SENV fell by EUR 15.2 million following a reduction of approximately 63 percent in the energy delivered to EDP Distribuição (the "free parcel") and the negative impact of high pool tariffs in 2005 on the energy purchase service provided by EDP Produção to EDP Comercial. EDP Produção guarantees the cost of energy purchases to EDP Comercial, thus protecting its commercial activities from the short-term volatility of the pool tariff. Despite the lower volumes produced by the hydroelectric power stations operating in the SENV, this year non-binding generation has benefited from the additional output provided by the second (1.9 TWh) and third (0.8 TWh) units at the Ribatejo Power Station. The third unit was operational before planned, in October 2005. With regard to the emission of greenhouse gases, repairs to the first and second units at the Ribatejo Power Station resulted in a lower load factor in 2005 (68 percent) than estimated in the licensing procedures: CO<sub>2</sub> emissions reached 1.8 million tonnes, whereas the licence for this year stated 2.0 million tonnes. As a consequence, EDP Produção recorded a positive effect of EUR 4.4 million on the 2005 gross margin.

The Gross Margin of the Special Regime Generators increased to EUR 29.9 million despite a 51 GWh drop in transmission from the small-scale hydroelectric plants (facilities with a capacity of less than 10 MW), the result of the drought, which had a negative impact on the 2005 Gross Margin of EUR 3.4 million. This performance is based on the fact that the EDP cogenerators have changed from selling to industrial customers to selling to the SEP at a higher tariff. Additionally, the cogenerators benefited from an increase in the sales price for industrial customers which is indexed to the average price of natural gas.



EDP Produção Gross Operating Results fell 4.0 percent, due, in particular, to a fall in the Gross Margin for non-binding activities, as previously explained. EDP Produção achieved a 6.0 percent reduction in Operating Costs:

- External Supplies and Services rose by EUR 7.7 million. External Supplies and Services provided by companies within the Group rose as a result of the higher costs imposed by EDP Valor (+EUR 4.2 million) and those provided by third-party suppliers rose as result of higher maintenance costs (EUR 3.5 million) for maintenance work on the fuel oil power stations resulting from greater use, together with the entry into operation of the second unit (392 MW) at the Ribatejo Power Station;
- Staff Costs fell by 9.9 percent (or 4.1 percent, excluding compensation payments and the capitalisation of Staff Costs), reflecting the loss of 120 staff and a lesser number of terminations by mutual agreement during this period, which reduced compensation payments to EUR 2.0 million (EUR 3.2 million in 2004 with 12 negotiated terminations). The reduction in the number of workers in 2005 included the transfer of 79 workers to EDP Valor.

The 20.6 percent increase in Cost of Social Benefits in 2005 is associated with a EUR 7.7 million provision for retirement benefits which includes curtailment costs for 22 workers who took early retirement. The 2004 amount was influenced by the premiums paid as part of the flexible retirement programme (EUR 3.6 million) and refers to 91 workers who agreed to take part in the programme.

Operating Investment		EDP Produção	
EUR thousands	2005	2004	Var. %
Binding Generation	55,342	49,659	11.4%
Non-binding Generation	83,265	128,733	-35.3%
Other Investments	48,393	8,307	482.6%
Operating Investment	15,233	13,509	12.8%
<b>Operating Investment</b>	<b>202,233</b>	<b>200,208</b>	<b>1.0%</b>

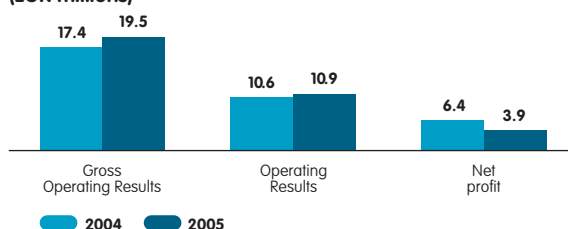
Operating Investment remained stable at EUR 202 million following the commissioning of the second unit at the Ribatejo Power Station and the entry into industrial service of the 192 MW Venda Nova II (Frades) Power Station in August 2005. Approximately 40 percent of the total investment during this period was spent on the third unit at the Ribatejo Power Station. The increase in operating investments in binding generation was associated with the start, in the second quarter of 2005, of work on the Sines Power Station to reduce SO<sub>2</sub> and NO<sub>x</sub> emissions (EUR 17.2 million) and the start of the Baixo Sabor Hydroelectric Power Station (EUR 4.7 million). Investment in 2005 also included the acquisition from REN of land for the thermoelectric power stations (Setúbal, Carregado and Tunes) for EUR 40.6 million.

### 3. RENEWABLES

Production based on renewable energy (wind and biomass) developed by Enernova and EDP Bioelétrica, achieved a Net Profit of EUR 3.9 million in 2005, 38,6 percent less than in 2004.

Statement of Income		Renewables	
EUR thousands	2005	2004	Var. %
Volume of Trade	33,770	23,702	42.5%
Cost of Sales	3,044	2,417	25.9%
<b>Gross Margin</b>	<b>30,726</b>	<b>21,285</b>	<b>44.4%</b>
Operating Costs	11,251	3,929	186.4%
Supplies and Services – Third Parties	8,555	3,365	154.3%
Staff Costs and Social Benefits	1,378	1,087	26.8%
Income from Electricity Generators	745	517	44.2%
Other costs / (income)	573	-1,039	-
<b>Gross Operating Results</b>	<b>19,475</b>	<b>17,356</b>	<b>12.2%</b>
<b>% of Volume of Trade</b>	<b>57.7%</b>	<b>73.2%</b>	<b>-15.6 p.p.</b>
Amortisation	8,854	6,964	27.1%
Compensation for Amortisation	-314	-185	-69.7%
<b>Operating Results</b>	<b>10,935</b>	<b>10,577</b>	<b>3.4%</b>
Financial Profit	-4,358	-1,902	-129.2%
Taxes and Minority Interests	2,660	2,300	15.6%
<b>Net profit</b>	<b>3,917</b>	<b>6,375</b>	<b>-38.6%</b>

Renewables  
(EUR millions)



At the end of 2005, the total amount of energy produced amounted to 400 GWh, 50 percent more than in 2004. This was due to an increase in installed capacity, together with an increase in the average equivalent number of service hours from the wind farms, to 2,460 hours from 2,350 hours at the end of 2004 (the equivalent of an increase in the load factor from 28.1 percent to 26.4 percent, respectively).

The Gross Margin rose by almost 45 percent, supported by this new capacity and the increase in the load factor, but Gross Operating Results rose only by 12.2 percent to EUR 19.5 million. This was mainly the result of the following non-recurring factors:

- An increase of EUR 0.9 million relating to EDP, S.A., services following implementation of the new Group policy of attributing costs associated with services supplied by the parent company to the business units;
- An increase of EUR 3.4 million under Third Party Supplies and Services associated with the cost of research into new technologies, namely solar power, together with wind measurement studies and assessment of local potential for new wind farms.

In addition the following recurring factors were also evident:

- An increase of EUR 0.5 million in Conservation and Repair costs for wind farms that had been in operation for over two years (before the two years expired the farms were still within the guarantee period);
- An increase of EUR 0.2 million in profits from Electricity Generators Costs, as a consequence of the increased transmission generated by wind farms, given that the profits corresponded to a variable charge, equivalent to 2.5 percent of energy sales, paid to local authorities and landowners.



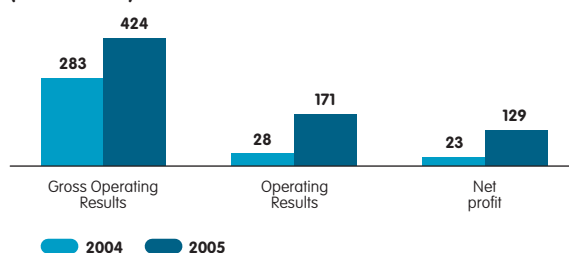
#### 4. EDP DISTRIBUIÇÃO

In 2005 EDP Soluções Comerciais was created, to which activities previously carried out by EDP Distribuição were transferred since they were considered likely to create synergies with other companies in the EDP Group within the liberalised market. However, given that in 2005 almost all the activities of EDP Soluções Comerciais were still dedicated to services rendered to EDP Distribuição, the sub-consolidated proforma figures are presented here to allow information to be compared.

EDP Distribuição achieved a net profit of EUR 128.7 million in 2005, compared with EUR 22.7 million in 2004.

Statement of Income		EDP Distribuição	
EUR thousands	2005	2004	Var. %
Volume of Trade	3,767,596	3,637,538	3.6%
Energy Sales	3,737,599	3,610,192	3.5%
Other Sales	3,176	2,734	16.2%
Services Rendered	26,821	24,612	9.0%
Cost of Sales	2,594,202	2,338,270	10.9%
Electricity	2,580,184	2,324,118	11.0%
Sundry Goods and Materials	14,018	14,151	-0.9%
<b>Gross Margin</b>	<b>1,173,393</b>	<b>1,299,268</b>	<b>-9.7%</b>
Operating Costs	749,430	1,016,752	-26.3%
Supplies and Services – Third Parties	134,099	122,189	9.7%
Supplies and Services – Group	120,947	102,360	18.2%
Staff Costs	181,130	195,472	-7.3%
Cost of Social Benefits	128,895	419,249	-69.3%
Profits From Concessions	201,439	186,095	8.2%
Other costs / (income)	-17,080	-8,612	-98.3%
<b>Gross Operating Results</b>	<b>423,964</b>	<b>282,516</b>	<b>50.1%</b>
<b>% of Volume of Trade</b>	<b>11.3%</b>	<b>7.8%</b>	<b>3.5 p.p.</b>
Amortisation	330,915	326,796	1.3%
Compensation for Amortisation	-78,214	-72,402	-8.0%
<b>Operating Results</b>	<b>171,263</b>	<b>28,122</b>	<b>509.0%</b>
Financial Profit	-26,063	-25,125	-3.7%
Taxes and Minority Interests	16,515	-19,690	-
<b>Net Profit</b>	<b>128,686</b>	<b>22,687</b>	<b>467.2%</b>

EDP Distribuição  
(EUR millions)



Permitted Income		EDP Distribuição	
EUR thousands	2005	2004	Var. %
Permitted Income for URD assets: URD	944,844	931,798	1.4%
Unit Income URD: HV/MV (EUR / MWh)	8.3	9.5	-12.8%
HV/MV energy supplied (GWh)	43,998	41,614	5.7%
Permitted Income URD: LV (EUR / MWh)	24.5	23.9	2.6%
LV energy supplied (GWh)	23,610	22,518	4.9%
Valuation of Losses	3,228.1	0.0	-
Permitted Income for CREDES assets	129,825	161,241	-19.5%
Average value of assets (net amortis.)	277.7	336.1	-17.4%
Remuneration of assets (%)	8.5	9.0	-5.6%
Amortisation of assets	47.6	70.4	-32.3%
Cost of commercial structure	58.6	60.6	-3.4%
Permitted Income for CSEP activity	78,240	98,696	-20.7%
Average value of assets (net amortis.)	49.0	47.2	3.9%
Remuneration of assets (%)	8.5	9.0	-5.6%
Amortisation of assets	6.5	8.8	-25.8%
Cost of commercial structure	67.5	85.6	-21.1%
Tariff adjustment for year t-2	16,292	-6,220	-
Tariff adjustment for year t-2 for URD	13,507	-7,275	-
Tariff adjustment for year t-2 for CREDES	1,367	698	95.8%
Tariff adjustment for year t-2 for CSEP	1,418	357	296.8%
Tariff adjustment for years t-1 & t-2 in energy purchase and sales	27,590	87,361	-68.4%
Tariff adjustment for year t-2	34,594	66,094	-47.7%
Tariff adjustment for year t-1	-7,004	21,267	-
Recovery of PAR costs	37,707	0	-
<b>Permitted Income</b>	<b>1,234,497</b>	<b>1,272,876</b>	<b>-3.0%</b>

EDP Distribuição permitted income fell by 3.0 percent during this period:

- The permitted income for the Use of the Distribution Network (URD) rose by 1 percent, due to an increase in the amount of electricity distributed, which more than compensated for a 4 percent reduction in the average unit income for this activity. Moreover, the efforts made by EDP Distribuição to reduce losses were reflected in an additional income of EUR 3.2 million from incentives to reduce losses – losses were reduced from 8.6 percent in 2004 to 8.1 percent in 2005;
- Permitted income from the Supply of Networks (CREDES) and Supply in the SEP (CSEP) fell by 20 percent due to a reduction of 50 p.b. to 8.5 percent, the rate of remuneration for regulated assets, a reduction of 14 percent in the costs of the commercial structure and a smaller base of regulated assets attributed to CREDES activities (subsidies for investments attributed to URD in previous years were reclassified as a CREDES activity following the 2005 tariff revision, with no effect on the total value of the assets attributed to the three regulated activities);



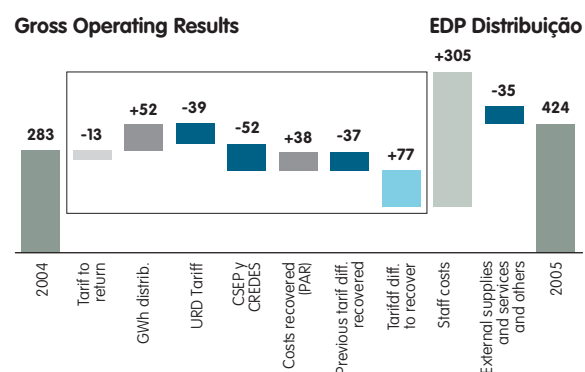
- Permitted income for the year 2005 included EUR 37.7 million associated with the recovery (through tariffs) of costs incurred through the PAR.

Electricity Gross Margin		EDP Distribuição	
EUR thousands	2005	2004	Var. %
Electricity sales – SEP	3,517,090	3,483,545	1.0%
Very high voltage	57,509	51,657	11.3%
High voltage	264,962	205,675	28.8%
Medium voltage	419,234	490,297	-14.5%
Special low voltage	228,500	303,980	-24.8%
Low voltage	2,489,969	2,360,829	5.5%
Public lighting	92,959	101,991	-8.9%
Interruptability discounts	-36,044	-30,398	-18.6%
Tariff correction discounts	1	-485	-
Electricity sales – SENV	220,534	126,647	74.1%
<b>Electricity sales</b>	<b>3,737,623</b>	<b>3,610,192</b>	<b>3.5%</b>
<b>Electricity purchases</b>	<b>2,580,184</b>	<b>2,324,118</b>	<b>11.0%</b>
<b>Electricity gross margin</b>	<b>1,157,439</b>	<b>1,286,073</b>	<b>-10.0%</b>
Permitted income	1,234,497	1,272,876	-3.0%
Tariff difference to recuperate/ (return)	77,058	-13,197	-

Costs associated with electricity purchases rose by 11 percent during this period essentially due to a 6.0 percent increase in electricity distributed, an average increase of 44 percent in the global use of the system tariff (basically the result of an increase in Special Regime Generation costs), reflected in an additional cost of EUR 127 million, and an annual increase of EUR 146 million in adjustments to fuel costs. In relation to this last point, in 2005 adjustments to fuel costs amounted to EUR 150 million (compared to EUR 4 million in 2004) of which almost EUR 43 million pertaining to HV/MV segments were recovered through tariffs over the year, and EUR 107 million, pertaining to the LV segment were included in the permitted income for 2006. This effect, together with the fact that the increase in LV tariffs was limited to the rate of inflation, contributed to a deficit in the system to the value of EUR 369 million, EUR 115 million of which were attributed to EDP Distribuição. This deficit, recognised by the ERSE and included in the permitted income for 2006, will be recovered through the interest on tariffs between 2007 and 2011.

The Electricity Gross Margin fell by 10 percent during this period. The difference between the electricity gross margin and the permitted income for 2004 amounted to EUR 13.2 million, EUR 7.0 million of which were returned in 2005. The remainder will be returned in 2006.

The Electricity Gross Margin for 2005 was EUR 77.1 million below the permitted income for the period due to the fact that fuel costs were higher than the ERSE estimate. This will only be reflected in the tariffs for subsequent years (a deviation reflected in the EUR 107 million adjustment to LV fuel costs already described). Its effect was partially compensated by the fact that real demand for electricity was 4.6 percent higher than the ERSE estimate, meaning that in two years' time EDP Distribuição will have to return the fixed component of electricity purchases received in excess through tariffs.



External Supplies and Services provided by Third Parties rose by 7.5 percent due to the accounting of the services supplied by Edinfor as a "Third Party" (EUR 6.9 million) following the sale of 60 percent of this company to LogicaCMG, a EUR 1.4 million increase in operating and maintenance costs due to repair work following the wave of fires during the summer, greater recourse to outside contracting caused by a reduction in the number of employees and a EUR 2.4 million increase in commercial costs (advertising and readings).

Staff Costs fell by 7 percent due to an EUR 18 million reduction in the cost of compensation payments (EUR 20 million in 2004 and EUR 2 million in 2005, pertaining to 86 and eight terminations by mutual agreement, respectively) and a reduction in the number of workers as a result of the 2004 PAR (when 791 members of staff left, the majority in the final quarter of 2004) and the transfer of 91 jobs to EDP Valor (81 of which took place before June 2005).

The Cost of Social Benefits fell by EUR 290 million during this period due to the accounting in 2004 of costs amounting to EUR 87 million (VAL) related to the 2003 PAR, costs amounting to EUR 230 million (VAL) related to the 2004 PAR and costs of EUR 20 million related to incentives paid to 731 workers in the "Flexible Retirement" scheme. These effects were partially compensated by a EUR 21 million increase in provisions and pension premiums following the 2005 actuarial study and by the accounting in 2005 of costs amounting to EUR 29 million (VAL) relating to early retirements in the final phase of the PAR implemented in 2005 – 111 early retirements together with the eight previously stated resignations by mutual agreement, making a total of 119 staff leaving the company in December 2005 who, consequently, do not yet feature as a cost reduction.

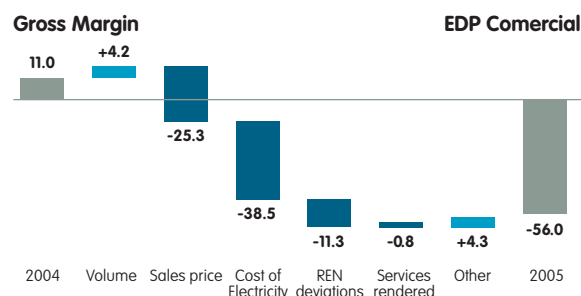
Operating Investment		EUR thousands	
EUR thousands	2005	2004	Var. %
Distribution Network	438,162	414,785	5.6%
Other Investments	37,425	36,506	2.5%
Capitalised Financial charges	10,829	9,912	9.2%
<b>Total Operating Investment</b>	<b>486,415</b>	<b>461,202</b>	<b>5.5%</b>
Shared Items in Cash	79,330	88,036	-9.9%
Shared Items in Kind	71,158	70,405	1.1%
<b>Total Investment Subsidies</b>	<b>150,489</b>	<b>158,441</b>	<b>-5.0%</b>
<b>Net Operating Investment</b>	<b>335,926</b>	<b>302,762</b>	<b>11.0%</b>

Operating Investment in the distribution network rose by 5.6 percent during this period which, combined with the weather conditions, allowed for a 14 percent improvement in equivalent power cut time. The 2005 figure was, however, penalised by the cuts that were necessary during the wave of fires which occurred principally during the summer.

## 5. EDP COMERCIAL

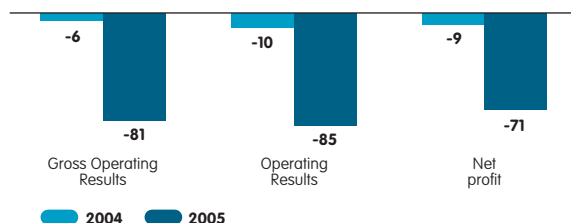
EDP Comercial recorded a negative Net Profit of EUR 71.3 million in 2005.

Statement of Income		EDP Comercial	
EUR thousands	2005	2004	Var. %
Volume of Trade	525,023	322,319	62.9%
Cost of Sales	581,023	311,326	86.6%
<b>Gross Margin</b>	<b>-56,001</b>	<b>10,993</b>	<b>-</b>
Operating Costs	24,820	17,132	44.9%
Supplies and Services	12,435	10,571	17.6%
Staff Costs	4,000	3,307	20.9%
Cost of Social Benefits	390	415	-6.1%
Other Costs / (income)	7,995	2,838	181.7%
<b>Gross Operating Results</b>	<b>-80,821</b>	<b>-6,139</b>	<b>-1216.5%</b>
<b>% of Volume of Trade</b>	<b>-15.4%</b>	<b>-1.9%</b>	<b>13.5 p.p.</b>
Amortisation	4,418	3,707	19.2%
<b>Operating Results</b>	<b>-85,239</b>	<b>-9,846</b>	<b>-765.7%</b>
Financial Profit	-7,798	-1,446	-439.1%
Taxes and Minority Interests	-21,782	-2,724	-699.7%
<b>Net Profit</b>	<b>-71,255</b>	<b>-8,569</b>	<b>-731.6%</b>



EDP Comercial's negative Gross Margin was the result of a sudden and sharp increase in wholesale electricity prices which EDP Comercial was not able to immediately accommodate in the prices it charged its customers, but which was evident in the former contract.

### EDP Comercial (EUR millions)



The total amount of energy supplied in the SENV rose by 42 percent to 9,621 GWh in 2005, and now represents 22 percent of the total consumed in Portugal (16 percent in 2004). As in 2004, EDP Comercial has retained its quota of two-thirds of the liberalised market.

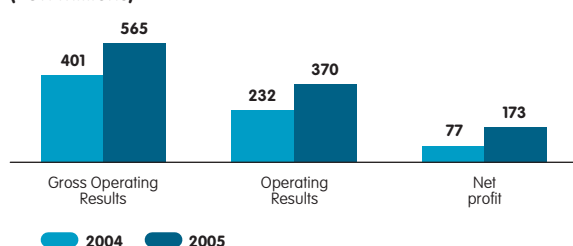
EDP Comercial has a fixed tariff contract with the EDP energy business management unit from which it buys electricity (especially in the Spanish pool) in the service of EDP Comercial. The tariff was revised upwards during the final quarter of 2005 and backdated to July 2005 to reflect updated expectations of wholesale electricity prices.

## 6. HC ENERGÍA

HC Energía's Net Profit rose to EUR 173.3 million in 2005, EUR 124.3 million more than in 2004, as the result of a strong operational performance and capital gains from the sale of REE.

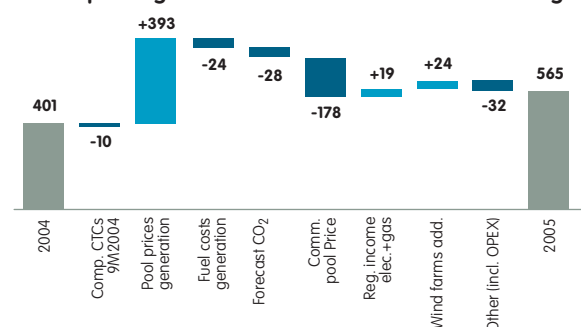
Statement of Income		HC Energía (100%)		
EUR thousands		2005	2004	Var. %
Volume of Trade		2,172,599	1,780,718	22.0%
Energy Sales		1,518,288	1,246,171	21.8%
Other Sales		582,769	478,846	21.7%
Services Rendered		71,542	55,701	28.4%
Cost of Sales		1,389,669	1,201,154	15.7%
Electricity		563,022	577,044	-2.4%
Fuel		376,901	306,844	22.8%
Sundry Goods and Materials		449,746	317,266	41.8%
<b>Gross Margin</b>		<b>782,930</b>	<b>579,564</b>	<b>35.1%</b>
Operating Costs		218,027	178,239	22.3%
Supplies and Services		106,939	89,073	20.1%
Staff Costs		142,190	98,726	44.0%
Other costs / (income)		-31,101	-9,560	-225.3%
<b>Gross Operating Results</b>		<b>564,902</b>	<b>401,324</b>	<b>40.8%</b>
<b>% of Volume of Trade</b>		<b>26.0%</b>	<b>22.5%</b>	<b>3.5 p.p.</b>
Amortisation		199,439	173,365	15.0%
Compensation for Amortisation		-4,153	-3,916	-6.0%
<b>Operating Results</b>		<b>369,616</b>	<b>231,875</b>	<b>59.4%</b>
Financial Profit		-67,047	-85,095	21.2%
Taxes and Minority Interests		129,288	69,525	86.0%
<b>Net Profit</b>		<b>173,280</b>	<b>77,255</b>	<b>124.3%</b>

### HC Energía (EUR millions)



The HC Energía Gross Margin increased by EUR 203 million in comparison with 2004, with 77 percent of this growth resulting from Generation and Supply activities. Regarding other activities, the Special Regime contributed with 17 percent, Gas with 6 percent and Electricity Distribution with 1 percent.

### Gross Operating Results



Operating Costs rose by 22 percent, or EUR 40 million, in comparison with 2004, due mainly to non-recurring factors, the expansion of activities and marketing costs:

- With regard to External Supplies and Services, there was a rise of EUR 18 million, resulting from a increase in installed capacity under the Special Regime (+EUR 11 million) and higher marketing and commercial costs (+EUR 7 million) associated with liberalised electricity and gas activities relating to a change of image, the launch of new marketing offers and advertising;
- Staff Costs rose by EUR 43 million, with EUR 33 million associated with an early retirement scheme for 84 workers, EUR 5 million in compensation payments, negotiated terminations (30 workers) and EUR 6 million relating to costs for employed workers, due to an increase in the number of employees and to salary adjustments.
- Operational Income rose by EUR 22 million, reflecting an extraordinary income of EUR 40 million associated with full recognition of the 2002 tariff deficit which was still in the balance, a capital gain of EUR 32 million from the sale of a 3 percent stake in REE (compared with EUR 25 million from the sale of Retecal in 2004), EUR 16 million of general provisions to cover costs related to new production capacity projects, possible deviations in OMEL liquidity and distribution contingencies;

The Financial Profit improved by 21 percent, mainly due to a 25 percent reduction in net interest to EUR 64.6 million, reflecting the replacement of the HC Energía external debt by a subordinated loan from EDP (EUR 1.240 billion in December 2005), with lower financing costs.

The Net Profit more than doubled during this period in comparison with 2004, reaching EUR 173.3 million and reflecting a good operational performance.

### Generation and Supply

In 2005 average Spanish pool tariffs achieved record values (an average of EUR 62.5/MWh) following a period of drought, in a context of high fuel costs and strong growth in peak-time demand. However, income from regulated activities was not sufficient to compensate for the sharp increase in the production costs of the system, thus causing a tariff deficit in the system. In accordance with Spanish legislation, HC Energía is responsible for financing 6.08 percent of the tariff deficit (an estimated EUR 224 million in 2005). This was not deducted from income but was accounted for as an investment, since Royal Decree 1556/2005, which established tariffs for 2006, recognises that electricity operators have the right to recover the 2005 tariff deficit from tariffs in future years.

The average cost of fuel per MWh incurred by HC Energía rose 7.7 percent in comparison with 2004, mainly due to an increase in the cost of natural gas since the beginning of 2005, explained by a rise in oil prices. Nevertheless, between December 2004 and December 2005, HC Energía managed to reduce the average unit costs of its coal power stations by 7.5 percent.

CO<sub>2</sub> emissions from HC Energía thermal power stations reached 12.9 million tonnes in 2005. Due to the very dry period, which led to greater use of the thermal power stations. CO<sub>2</sub> emissions exceeded the amount stipulated in the licences for this period by 1.4 million tonnes and HC Energía therefore accounted for EUR 28 million in provisions in its direct costs.

The Gross Operating Results for electricity Generation and Supply rose by 85 percent, explained by a sharp rise in the Gross Margin. Operating Costs were influenced by the cost of staff restructuring (EUR 9 million), the accounting of a extraordinary income of EUR 40 million pertaining to full recognition of the 2002 tariff deficit that was still in the balance, costs previously accounted as "holding" which were subsequently attributed to each individual activity (EUR 16 million on Generation and Supply), EUR 13 million in general provisions to cover the costs (capitalised as assets) of new generation projects and possible deviations in OMEL liquidity, the higher costs of marketing campaigns and improvements to call centre services (EUR 3 million) and higher O&M costs due to repairs at Aboño II and the programmed stoppage at Soto II (EUR 2 million). With regard to Operating Investment, HC Energía began building the second unit (400 MW) at the CCGT Castejón (EUR 25 million), which is expected to be operational at the end of 2007. HC Energía will begin building the other 400 MW CCGT in 2006, which is located in Soto and is expected to be operational in 2008.

## Electricity Distribution

Electricity Distribution		HC Energía (100%)	
EUR thousands	2005	2004	Var. %
Transmission	7,785	7,602	2.4%
Distribution	98,721	93,363	5.7%
Supply	7,422	7,408	0.2%
<b>Permitted Income</b>	<b>113,928</b>	<b>108,373</b>	<b>5.1%</b>

The rise in permitted income attributed to HC Energía and recognised in the 2005 tariff contributed to a 2.4 percent growth in the Gross Margin for this activity.

Operating Costs were mainly influenced by the following extraordinary impacts:

- The cost of staff restructuring (EUR 10 million);
- The increased costs of the structure attributed to this activity (EUR 7 million);
- Higher costs (+EUR 7 million) associated with commercial services rendered by the Supply to the Distribution division formed in 2004;
- The accounting of costs from previous years relating to changes in the criteria for attributing costs within the HC Energía group, which were not fully reflected in 2004 (EUR 6 million);
- General provisions amounting to EUR 3 million.

## Gas

Gas Distribution		Naturgas Energía (100%)	
EUR thousands	2005	2004	Var. %
Transmission	11,658	10,457	11.5%
Distribution	109,102	96,489	13.1%
Supply	10,662	11,091	-3.9%
<b>Permitted Income</b>	<b>131,422</b>	<b>118,037</b>	<b>11.3%</b>

In 2005, the Gross Margin rose by 7.5 percent following a rise of 11.3 percent in permitted income. It is important to note that 80 percent of the Naturgas Energía Gross Margin originated in regulated activities, thus giving rise to stable operational cash-flows.

In 2005, Naturgas Energía launched a marketing campaign to promote its new image and offer of an integrated gas and electricity product, which represented a EUR 4.0 million increase in Operating Costs. Costs were also influenced by staff restructuring costs (EUR 3.5 million) and an increase in local taxes, due to the increased volume of sales (EUR 2 million).

## The Special Regime

The financial and operational data for this activity only include the activities of Genesa, i.e., they do not represent all the activities carried out by NEO Energía – the new company created by EDP to operate in Europe and the Iberian Peninsula as a producer of electricity based on renewable energy.

With regard to the activities of Genesa, electricity generation rose by 79 percent to 1,124 GWh, due mainly to an increase in the capacity of the wind farms. The generation of wind farm energy almost doubled from 272 GWh in 2004 to 529 GWh in 2005, explained by the start of operations in Campollano (124 MW) in the

final quarter of 2004 and in Las Lomillas (50 MW – 50 percent held by Genesa) and La Sotonera (19 MW) in the third quarter of 2005.

Consequently, the Gross Margin and Gross Operating Results revealed a growth of over 60 percent in 2005.

Regarding investment, the EUR 180 million applied during this period were reflected in an increase in installed capacity and the building of the Boquerón (22 MW) and Belchite (50 MW) wind farms which became operational at the start of 2006, in addition to the La Brújula wind farm (73 MW) which will commence operations in May 2006.

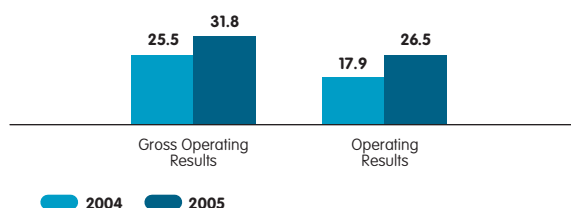
Operating Results										HC Energía		
EUR thousands	Generation and Supply			Distribution			Gas			Special Regime		
	2005	2004	Var. %	2005	2004	Var. %	2005	2004	Var. %	2005	2004	Var. %
Volume of Trade	1,335,573	806,118	65.7%	152,933	146,498	4.4%	668,401	635,367	5.2%	118,686	67,850	74.9%
Cost of Sales	922,374	546,606	68.7%	29,688	26,112	13.7%	504,809	483,258	4.5%	40,896	20,673	97.8%
<b>Gross Margin</b>	<b>413,199</b>	<b>259,512</b>	<b>59.2%</b>	<b>123,245</b>	<b>120,385</b>	<b>2.4%</b>	<b>163,593</b>	<b>152,109</b>	<b>7.5%</b>	<b>77,789</b>	<b>47,177</b>	<b>64.9%</b>
Operating Costs	75,444	76,794	-1.8%	92,067	56,602	62.7%	57,683	39,079	47.6%	29,396	17,557	67.4%
Staff Costs	43,302	35,731	21.2%	35,160	23,770	47.9%	22,007	17,009	29.4%	5,359	4,113	30.3%
Other (net)	32,142	41,063	-21.7%	56,907	32,832	73.3%	35,675	22,071	61.6%	24,037	13,444	78.8%
<b>Gross Operating Results</b>	<b>337,755</b>	<b>182,717</b>	<b>84.9%</b>	<b>31,178</b>	<b>63,783</b>	<b>-51.1%</b>	<b>105,910</b>	<b>113,030</b>	<b>-6.3%</b>	<b>48,394</b>	<b>29,620</b>	<b>63.4%</b>
<b>% of Volume of Trade</b>	<b>25.3%</b>	<b>22.7%</b>	<b>2.6 p.p.</b>	<b>20.4%</b>	<b>43.5%</b>	<b>-23.2 p.p.</b>	<b>15.8%</b>	<b>17.8%</b>	<b>-1.9 p.p.</b>	<b>40.8%</b>	<b>43.7%</b>	<b>-2.9 p.p.</b>
Amortisation	99,811	90,925	9.8%	32,129	30,649	4.8%	32,387	30,697	5.5%	25,233	14,089	79.1%
Compensation for Amortisation	-151	-148	-2.2%	-2,014	-1,760	-14.5%	-1,746	-1,517	-15.1%	-242	-195	-24.4%
<b>Operating Results</b>	<b>238,095</b>	<b>91,940</b>	<b>159.0%</b>	<b>1,062</b>	<b>34,894</b>	<b>-97.0%</b>	<b>75,269</b>	<b>83,850</b>	<b>-10.2%</b>	<b>23,403</b>	<b>15,726</b>	<b>48.8%</b>
Other indicators												
Operating Investment	60,363	34,882	73.0%	49,505	38,745	27.8%	52,886	56,634	-6.6%	179,782	167,994	7.0%
Number of employees	707	704	0.4%	401	393	2.0%	334	309	8.1%	129	107	20.6%

## 7. PORTGÁS

The Portgás Operating Results rose by EUR 26.5 million in 2005, 48.5 percent more than in 2004.

Statement of Income		Portgás	
EUR thousands	2005	2004	Var. %
Volume of Trade	82,329	67,985	21.1%
Gas Sales	80,349	65,364	22.9%
Services Rendered	1,980	2,621	-24.4%
Direct Costs	40,269	32,594	23.5%
<b>Gross Margin</b>	<b>42,060</b>	<b>35,391</b>	<b>18.8%</b>
Operating Costs	10,219	9,931	2.9%
External Supplies and Services	6,340	6,739	-5.9%
Staff Costs and Social Benefits	4,587	4,153	10.4%
Other costs / (income)	-708	-961	26.3%
<b>Gross Operating Results</b>	<b>31,841</b>	<b>25,460</b>	<b>25.1%</b>
<b>% of Volume of Trade</b>	<b>38.7%</b>	<b>37.4%</b>	<b>1.2 p.p.</b>
Amortisation	5,323	7,598	-29.9%
<b>Operating Results</b>	<b>26,518</b>	<b>17,862</b>	<b>48.5%</b>

Portgás  
(EUR millions)



EDP's profits for the end of 2005 included, for the first time, the 12 proportionally consolidated months (59.6 percent) of Portgás. This company is the second largest distributor of natural gas in Portugal, operating in a concession area composed of 29 municipalities in the districts of Oporto, Braga and Viana do Castelo. By September 2005, EDP had signed a contract with Endesa which strengthened its participation to 72 percent. This negotiation is still waiting for clearance from the Portuguese Competition Authority.

The volume of gas distributed by Portgás rose by 5.9 percent, to 1,948 GWh at the end of 2005 from 1,839 GWh at the end of 2004. The residential and services segments contributed most to this increase, and continued to reveal a clear potential for growth. Regarding the industrial segment, economic difficulties during

2005 led to a 36 GWh fall in the consumption of gas.

Gas sales represented EUR 80.3 million –EUR 74.8 million of which corresponded to natural gas (GN) and EUR 5.6 million to propane (GPL) – reflecting a 23 percent increase in comparison with 2004. Similarly, the Gross Margin rose by 18.8 percent to EUR 42.1 million and the Gross Operating Results rose by 27.1 percent to EUR 31.8 million at the end of 2005.

Portgás Operating Investment reached EUR 15.1 million in 2005, (1.7 percent less than in 2004) and were mainly focussed on developing the gas distribution network, which absorbed 79 percent of the investment total for the period. The remaining investment sum was associated with promotional campaigns (8.3 percent), meters and reducers for new consumption areas (7.5 percent) and adapting GPL facilities to GN.

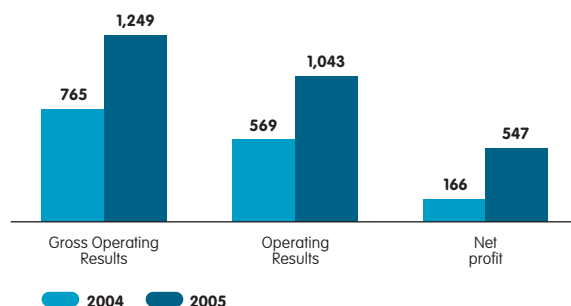


## 8. ENERGIAS DO BRASIL

Energias do Brasil recorded a profit of BRL 547.0 million in 2005, compared to BRL 165.7 million in 2004.

Statement of Income		Energias do Brasil		
BRL thousands	2005	2004	Var. %	
Volume of Trade	4,546,993	3,899,563	16.6%	
Cost of Sales	2,636,431	2,455,597	7.4%	
<b>Gross Margin</b>	<b>1,910,562</b>	<b>1,443,966</b>	<b>32.3%</b>	
Operating Costs	661,372	678,917	-2.6%	
Supplies and Services	358,434	298,963	19.9%	
Staff Costs and Social Benefits	277,904	269,499	3.1%	
Other costs / (income)	25,034	110,455	-77.3%	
<b>Gross Operating Results</b>	<b>1,249,190</b>	<b>765,049</b>	<b>63.3%</b>	
<b>% of Volume of Trade</b>	<b>27.5%</b>	<b>19.6%</b>	<b>7.9 p.p.</b>	
Amortisation	226,538	196,467	15.3%	
Compensation for Amortisation	-20,514	0	-	
<b>Operating Results</b>	<b>1,043,166</b>	<b>568,583</b>	<b>83.5%</b>	
Financial Profit	-306,842	-340,444	9.9%	
Taxes and Minority Interests	189,321	62,452	203.1%	
<b>Net Profit</b>	<b>547,003</b>	<b>165,687</b>	<b>230.1%</b>	

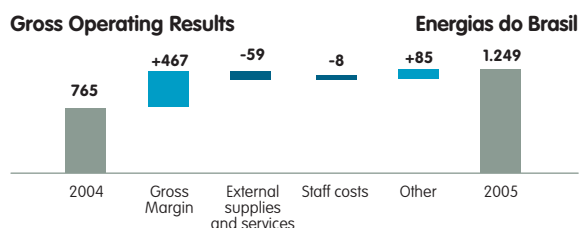
### Energias do Brasil (BRL millions)



In 2005, the Energias do Brasil Gross Margin revealed a 32.3 percent increase, approximately 80 percent of which was contributed by distribution, whilst generation and trading activities contributed 20 percent. This sharp increase is explained by:

- A 3.0 percent increase in electricity distribution;
- Positive corrections to the Escelsa and Enersul Regulated Asset Base;
- Fewer uncontrollable costs than recognised in tariffs (BRL 67 million);

- An increase in electricity sales in supply activities (+31.6 percent) to 6,379 GWh in 2005;
- The separation of the distribution and generation activities belonging to the distributors.



Operating Costs fell by 2.6 percent due mainly to the reversal of a provision (BRL 90 million) established in 2003 to deal with the possible devaluation of investments in the Lajeado project. With regard to External Supplies and Services, the 20 percent increase is mainly explained by distribution activities following contractual adjustments with external entities, higher maintenance costs due to the extension of the network as a result of the universalisation of consumption programme, the intensification of the programme to combat losses and an increase in expenditure on consultancies due to company restructuring. During 2005, Energias do Brasil launched "Projecto Vanguarda", its mission being to identify and harness synergies within the Energias do Brasil group after restructuring.

The Energias do Brasil Initial Public Offering in July 2005 enabled the company to substantially reinforce its capital structure, after receiving BRL 500 million and converting BRL 670 million in "Senior Notes" from Escelsa held by EDP in the Energias do Brasil share capital and improving the company's capacity to deal with new opportunities in the Brazilian sector. In September EDP completed a private bid for 2.2 percent of the capital of Energias do Brasil, priced at BRL 18 per share, thus reducing the position of EDP from 64.5 percent to 62.4 percent.

In terms of EUR, EDP benefited from a 20 percent valuation of the BRL, which in 2005 was attributed a BRL/EUR rate of 3.02 in comparison with 3.63 in 2004. With regard to Gross Operating Results this effect had a positive impact of EUR 69 million.

The Bandeirante Gross Margin revealed an increase of 20.0 percent, following an average increase of 15.95 percent in tariffs conceded in the October 2004 tariff adjustment and lower uncontrollable costs than recognised in the tariffs (a difference of BRL 41 million). In October 2005, ANEEL set a -8.86 percent variation as part of the process of readjusting the annual tariff, reflecting:

- 7.66 percent by variation over the previous 12 months in uncontrollable costs ("Parcel A") and the adjustment of controllable costs ("Parcel B") in line with inflation;
- 5.56 percent corresponding to the impact of the completion of the 2003 tariff revision process (-BRL 102 million to be returned to the tariff over the next 12 months). ANEEL revised the initial tariff increase of 18.08 percent to a final increase of 9.67 percent as a result of the final review of the

Bandeirante Regulatory Remuneration Base (defined as BRL 998 million) for the period between October 2003 and October 2007;

- +4.36 percent corresponding to the recovery of past costs not covered by tariffs (BRL 83 million to be recovered by October 2006).

In 2005, Gross Operating Results rose by 26.9 percent due to the performance of the Gross Margin. Operating Costs rose by 9.0 percent due to an increase in External Supplies and Services which were affected by an increase in the number of network inspections, meter reading and billing services, higher consultancy costs, an increase in the price of licences for software to improve technical and commercial information systems and improvements to the call centre. It was also affected by the accounting of BRL 26 million in provisions to cover the risk of receiving as assets the losses to be recovered as part of the division of the former Bandeirante e Piratininga in 2001 (other Operating Costs).

Gross Margin							Brazilian Distributors		
BRL thousands	Bandeirante			Escelsa			Energisa		
	2005	2004	Var. %	2005	2004	Var. %	2005	2004	Var. %
Energy Sales to Final Customers	1,972,692	1,957,450	0.8%	1,152,857	1,045,748	10.2%	829,774	693,708	19.6%
Domestic	743,940	717,746	3.6%	376,022	328,982	14.3%	326,182	268,986	21.3%
Industrial	688,360	728,363	-5.5%	353,717	343,087	3.1%	115,264	113,038	2.0%
Business	364,525	331,935	9.8%	229,860	197,190	16.6%	211,007	168,656	25.1%
Other	175,867	179,406	-2.0%	193,258	176,489	9.5%	177,291	143,028	24.0%
Electric. Distributed to Access Customers	230,980	121,825	89.6%	150,146	90,206	66.4%	33,941	11,121	205.2%
Other sales and rendering of services	-94,170	-136,608	31.1%	9,163	-55,889	-	-36,013	-35,945	-0.2%
<b>Volume of Trade</b>	<b>2,109,502</b>	<b>1,942,667</b>	<b>8.6%</b>	<b>1,312,166</b>	<b>1,080,065</b>	<b>21.5%</b>	<b>827,672</b>	<b>668,884</b>	<b>23.7%</b>
<b>Cost of Sales</b>	<b>1,350,207</b>	<b>1,309,738</b>	<b>3.1%</b>	<b>825,213</b>	<b>740,402</b>	<b>11.5%</b>	<b>423,956</b>	<b>374,562</b>	<b>13.2%</b>
<b>Gross Margin</b>	<b>759,295</b>	<b>632,929</b>	<b>20.0%</b>	<b>486,952</b>	<b>339,662</b>	<b>43.4%</b>	<b>403,717</b>	<b>294,322</b>	<b>37.2%</b>
<b>Average Customer Tariff (BRL/MWh)</b>	<b>246.3</b>	<b>222.1</b>	<b>10.9%</b>	<b>211.9</b>	<b>185.9</b>	<b>14.0%</b>	<b>303.2</b>	<b>243.4</b>	<b>24.6%</b>

The Escelsa Gross Margin showed a sharp increase of 43.4 percent as a result of:

- A 6.4 percent increase in consumption;
- The August 2004 tariff revision, in which ANEEL set a tariff increase of 4.96 percent;
- The correction, in August 2005, to the 2004 tariff revision in the form of an 8.58 percent increase (with an impact of +BRL 17 million on the tariff base) in order to take into account the final calculation of the Regulated Asset Base (BRL 928 million) for the period from August 2004 to August 2007;
- A tariff increase of 4.93 percent granted as part of the 2005 tariff adjustment process (+6.56 percent, part of which was related to the recovery, by August 2006, of past costs to the value of BRL 75 million);
- Lower uncontrollable costs than recognised in the tariff adjustments (a difference of BRL 18 million).

The Escelsa Gross Operating Results showed an increase of 88.4 percent following a sharp increase in consumption. External Supplies and Services rose by 37 percent mainly due to an increase in maintenance costs and the legal requirement to double up maintenance team shifts, the intensification of the scheme to

reduce distribution losses, an increase in services related to disconnecting and reconnecting electricity supplies and higher consultancy costs. Other Operating Costs were affected by the reversal of a provision of BRL 23 million, established to cover fiscal contingencies whilst awaiting a legal ruling, now considered unnecessary.

The Enersul Gross Margin rose by 37.2 percent, reflecting a 2.6 percent increase in consumption and a tariff increase of 20.69 percent conceded in the April 2005 adjustment. It is important to note that this adjustment included a positive correction to the tariff increase granted in the 2003 review from 42.26 percent to 50.81 percent, taking into account the final Regulated Asset Base (BRL 782 million) for the period from April 2003 to April 2008.

Operating Costs rose by 22.5 percent mainly due to higher maintenance costs associated with the expansion of the network, an increase in network inspections, meter reading and disconnecting and reconnecting electrical supply services, improvements to CRM systems, an increase in billing costs, higher consultancy costs, an increase in IT costs and greater provisions to cover unreliable customer payments.

Operating Results										Energias do Brasil		
BRL thousands	Bandeirante			Escelsa			Enersul			Generation and Trading		
	2005	2004	Var. %	2005	2004	Var. %	2005	2004	Var. %	2005	2004	Var. %
Volume of Trade	2,109,502	1,942,667	8.6%	1,312,166	1,080,065	21.5%	827,672	668,884	23.7%	555,206	374,639	48.2%
Cost of Sales	1,350,207	1,309,738	3.1%	825,213	740,402	11.5%	423,956	374,562	13.2%	296,740	204,940	44.8%
<b>Gross Margin</b>	<b>759,295</b>	<b>632,929</b>	<b>20.0%</b>	<b>486,952</b>	<b>339,662</b>	<b>43.4%</b>	<b>403,717</b>	<b>294,322</b>	<b>37.2%</b>	<b>258,465</b>	<b>169,699</b>	<b>52.3%</b>
Operating Costs	268,216	246,075	9.0%	157,126	164,569	-4.5%	158,305	129,185	22.5%	12,204	75,481	-83.8%
External Supplies and Services	114,877	107,497	6.9%	82,493	60,113	37.2%	64,765	45,905	41.1%	72,330	57,047	26.8%
Staff Costs and Social Benefits	97,362	94,922	2.6%	86,072	83,814	2.7%	62,533	60,681	3.1%	12,569	13,548	-7.2%
Other costs / (income)	55,977	43,657	28.2%	-11,439	20,642	-	31,007	22,598	37.2%	-72,695	4,886	-
<b>Gross Operating Results</b>	<b>491,079</b>	<b>386,855</b>	<b>26.9%</b>	<b>329,826</b>	<b>175,093</b>	<b>88.4%</b>	<b>245,412</b>	<b>165,137</b>	<b>48.6%</b>	<b>246,262</b>	<b>94,218</b>	<b>161.4%</b>
<b>% of Volume of Trade</b>	<b>23.3%</b>	<b>19.9%</b>	<b>3.4 p.p.</b>	<b>25.1%</b>	<b>16.2%</b>	<b>8.9 p.p.</b>	<b>29.7%</b>	<b>24.7%</b>	<b>5.0 p.p.</b>	<b>44.4%</b>	<b>25.1%</b>	<b>19.2 p.p.</b>
Amortisation	81,869	75,068	9.1%	58,644	55,408	5.8%	48,829	48,551	0.6%	15,739	9,377	67.8%
<b>Operating Results</b>	<b>409,211</b>	<b>311,786</b>	<b>31.2%</b>	<b>271,182</b>	<b>119,686</b>	<b>126.6%</b>	<b>196,583</b>	<b>116,586</b>	<b>68.6%</b>	<b>230,523</b>	<b>84,841</b>	<b>171.7%</b>
Other indicators												
Operating Investment	117,247	119,909	-2.2%	139,442	89,864	55.2%	191,687	93,416	105.2%	700,818	746,696	-6.1%
Number of employees	1,203	1,207	-0.3%	1,162	1,238	-6.1%	866	899	-3.7%	297	226	31.4%

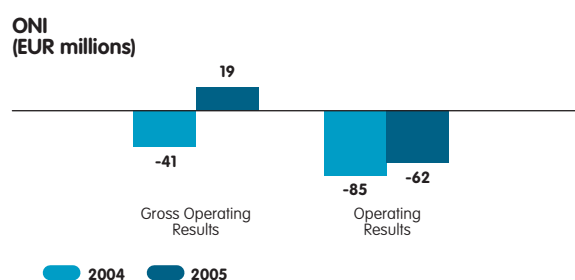
Energias do Brasil currently generates 531 MW (97 percent hydroelectric) and produced 2,756 GWh in 2005. In mid-2005, Energias do Brasil separated the distribution and generation activities of its distributors in compliance with the new regulatory framework for the electricity sector in Brazil. As a result, the electricity power stations that were formerly part of the distribution companies (280 MW) were incorporated into the energy generation business. This change had the greatest effect on the Generation and Trading Gross Margin, involving BRL 68 million during this period. In addition, the tariff update at the 903 MW Lajeado hydroelectric plant (EDP Lajeado has the rights to 27.65 percent of the energy) and a 31.6 percent increase in amount sold to 6,379 GWh of Supply and Trading also contributed to this increase in the Gross Margin.

Gross Operating Results also benefited from the reversal of a BRL 90 million provision established in 2003 and associated with a possible devaluation of the assets of the Lajeado project. With regard to expanding Generation capacity, Energias do Brasil is expecting to increase its capacity by 527 MW (100 percent hydroelectric) by the end of 2006: Peixe Angical (452 MW), São João (25 MW) and the new Mascarenhas unit (50 MW). Investment in building the Peixe Angical Hydroelectric Power Station (452 MW) amounted to BRL 639 million during this period and it is expected that there will be an additional investment of BRL 170 million in 2006.

## 9. ONI

The financial data presented for 2004 are proforma and do not include the contribution of Comunitel for the last quarter of 2004. In 2005, following the sale of Comunitel (September), the company was only consolidated between January and September.

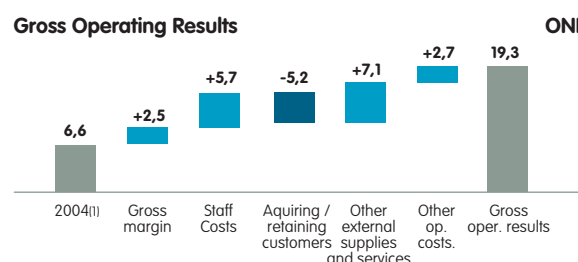
Statement of Income		ONI	
EUR thousands	2005	2004	Var. %
Volume of Trade	278,403	279,962	-0.6%
Telecommunications Services	272,015	272,225	-0.1%
Voice	164,538	159,418	3.2%
Enhanced Voice Services	939	11,897	-92.1%
Data and Internet	77,363	74,327	4.1%
Other	29,175	26,583	9.8%
Equipment Sales	6,388	7,737	-17.4%
Direct Costs	138,200	142,232	-2.8%
Telecommunications Services	132,378	135,169	-2.1%
Equipment Sales	5,822	7,063	-17.6%
<b>Gross Margin</b>	<b>140,203</b>	<b>137,730</b>	<b>1.8%</b>
Operating Costs	120,932	178,672	-32.3%
External Supplies and Services	78,695	80,523	-2.3%
Staff Costs	43,208	48,890	-11.6%
Other costs / (income)	-971	49,260	-
<b>Gross Operating Results</b>	<b>19,271</b>	<b>-40,943</b>	<b>-</b>
<b>% of Volume of Trade</b>	<b>6.9%</b>	<b>-14.6%</b>	<b>-</b>
Amortisation	81,116	43,779	85.3%
<b>Operating Results</b>	<b>-61,845</b>	<b>-84,721</b>	<b>27.0%</b>



Income from voice services excluding enhanced voice services rose by 3.2 percent, was affected by a reduction in income from voice services in the residential segment from customers with indirect access to Oni Telecom. This was due to a greater strategic focus on direct access customers, which was more than compensated for by an increase in voice traffic from business customers and operators.

Income from data and Internet services rose by 4.1 percent during this period, due to a EUR 9.6 million increase in income from broadband Internet services, to which Oni Telecom contributed EUR 4.6 million, and improvements to direct access via LLU (Local Loop Unbundling).

The ONI Group Gross Margin rose by 1.8 percent, or 1.2 p.p., during this period, due to the favourable development of the mix of services provided by Comunitel. The Oni Telecom Gross Margin remained stable at 53 percent.



(1) Excluding and extraordinary provision of EUR 47.5 million, mainly reflecting the reversal of a EUR 40 million capital allowance accounted in 2002 relating to the sale of Oni Way to Vodafone.

Operating Costs fell by 32.3 percent during this period due mainly to the accounting in 2004 of an extraordinary provision of EUR 47.5 million, mainly reflected in the reversal of EUR 40 million of capital allowance accounted in 2002 in relation to the sale of Oni Way to Vodafone. Excluding this impact, Operating Costs were reduced by 7.8 percent as a result of a EUR 5.2 million increase in the cost of acquiring and retaining customers and a EUR 1.5 million increase in compensation payments, which was more than compensated for by a 14.8 percent, or EUR 7.1 million, reduction in Staff Costs – excluding compensation payments – due to fewer performance bonuses, a reduction in the number of employees and a 13 percent, or EUR 71 million, reduction in External Supplies and Services – excluding the cost of acquiring and retaining customers.

Improvements in the Oni Group Gross Margin, together with strict control of Staff Costs and External Supplies and Services other than those associated with acquiring and retaining customers resulted in Gross Operational Result of EUR 19.3 million in 2005, representing a volume of trade margin of 6.9 percent.

In 2005 amortisation included EUR 30 million associated with impairment on the value of a contract with TransGas for Oni's lease of a fibre-optic network.

In September 2005, the Spanish Competition Authority approved the sale of the 99.93 percent stake held by Oni in Comunitel capital. When this operation was completed, Oni registered a EUR 33 million net capital gain under Discontinued Activities.

In December 2005, Oni Telecom achieved a EUR 210 million capital increase by converting a subordinated loan into instalments which, together with the amount received from the sale of Comunitel (EUR 204 million) and the disaggregation of the Comunitel Capital Debt (EUR 50 million), enabled the Oni group to reduce its debt by around EUR 430 million (including subordinated loans). As a consequence, the company is currently renegotiating the maturity of its debt by adjusting it to the generation of cash-flow envisaged in its business plan.

Operating Investment		ONI	
EUR thousands	2005	2004	Var. %
ONI Telecom	17,310	12,910	34.1%
Comunitel	16,729	12,551	33.3%
Other	31	70	-55.4%
<b>Operating Investment</b>	<b>34,070</b>	<b>25,531</b>	<b>33.4%</b>

Operating Investment rose by 33.4 percent during this period to EUR 34.1 million in 2005, due to investments in developing the ADSL network (namely in broadband centres) and in the acquisition of equipment for business solutions. These investments are associated with an increased focus on broadband Internet services and with winning new customers.

**José Loureiro**  
(1961)

**Crossword**, 2000

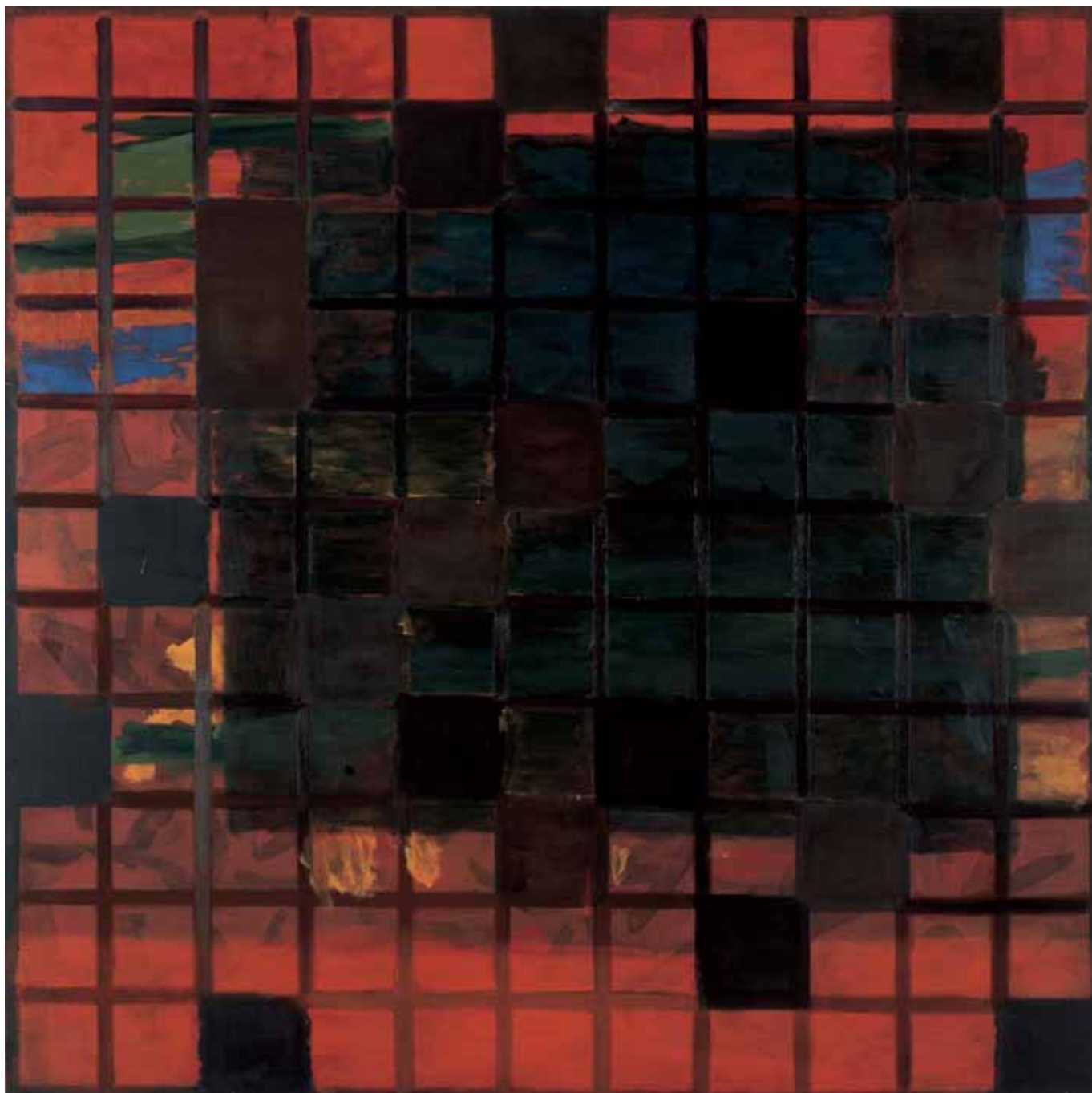
Oil on canvas  
200cmx200cm

This painting establishes an intense interplay between composition, polychromatic effects and textures. The work reveals a regular but not geometrically accurate square, a variety of colours that are all, nevertheless, muted or dark, then suddenly illuminated by an unexpected touch of blue, and an accumulation of textures suggesting denser or more shadowy areas. The combined effect is that of an obscure and irregular chequered pattern that cannot be deciphered.

The artist in fact painted this work as part of a series based on crosswords from a newspaper. José Loureiro, who makes no attempt to solve the puzzle, alters the internal balance of dark and light areas to create a visual play on the way in which painting may dispense with words.

João Pinharanda

**Works in the EDP.arte Collection:** three paintings







		2005			2004		
	Notes	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
		(Thousands of Euros)			(Thousands of Euros)		
Revenue	5	9.246.301	2.404	9.248.705	6.765.895	22.508	6.788.403
Cost of consumed electricity	5	-4.222.003	-	-4.222.003	-3.335.803	-	-3.335.803
Changes in inventories and cost of raw material and consumables used	5	-1.589.127	-2.062	-1.591.189	-584.206	-23.497	-607.703
Gross profit		3.435.171	342	3.435.513	2.845.886	-989	2.844.897
Other income							
Services rendered	5	302.752	125.568	428.320	314.489	207.796	522.285
Other income	6	205.658	527	206.185	55.950	20.771	76.721
		508.410	126.095	634.505	370.439	228.567	599.006
		3.943.581	126.437	4.070.018	3.216.325	227.578	3.443.903
Other expenses							
Supplies and services	7	-714.482	-102.299	-816.781	-566.145	-94.749	-660.894
Personnel costs	8	-528.723	-17.264	-545.987	-441.905	-85.790	-527.695
Employee benefits expense	8	-200.291	-	-200.291	-438.837	-1.246	-440.083
Other expenses	9	-449.757	-3.909	-453.666	-671.691	-12.671	-684.362
		-1.893.253	-123.472	-2.016.725	-2.118.578	-194.456	-2.313.034
		2.050.328	2.965	2.053.293	1.097.747	33.122	1.130.869
Provisions	10	-12.474	-	-12.474	-61.509	-2.780	-64.289
Depreciation and amortisation expense	11	-981.693	-14.846	-996.539	-787.410	-47.821	-835.231
Amortisation of deferred income on partially funded properties received under concessions	11	97.600	-	97.600	85.863	28	85.891
		1.153.761	-11.881	1.141.880	334.691	-17.451	317.240
Gains from the sale of financial assets	12	440.647	83	440.730	9.837	125	9.962
Financial income	13	527.833	61	527.894	390.365	1.466	391.831
Financial expenses	13	-924.997	-2.174	-927.171	-654.370	-5.948	-660.318
Share of profit of associates		35.295	-	35.295	3.697	50	3.747
Profit before tax		1.232.539	-13.911	1.218.628	84.220	-21.758	62.462
Income tax expense	14	-157.108	4.919	-152.189	-28.625	12.254	-16.371
Profit after tax but before gain on discontinued operation		1.075.431	-8.992	1.066.439	55.595	-9.504	46.091
Gain on sale of discontinued operation, net of tax	43	-	45.522	45.522	-	-	-
Profit for the year		1.075.431	36.530	1.111.961	55.595	-9.504	46.091
Attributable to:							
Equity holders of EDP		1.030.487	40.615	1.071.102	42.586	229	42.815
Minority interests	30	44.944	-4.085	40.859	13.009	-9.733	3.276
Profit for the year		1.075.431	36.530	1.111.961	55.595	-9.504	46.091
Earnings per share (Basic and diluted) - Euros	27	0.28	0.01	0.29	0.01	0.00	0.01

	Notes	2005	2004
(Thousands of Euros)			
<b>Assets</b>			
Property, plant and equipment	15	13.891.378	12.557.101
Intangible assets	16	3.508.827	2.964.304
Investments in associates	18	351.302	316.775
Available for sale investments	19	566.446	1.169.098
Deferred tax assets	20	892.653	852.181
Trade receivables	22	121.992	95.140
Other assets	23	374.601	153.693
Total Non-Current Assets		19.707.199	18.108.292
Inventories	21	219.194	156.806
Trade receivables	22	1.463.505	1.161.844
Other current assets	23	1.435.785	838.894
Income tax receivable	24	346.175	182.854
Financial assets held for trading	25	275.618	56.249
Cash and cash equivalents	26	585.499	230.700
Assets classified as held for sale	37	-	165.337
Total Current Assets		4.325.776	2.792.684
Total Assets		24.032.975	20.900.976
<b>Equity</b>			
Share capital	27	3.656.538	3.656.538
Treasury stock	28	-38.119	-31.662
Share premium	27	501.992	472.955
Reserves	29	-1.665.733	-1.612.848
Retained earnings		1.297.620	1.510.060
Consolidated profit attributable to equity holders of EDP		1.071.102	42.815
Total Equity attributable to equity holders of EDP		4.823.400	4.037.858
Minority interests	30	1.287.763	743.937
Total Equity		6.111.163	4.781.795
<b>Liabilities</b>			
Medium / Long term debt and borrowings	32	8.600.721	7.181.105
Employee benefits	33	1.843.246	1.985.230
Provisions for liabilities and charges	34	269.249	293.232
Hydrological correction account	31	169.967	364.197
Deferred tax liabilities	20	369.722	286.409
Trade and other payables	35	137.745	198.974
Total Non-Current Liabilities		11.390.650	10.309.147
Short term debt and borrowings	32	1.983.579	1.960.780
Trade and other payables	35	4.371.843	3.570.148
Income tax payable	36	175.740	210.379
Liabilities classified as held for sale	37	-	68.727
Total Current Liabilities		6.531.162	5.810.034
Total Liabilities		17.921.812	16.119.181
Total Equity and Liabilities		24.032.975	20.900.976

	Notes	2005	2004
(Thousands of Euros)			
Revenue	5	499.344	-
Cost of consumed electricity	5	-278.006	-
Cost of raw material and consumables used	5	-190.162	-
Gross profit		31.176	-
Other income			
Services rendered	5	61.041	33.151
Other income	6	36.458	12.933
		97.499	46.084
Other expenses			
Supplies and services	7	-97.188	-85.342
Personnel costs	8	-6.329	-4.504
Employee benefits expense	8	-882	-1.139
Other expenses	9	-220.393	-333.016
		-324.792	-424.001
		-196.117	-377.917
Provisions	10	-3.850	-10.300
Net depreciation and amortisation	11	-4.698	-4.854
		-204.665	-393.071
Financial income	13	1.556.660	862.651
Financial expenses	13	-871.939	-433.769
Profit before tax		480.056	35.811
Income tax expense	14	29.779	121.862
<b>Profit for the year</b>		<b>509.835</b>	<b>157.673</b>
Earnings per share (Basic and diluted) - Euros	27	0,14	0,05

THE CHIEF  
ACCOUNTANT N.º 17.713

MANAGEMENT

THE BOARD OF DIRECTORS

	Notes	2005	2004
(Thousands of Euros)			
<b>Assets</b>			
Property, plant and equipment	15	95.536	118.858
Intangible assets	16	322	31
Investments in subsidiaries	17	7.351.589	7.269.735
Investments in associates	18	354.635	372.691
Available for sale investments	19	260.394	336.894
Deferred tax assets	20	53.317	55.404
Other assets	23	3.494.196	3.832.752
Total Non-Current Assets		11.609.989	11.986.365
Trade receivables	22	70.664	5.161
Other current assets	23	1.356.160	842.180
Income tax receivable	24	140.591	180.600
Financial assets held for trading	25	205.376	-
Cash and cash equivalents	26	183.334	17.702
Total Current Assets		1.956.125	1.045.643
Total Assets		13.566.114	13.032.008
<b>Equity</b>			
Share capital	27	3.656.538	3.656.538
Treasury stock	28	-38.119	-31.662
Share premium	27	501.992	472.955
Reserves	29	460.762	479.270
Retained earnings		1.297.620	1.510.060
Profit for the year		509.835	157.673
Total Equity		6.388.628	6.244.834
<b>Liabilities</b>			
Medium / Long term debt and borrowings	32	3.171.899	3.599.255
Employee benefits	33	17.087	16.920
Provisions for liabilities and charges	34	14.754	39.386
Hydrological correction account	31	169.967	364.197
Trade and other payables	35	1.516	1.084
Total Non-Current Liabilities		3.375.223	4.020.842
Short term debt and borrowings	32	3.386.438	2.319.370
Trade and other payables	35	410.053	436.996
Income tax payable	36	5.772	9.966
Total Current Liabilities		3.802.263	2.766.332
Total Liabilities		7.177.486	6.787.174
Total Equity and Liabilities		13.566.114	13.032.008

	2005		2004	
	Equity holders of the parent Euro'000	Minority Interests Euro'000	Equity holders of the parent Euro'000	Minority Interests 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	-	-
<b>Net income recognised directly in equity</b>	<b>29.016</b>	<b>65.959</b>	<b>-415.954</b>	<b>5.834</b>
Profit for the year	1.071.102	40.859	42.815	3.276
<b>Total recognised income and expense for the year</b>	<b>1.100.118</b>	<b>106.818</b>	<b>-373.139</b>	<b>9.110</b>

(Thousands of Euros)

	<b>Group</b>		<b>Company</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
<b>Cash flows from Operating Activities</b>				
Cash receipts from customers	9.401.466	7.225.893	585.178	-
Cash paid to suppliers	-6.743.245	-4.492.771	-608.928	-105.771
Cash paid to employees	-757.123	-723.676	-6.366	-5.508
Concession rents paid	-206.323	-187.803	-	-
Other receipts/ (payments) relating to operating activities	219.499	71.725	-144.692	94.755
<b>Net cash from operating activities</b>	<b>1.914.274</b>	<b>1.893.368</b>	<b>-174.808</b>	<b>-16.524</b>
Income tax received / (paid)	-261.458	-229.332	-136.066	49.467
<b>Net cash from operating activities</b>	<b>1.652.816</b>	<b>1.664.036</b>	<b>-310.874</b>	<b>32.943</b>
<b>Discontinued activities</b>	<b>4.330</b>	<b>38.506</b>		
<b>Continuing activities</b>	<b>1.648.486</b>	<b>1.625.530</b>		
<b>Cash flows from Investing Activities</b>				
Cash receipts resulting from:				
Proceeds from sale of financial assets	519.399	60.940	167.449	252.494
Proceeds from sale of property, plant and equipment	26.075	43.480	24.931	1.761
Fixed assets subsidies received	79.330	88.036	-	-
Interest received	25.985	20.287	143.261	171.614
Dividends received	36.069	30.478	909.473	418.318
	<b>686.858</b>	<b>243.221</b>	<b>1.245.114</b>	<b>844.187</b>
Cash payments resulting from:				
Acquisition of financial assets	-1.219.350	-1.389.573	-290.373	-1.324.894
Acquisition of property, plant and equipment	-1.506.625	-1.164.842	-23.879	-11.296
	<b>-2.725.975</b>	<b>-2.554.415</b>	<b>-314.252</b>	<b>-1.336.190</b>
<b>Net cash from investing activities</b>	<b>-2.039.117</b>	<b>-2.311.194</b>	<b>930.862</b>	<b>-492.003</b>
<b>Discontinued activities</b>	<b>-795</b>	<b>-34.270</b>		
<b>Continuing activities</b>	<b>-2.038.322</b>	<b>-2.276.924</b>		
<b>Cash flows from Financing Activities</b>				
Receipts/(Payments) from loans	1.522.656	187.799	68.371	-261.756
Proceeds from issue of share capital	175.747	1.158.579	-	1.158.579
Interest and similar costs	-433.328	-397.234	-181.298	-217.431
Dividends paid	-335.968	-288.730	-335.968	-288.730
Treasury stock sale/(purchase)	-6.457	17.358	-6.457	17.358
<b>Net cash from financing activities</b>	<b>922.650</b>	<b>677.772</b>	<b>-455.352</b>	<b>408.020</b>
<b>Discontinued activities</b>	<b>-4.756</b>	<b>-2.972</b>		
<b>Continuing activities</b>	<b>927.406</b>	<b>680.744</b>		
<b>Net increase in cash and cash equivalents</b>	<b>536.349</b>	<b>30.614</b>	<b>164.636</b>	<b>-51.040</b>
Effect of exchange rate fluctuations on cash held	34.037	-25.232	996	-25.232
Cash and cash equivalents at beginning of the year	-303.028	-308.410	17.702	93.974
<b>Cash and cash equivalents at the end of the year (*)</b>	<b>267.358</b>	<b>-303.028</b>	<b>183.334</b>	<b>17.702</b>

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

(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
<b>Balances as at 1 January, 2004</b>	<b>3.864.682</b>	<b>3.000.000</b>	-	<b>326.391</b>	<b>264.625</b>	-	<b>-49.020</b>	<b>3.541.996</b>	<b>322.686</b>
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 perimeter of consolidation	352.903	-	-	-	-	-	-	-	352.903
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
<b>Balances as at 31 December, 2004</b>	<b>4.781.795</b>	<b>3.656.538</b>	<b>472.955</b>	<b>345.446</b>	<b>-406.355</b>	<b>936</b>	<b>-31.662</b>	<b>4.037.858</b>	<b>743.937</b>
Transfer to Legal reserve	-	-	-	22.008	-22.008	-	-	-	-
Dividends paid	-335.968	-	-	-	-335.968	-	-	-335.968	-
Treasury stock	-6.457	-	-	-	-	-	-6.457	-6.457	-
Minority interests	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 estimated tax expense related to 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
<b>Balances as at 31 December, 2005</b>	<b>6.111.163</b>	<b>3.656.538</b>	<b>501.992</b>	<b>367.454</b>	<b>221.572</b>	<b>113.963</b>	<b>-38.119</b>	<b>4.823.400</b>	<b>1.287.763</b>

(Thousands of Euros)

	Total Equity	Share capital	Share premium	Legal reserve	Reserves and retained earnings	Treasury stock
<b>Balances as at 1 January, 2004</b>	<b>5.207.482</b>	<b>3.000.000</b>	<b>-</b>	<b>326.391</b>	<b>1.930.111</b>	<b>-49.020</b>
Transfer to Legal reserve	-	-	-	19.055	-19.055	-
Dividends paid	-268.008	-	-	-	-268.008	-
Treasury stock	17.358	-	-	-	-	17.358
Share Capital increase (issue of 656,537,715 new shares in Dec 2004)	1.208.029	656.538	551.491	-	-	-
Expenses with share capital increase	-78.536	-	-78.536	-	-	-
Fair value reserve (cash flow hedge), net of deferred tax	-643	-	-	-	-643	-
Actuarial losses	1.877	-	-	-	1.877	-
Other reserves	-398	-	-	-	-398	-
Profit for the year	157.673	-	-	-	157.673	-
<b>Balances as at 31 December, 2004</b>	<b>6.244.834</b>	<b>3.656.538</b>	<b>472.955</b>	<b>345.446</b>	<b>1.801.557</b>	<b>-31.662</b>
Transfer to Legal reserve	-	-	-	22.008	-22.008	-
Dividends paid	-335.968	-	-	-	-335.968	-
Treasury stock	-6.457	-	-	-	-	-6.457
Fair value reserve (cash flow hedge), net of deferred tax	-12.135	-	-	-	-12.135	-
Fair value reserve (available for sale investments), net of deferred tax	-65.983	-	-	-	-65.983	-
Reversal of estimated tax expense related to share capital increase	29.037	-	29.037	-	-	-
Reserve arising on the merger of EDP Produção	25.465	-	-	-	25.465	-
Profit for the year	509.835	-	-	-	509.835	-
<b>Balances as at 31 December, 2005</b>	<b>6.388.628</b>	<b>3.656.538</b>	<b>501.992</b>	<b>367.454</b>	<b>1.900.763</b>	<b>-38.119</b>



## 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 nationalisation 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 reorganisation 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 in the Spanish market (in the corporate segment) until September 2005.

### 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 utilisation and electric energy supply to SEP clients. In Brazil, these functions are also assumed by a regulatory entity—"Agência Nacional de Energia Eléctrica" (ANEEL). In Spain, electric energy prices are established by the government after consultation or proposal of the regulatory entity—"Comisión Nacional de Energía".

### 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 authorisation 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 31 December, 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 19 July, 2002 from the European Council and Parliament, and its adoption into Portuguese Law through Decree-Law no. 35/2005, of 17 February, EDP Group ('the Group') is required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards ('IFRS') from 2005. Therefore, from 1 January, 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 31 December 2005 were prepared in accordance with the IFRS effective and adopted for use in the EU until 31 December, 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.

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

### Transition to IFRS

In preparing these consolidated financial statements for the year ended 31 December, 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 1 January, 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 1 January, 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 (1 January, 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, 1 January, 2004.

#### (iv) Recognition of deferred actuarial losses

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

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 44.

## 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 proportional consolidation method.

### *Accounting on an unconsolidated basis of investments in subsidiaries and associates*

On an unconsolidated basis, investments in subsidiaries and associated companies not classified as held for sale or in discontinued operations, are accounted for at the acquisition cost, and are subject to periodic impairment tests.

### *Goodwill*

Goodwill resulting from business combinations that occurred prior to 1 January, 2004 are maintained at their book value as at that date. From 1 January, 2004, 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 recognised 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 unrealised gains and losses on transactions between group companies, are eliminated in preparing the consolidated financial statements, unless unrealised losses provides evidence of an impairment loss that should be recognised in the consolidated financial statements.

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

### 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.

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.

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.

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 recognised 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 Regularisation 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.

## **II Intangible assets**

#### *Acquisition and development of Software*

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised 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 recognised as intangible assets. These costs include employee costs directly associated with the development of the referred software.

Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives. Costs associated with maintaining computer software programs are recognised 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 amortised 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.

#### *Other intangible assets*

The remaining intangible assets are recognised at acquisition cost, less accumulated amortisation and impairment losses. Other intangible assets are amortised 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

## 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 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 instalments. Instalments comprise (i) an interest charge, which is recognised in the income statement and (ii) the amortisation of principal, which is deducted from liabilities. Financial charges are recognised 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 recognised at their fair value, subsequently accounts receivables are measured at the amortised 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 recognised 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, 1 January 2004, the unrecognised 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 recognised against equity, in accordance with the alternative method defined by IAS 19, revised on 16 December, 2004, which was early adopted by the Group.

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

Annually the Group recognises 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 Hidrocarbón, 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 recognised in the income statement in the period to which they relate.

#### **o) Provisions**

Provisions are recognised 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 realised or the deferred income tax liability is settled.



Deferred tax liabilities are recognised 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 recognised to the extent it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

#### 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 recognised 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.

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 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. Consequently changes in the estimated future increases in the tariffs will impact the future results of the Group.

#### **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 than 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 affect 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, recognised 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.

#### 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 Reals (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-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.

## 5. Turnover

Turnover by sector of activity, is analysed as follows:

	Group		Company	
	Dec 2005 Euro'000	Dec 2004 Euro'000	Dec 2005 Euro'000	Dec 2004 Euro'000
<b>Revenue by sector of activity/business:</b>				
Electricity	8.584.375	6.539.384	499.344	-
Steam and ashes	24.113	23.961	-	-
Gas	601.164	191.800	-	-
Other	39.053	33.258	-	-
	<u>9.248.705</u>	<u>6.788.403</u>	<u>499.344</u>	<u>-</u>
<b>Services rendered by sector of activity:</b>				
Telecommunications	268.368	307.330	-	-
Associated with electricity sales	48.518	100.844	14.000	-
Information systems and technologies	531	43.602	19	608
Thermo/Hydro electricity engineering services	3.593	5.978	-	-
Consultancy and services	4.989	5.530	-	-
Gas	56.596	-	-	-
Other	45.725	59.001	47.022	32.543
	<u>428.320</u>	<u>522.285</u>	<u>61.041</u>	<u>33.151</u>
	<u>9.677.025</u>	<u>7.310.688</u>	<u>560.385</u>	<u>33.151</u>
<b>Total turnover by business:</b>				
Electricity	8.632.893	6.640.228	513.344	-
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	19	608
Other	84.778	92.259	47.022	32.543
	<u>9.677.025</u>	<u>7.310.688</u>	<u>560.385</u>	<u>33.151</u>

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

	Dec 2005			Dec 2004		
	Iberian Market	Brazilian Market	Total	Iberian Market	Brazilian Market	Total
<b>Electricity:</b>						
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
	<u>7.243.904</u>	<u>1.340.471</u>	<u>8.584.375</u>	<u>5.552.752</u>	<u>986.632</u>	<u>6.539.384</u>
<b>Other Revenue:</b>						
- 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
	<u>664.330</u>	<u>-</u>	<u>664.330</u>	<u>246.250</u>	<u>2.769</u>	<u>249.019</u>
	<u>7.908.234</u>	<u>1.340.471</u>	<u>9.248.705</u>	<u>5.799.002</u>	<u>989.401</u>	<u>6.788.403</u>

Gross profit is analysed as follows:

	Group		Company	
	Dec 2005 Euro'000	Dec 2004 Euro'000	Dec 2005 Euro'000	Dec 2004 Euro'000
<b>Revenue:</b>				
Electricity	8.584.375	6.539.384	499.344	-
Steam and ashes	24.113	23.961	-	-
Gas	601.164	191.800	-	-
Other	39.053	33.258	-	-
	<u>9.248.705</u>	<u>6.788.403</u>	<u>499.344</u>	<u>-</u>
<b>Cost of consumed electricity</b>	4.222.003	3.335.803	278.006	-
<b>Changes in inventories and cost of raw material and consumables used</b>				
Fuel, steam and ashes	739.989	399.236	-	-
Gas	363.711	152.356	190.162	-
Own work capitalised	-114.679	-116.485	-	-
Other	602.168	172.596	-	-
	<u>5.813.192</u>	<u>3.943.506</u>	<u>468.168</u>	<u>-</u>
<b>Gross profit</b>	<u>3.435.513</u>	<u>2.844.897</u>	<u>31.176</u>	<u>-</u>

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
	<u>6.000.773</u>	<u>2.172.598</u>	<u>1.503.654</u>	<u>9.677.025</u>

	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
	<u>5.524.082</u>	<u>712.287</u>	<u>1.074.319</u>	<u>7.310.688</u>

## 6. Other Income

This balance is analysed as follows:

	Group		Company	
	Dec 2005 Euro'000	Dec 2004 Euro'000	Dec 2005 Euro'000	Dec 2004 Euro'000
Supplementary income	10.763	10.994	1.315	2.963
Gains on fixed assets	7.939	5.460	7.326	127
Reversal of impairment losses				
- For customer debt	35.661	7.127	545	-
- 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	-	-	-
Income arising from contractual penalty (TER Contract)	-	-	21.168	-
Other income	<u>65.595</u>	<u>39.113</u>	<u>6.104</u>	<u>9.843</u>
	<u>206.185</u>	<u>76.721</u>	<u>36.458</u>	<u>12.933</u>

## 7. Supplies and services

This balance is analysed as follows:

### Subcontracts:

Subcontracts  
Other

### Supplies and services:

Water, electricity and fuel  
Utensils and office material  
Leases and rents  
Communications  
Insurance  
Transportation, travelling and representation  
Commissions and fees  
Maintenance and repairs  
Advertising  
Surveillance and security  
Specialised work  
Personnel transfers  
Other supplies and services

Group		Company	
Dec 2005	Dec 2004	Dec 2005	Dec 2004
Euro'000	Euro'000	Euro'000	Euro'000
147.747	176.885	-	-
9.280	16.648	-	-
11.559	11.711	900	1.008
5.671	4.942	415	253
86.904	48.636	4.122	3.084
30.011	27.525	1.615	1.262
23.465	22.086	514	389
14.170	13.697	1.966	805
23.564	17.895	1.202	1.184
123.269	100.331	1.776	965
28.819	19.315	4.495	7.339
7.874	8.910	539	539
254.412	158.766	50.558	45.543
413	138	23.745	20.208
49.623	33.409	5.341	2.763
816.781	660.894	97.188	85.342

## 8. Personnel costs and employee benefits expense

Personnel costs caption is analysed as follows:

Management remuneration  
Employees' remuneration  
Charges on remuneration  
Early retirement costs  
Other costs  
Own work capitalised

Group		Company	
Dec 2005	Dec 2004	Dec 2005	Dec 2004
Euro'000	Euro'000	Euro'000	Euro'000
7.715	12.450	3.391	3.399
437.198	404.212	153	97
98.059	102.659	155	143
7.080	7.192	201	-
87.593	91.029	2.429	865
-91.658	-89.847	-	-
545.987	527.695	6.329	4.504

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

Board members and senior officers  
Senior management  
Middle management  
Intermediate management  
Highly-skilled and skilled workers  
Semi-skilled workers  
Unskilled workers

Group		Company	
Dec 2005	Dec 2004	Dec 2005	Dec 2004
475	475	15	12
2.087	2.248	-	1
759	1.174	-	-
612	477	-	-
7.229	8.919	2	3
2.802	2.406	-	-
37	28	-	-
14.001	15.727	17	16

As at 31 December, 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 proportional 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 analysed as follows:

Costs with pension plans  
Costs with medical care plans and other benefits  
Other

Group		Company	
Dec 2005	Dec 2004	Dec 2005	Dec 2004
Euro'000	Euro'000	Euro'000	Euro'000
151.402	381.890	678	404
44.187	42.829	133	626
4.702	15.364	71	109
200.291	440.083	882	1.139

## 9. Other expenses

This balance is analysed as follows:

	Group		Company	
	Dec 2005 Euro'000	Dec 2004 Euro'000	Dec 2005 Euro'000	Dec 2004 Euro'000
Concessions rents paid to local authorities	201.461	186.111	-	-
Electricity generating center rent	7.587	4.083	-	-
Direct operating taxes	1.757	1.175	694	736
Indirect taxes	31.232	15.564	536	782
Impairment loss on trade debtors	24.863	21.739	223	2.025
Impairment loss on debtors and other assets	43.811	320.625	1.213	315.590
Uncollectible debts	33.606	13.142	-	-
Losses on fixed assets	10.382	65.331	93.796	10.003
Regulation costs	3.406	-	-	-
Operating indemnities	2.166	1.838	-	-
Donations	20.004	2.218	19.717	1.310
Local authorities agreements	10.575	-	-	-
Other costs related to energy management activities	-	-	87.703	-
Other costs and losses	62.816	52.536	16.511	2.570
	<u>453.666</u>	<u>684.362</u>	<u>220.393</u>	<u>333.016</u>

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

## 10. Provisions

This balance is analysed as follows:

	Group		Company	
	Dec 2005 Euro'000	Dec 2004 Euro'000	Dec 2005 Euro'000	Dec 2004 Euro'000
Charge for the year - provision for other liabilities and charges	12.474	64.289	3.850	10.300
	<u>12.474</u>	<u>64.289</u>	<u>3.850</u>	<u>10.300</u>

## 11. Net depreciation and amortisation expense

This balance is analysed as follows:

	Group		Company	
	Dec 2005 Euro'000	Dec 2004 Euro'000	Dec 2005 Euro'000	Dec 2004 Euro'000
<b>Property, plant and equipment:</b>				
Property, plant and equipment under concession - DL 344-B/82	1.791	2.604	-	-
Buildings and other constructions	9.620	9.466	588	1.230
Plant and machinery:				
Hydroelectricity generation	128.659	126.246	8	-
Thermoelectric generation	175.470	124.632	-	-
Electricity distribution	422.192	381.920	-	-
Other plant and machinery	108.285	85.202	15	-
Transport equipment	8.339	9.570	514	348
Office equipment	41.596	27.996	2.836	2.448
Other	3.233	3.724	1.405	1.354
	<u>899.185</u>	<u>771.360</u>	<u>5.366</u>	<u>5.380</u>
<b>Intangible assets:</b>				
Industrial property and other rights	29.722	19.914	8	8
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	-	-
	<u>97.354</u>	<u>63.871</u>	<u>8</u>	<u>8</u>
	<u>996.539</u>	<u>835.231</u>	<u>5.374</u>	<u>5.388</u>
<b>Amortisation of deferred income on partially funded properties received under concessions</b>				
Partially-funded fixed assets	-97.626	-85.872	-475	-534
Other regularizations	26	-19	-201	-
	<u>-97.600</u>	<u>-85.891</u>	<u>-676</u>	<u>-534</u>
	<u>898.939</u>	<u>749.340</u>	<u>4.698</u>	<u>4.854</u>

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

The assets partially-funded by third parties are amortised on the same basis and at the same depreciation rates of the remaining assets, the cost being compensated through the amortisation 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 recognised 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 analysed as follows:

	Dec 2005		Dec 2004	
	Sale %	Amount Euro'000	Sale %	Amount Euro'000
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
		<u>440.730</u>		<u>9.962</u>

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 7th of December, 2005, and the value of this transaction amounted to 720.5 million euros. Payment conditions were 20% with the signature of the agreement and the remaining balance until 30th January, 2006. The full payment of the remaining agreed amount was received by EDP on 27th January, 2006.

## 13. Financial income and financial expenses

This balance is analysed as follows:

	Group		Company	
	Dec 2005 Euro'000	Dec 2004 Euro'000	Dec 2005 Euro'000	Dec 2004 Euro'000
<b>Financial income:</b>				
Interest income	218.107	227.394	270.981	320.580
Income from other equity investments	36.069	30.478	909.473	418.318
Favourable foreign exchange differences	117.416	61.787	48.415	37.188
Derivative financial instruments	88.663	63.670	210.202	64.796
Other financial gains	67.639	8.502	117.589	21.769
	<u>527.894</u>	<u>391.831</u>	<u>1.556.660</u>	<u>862.651</u>
	Group		Company	
	Dec 2005 Euro'000	Dec 2004 Euro'000	Dec 2005 Euro'000	Dec 2004 Euro'000
<b>Financial expenses:</b>				
Interest expense	534.677	503.125	332.853	358.777
Banking services	8.138	15.644	2.390	5.540
Unfavourable foreign exchange differences	48.695	47.897	27.007	39.175
Derivative financial instruments	243.022	55.806	319.269	24.900
Other financial losses	92.639	37.846	190.420	5.377
	<u>927.171</u>	<u>660.318</u>	<u>871.939</u>	<u>433.769</u>
Financial income/(expenses)	<u>-399.277</u>	<u>-268.487</u>	<u>684.721</u>	<u>428.882</u>

## 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.



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

	<b>Group</b>		<b>Company</b>	
	<b>Dec 2005</b> <b>Euro'000</b>	<b>Dec 2004</b> <b>Euro'000</b>	<b>Dec 2005</b> <b>Euro'000</b>	<b>Dec 2004</b> <b>Euro'000</b>
<b>Current tax</b>				
Current year	-100.898	-236.343	51.581	55.133
Change in estimate for prior years	-10.163	-23.317	-8.301	-3.362
	<u>-111.061</u>	<u>-259.660</u>	<u>43.280</u>	<u>51.771</u>
<b>Deferred tax</b>				
Temporary differences and reversals	6.636	239.557	-13.501	70.091
Tax rate increase / decrease	1.419	3.732	-	-
Tax losses brought forward	-49.183	-	-	-
	<u>-41.128</u>	<u>243.289</u>	<u>-13.501</u>	<u>70.091</u>
	<u>-152.189</u>	<u>-16.371</u>	<u>29.779</u>	<u>121.862</u>

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

	<b>Dec 2005</b>		
	<b>Rate</b> <b>%</b>	<b>Tax Basis</b> <b>Euro '000</b>	<b>Tax</b> <b>Euro '000</b>
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
Unrecognised 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	<u>12,5%</u>		<u>152.189</u>

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

	<b>Dec 2005</b>		
	<b>Rate</b> <b>%</b>	<b>Tax Basis</b> <b>Euro '000</b>	<b>Tax</b> <b>Euro '000</b>
Income tax calculated based on the statutory tax rate	27,5%	480.056	132.015
Provisions for investments in subsidiaries	5,9%	103.104	28.354
Tax benefits	-0,2%	-4.183	-1.150
Tax-exempt dividends	-51,7%	-903.120	-248.358
Fair value of financial instruments	1,0%	17.689	4.864
Difference between fiscal and accounting gains/losses	2,1%	36.997	10.174
Changes in estimates	8,8%	152.788	42.017
Other adjustments to taxable income	0,5%	8.382	2.305
Effective tax rate and total income tax	<u>-6,1%</u>		<u>-29.779</u>

## 15. Property, plant and equipment

This balance is analysed as follows:

	Group		Company	
	Dec 2005 Euro'000	Dec 2004 Euro'000	Dec 2005 Euro'000	Dec 2004 Euro'000
<b>Cost:</b>				
Property, plant and equipment held under the DL 344-B/82 regime	223.420	240.607	-	-
Land and natural resources	134.145	119.763	47.654	55.709
Buildings and other constructions	411.234	398.574	27.420	57.959
Plant and machinery:				
Hydroelectric generation	7.211.603	6.969.800	254	-
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	148	-
Transport equipment	80.037	75.158	2.986	2.311
Office equipment and utensils	394.370	385.305	70.576	64.364
Other	31.981	17.148	14.142	13.539
Assets under construction	1.555.744	1.193.642	12.087	10.678
	<u>30.575.829</u>	<u>28.006.465</u>	<u>175.267</u>	<u>204.560</u>
<b>Accumulated depreciation and impairment losses</b>				
Depreciation charge for the year	-899.185	-746.754	-5.366	-5.380
Accumulated depreciation in previous years	-15.778.661	-14.700.357	-74.365	-80.322
Impairment losses	-6.605	-2.253	-	-
	<u>-16.684.451</u>	<u>-15.449.364</u>	<u>-79.731</u>	<u>-85.702</u>
<b>Carrying amount</b>	<u>13.891.378</u>	<u>12.557.101</u>	<u>95.536</u>	<u>118.858</u>

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 analysed as follows:

	Group	
	Dec 2005 Euro'000	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	<u>3.589</u>	<u>6.475</u>

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 analysed as follows:

	Balance January 1st Euro'000	Acquisitions Euro'000	Disposals Euro'000	Transfers Euro'000	Exchange Differences Euro'000	Perimeter Variations/ Regularisations Euro'000	Balance December 31 Euro'000
<b>Cost:</b>							
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
	<u>28.006.465</u>	<u>1.505.245</u>	<u>-114.633</u>	<u>-</u>	<u>784.163</u>	<u>394.589</u>	<u>30.575.829</u>

	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/ Regularisations Euro'000	Balance December 31 Euro'000
<b>Accumulated depreciation and impairment losses:</b>							
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
	<u>15.449.364</u>	<u>899.185</u>	<u>4.352</u>	<u>-35.632</u>	<u>318.803</u>	<u>48.379</u>	<u>16.684.451</u>

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

	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
More than 5 years	-	-	-	-	-	-
	<u>5.287</u>	<u>311</u>	<u>5.598</u>	<u>4.883</u>	<u>274</u>	<u>5.157</u>

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

	Balance January 1st Euro'000	Acquisitions Euro'000	Disposals Euro'000	Transfers Euro'000	Regularisations Euro'000	Balance December 31 Euro'000
<b>Cost:</b>						
Land and natural resources	55.709	482	-8.584	47	-	47.654
Buildings and other constructions	57.959	-	-40.197	9.658	-	27.420
Plant and machinery	-	402	-	-	-	402
Transport equipment	2.311	982	-513	-	206	2.986
Office equipment and utensils	64.364	977	-614	9.385	-3.536	70.576
Other	13.539	10	-	81	512	14.142
Assets under construction	10.678	14.822	-3.295	-19.171	9.053	12.087
	<u>204.560</u>	<u>17.675</u>	<u>-53.203</u>	<u>-</u>	<u>6.235</u>	<u>175.267</u>

	Balance January 1st Euro'000	Charge for the year Euro'000	Impairment Losses / Reverses Euro'000	Disposals Euro'000	Transfers Euro'000	Regularisations Euro'000	Balance December 31 Euro'000
<b>Accumulated depreciation and impairment losses:</b>							
Buildings and other constructions	27.957	588	-	-10.920	-	-	17.625
Plant and machinery	-	23	-	-	-	7	30
Transport equipment	904	514	-	-767	-	467	1.118
Office equipment and utensils	55.324	2.836	-	-215	-	70	58.015
Other	1.517	1.405	-	-	-	21	2.943
	<u>85.702</u>	<u>5.366</u>	<u>-</u>	<u>-11.902</u>	<u>-</u>	<u>565</u>	<u>79.731</u>

As at 31 December, 2005, on a company basis, the property, plant and equipment financed by leasing is 2,267 thousand euros (2004: 1,610 thousand euros) with an accumulated depreciation of 584 thousand euros (2004: 352 thousand euros) and the respective lease instalments payable are 1,446 thousand euros (2004: 1,064 thousand euros).

	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	-	-	-	-	-	-
Between 1 and 5 years	1.377	69	1.446	1.013	51	1.064
More than 5 years	-	-	-	-	-	-
	<u>1.377</u>	<u>69</u>	<u>1.446</u>	<u>1.013</u>	<u>51</u>	<u>1.064</u>

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

## 16. Intangible assets

This balance is analysed as follows:

	Group		Company	
	Dec 2005 Euro'000	Dec 2004 Euro'000	Dec 2005 Euro'000	Dec 2004 Euro'000
<b>Cost:</b>				
Industrial property and other rights	131.286	264.676	349	50
CO2 licences	99.381	-	-	-
Intangible assets under development and other intangible assets	145.318	5.982	-	-
Utilization rights on telecommunications business	32.890	73.169	-	-
Concession rights in Brazil	930.925	846.633	-	-
Licences on aeolic generation	482.438	-	-	-
Goodwill	2.046.824	2.070.909	-	-
	<u>3.869.062</u>	<u>3.261.369</u>	<u>349</u>	<u>50</u>
<b>Accumulated amortisation and impairment losses:</b>				
Amortisation of concession and utilisation rights during the year	-37.632	-39.306	-	-
Amortisation of intangible assets during the year	-29.722	-20.013	-8	-8
Accumulated amortisation in previous years	-262.881	-237.746	-19	-11
Impairment losses	-30.000	-	-	-
	<u>-360.235</u>	<u>-297.065</u>	<u>-27</u>	<u>-19</u>
	<u>3.508.827</u>	<u>2.964.304</u>	<u>322</u>	<u>31</u>

In December 2005, NEO - Novas Energias do Ocidente, S.A. - the EDP Group company responsible for the development of projects in the renewable energies sector in the Iberian Peninsula and Europe acquired from Nuon International Renewables Projects B.V. the total share capital of Nuon España, by an agreed value of 478 million euros. The company's net financial debt as at 31 December 2005, amounted to 223 million euros, of which 83 million euros represented shareholders loans also acquired by NEO at their nominal value.

Nuon España operates exclusively in the renewable energies sector in the Spanish market and owns a portfolio of aeolic generation projects with a total capacity of 1,407 MW, of which 221 MW are already fully operational and 1,186 MW are in different stages of development. The wind energy facilities are located in Galicia, Aragon, Andalusia and Canary Islands, and comprise high quality assets with an average number of wind hours of 2,650 hours/year, considerably above the average for the sector in Spain, which stands at 2,350 hours/year.

The difference between acquisition cost and the respective value of the wind energy facilities acquired amounted to 460 million euros, which was registered as "Licences on aeolic generation", on the acquisition date. The balance "Licences on aeolic generation" includes additionally an amount of 22 million euros, which was already recorded as goodwill in Nuon accounts as at the acquisition date.

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

	Balance 1 January Euro'000	Acquisitions Euro'000	Disposals Euro'000	Transfers Euro'000	Exchange Differences Euro'000	Perimeter Variations/ Regularisations Euro'000	Balance 31 December Euro'000
<b>Cost:</b>							
Industrial property and other rights	264.676	153	-920	-	8.387	-141.010	131.286
CO2 licences	-	99.381	-	-	-	-	99.381
Intangible assets under development and other intangible assets	5.982	21.873	-2.741	-	7.896	112.308	145.318
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
	<u>1.190.460</u>	<u>676.032</u>	<u>-3.661</u>	<u>-</u>	<u>27.127</u>	<u>-67.720</u>	<u>1.822.238</u>

	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	Perimeter Variations/ Regularisations Euro'000	Balance 31 December Euro'000
<b>Accumulated amortisation and impairment losses:</b>								
Industrial property and other rights	95.400	29.722	30.000	1.973	-	2.783	-15.352	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	-	-	-	-	-	-	-	-
	<u>297.065</u>	<u>67.354</u>	<u>30.000</u>	<u>1.973</u>	<u>-</u>	<u>3.150</u>	<u>-39.307</u>	<u>360.235</u>

The movement in **Intangible assets** during 2005, for the **Company** is analysed as follows:

	Balance 1 January Euro'000	Acquisitions Euro'000	Disposals Euro'000	Transfers Euro'000	Regularisations Euro'000	Balance 31 December Euro'000
<b>Cost:</b>						
Industrial property and other rights	50	2	-	-	297	349
	<u>50</u>	<u>2</u>	<u>-</u>	<u>-</u>	<u>297</u>	<u>349</u>

	Balance 1 January Euro'000	Charge for the year Euro'000	Impairment Losses / Reverses Euro'000	Disposals Euro'000	Transfers Euro'000	Regularisations Euro'000	Balance 31 December Euro'000
<b>Accumulated amortisation and impairment losses:</b>							
Industrial property and other rights	19	8	-	-	-	-	27
	<u>19</u>	<u>8</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27</u>

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 analysed as follows:

	Dec 2005			Dec 2004		
	Concession rights Euro'000	Accumulated amortisation Euro'000	Net amount Euro'000	Concession rights Euro'000	Accumulated amortisation Euro'000	Net amount Euro'000
<b>Electricity Business - Brazil</b>						
<b>Consolidated - Group</b>						
EDP Brasil - Energy Distribution	930.925	-199.455	731.470	846.633	-167.944	678.689
Amortisation charge for the year		<u>-31.087</u>			<u>-30.489</u>	

The Concession rights over the electricity distribution network, namely from S. Paulo state, Espírito Santo state and Mato Grosso do Sul state, are amortised 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. - Eletrobrás, for the acquisition of Investco's redeemable preference shares currently held by Eletrobrás ("PN-R Shares"), at its present value which amounted to 389 million euros.

This acquisition was made through capital increase, with the referred redeemable preference shares ("PN-R Shares") subscribed by Eletrobrás. 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 108 million euros. On the acquisition date, the carrying value of the PN-R Shares was 28 million euros, which led to a Concession right of 80 million euros, which will be amortised 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 analysed as follows:

	Dec 2005 Euro'000	Dec 2004 Euro'000
<b>Electricity business:</b>		
Hydrocântábrico Group	1.191.889	1.194.821
EDP Brasil - Energy generation	64.511	62.054
	<u>1.256.400</u>	<u>1.256.875</u>
<b>Gas distribution business:</b>		
Naturcorp (Hydrocântábrico Group)	591.993	591.993
Portgás	107.014	107.080
	<u>699.007</u>	<u>699.073</u>
<b>Telecommunications business:</b>		
Comunite! Global, S.A.	-	73.247
Other	-	5.652
	<u>-</u>	<u>78.899</u>
<b>Other businesses:</b>		
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
	<u>91.417</u>	<u>36.062</u>
	<u>2.046.824</u>	<u>2.070.909</u>

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

	Balance January 1st Euro'000	Acquisitions Euro'000	Disposals Euro'000	Exchange differences Euro'000	Regularisations 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
	<u>2.070.909</u>	<u>57.391</u>	<u>-</u>	<u>1.005</u>	<u>-82.481</u>	<u>2.046.824</u>

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 49 million euros 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 78 million euros related to the sale of Comunite! and other associate companies.

## 17. Investments in subsidiaries (company basis)

This balance is analysed as follows:

	Company	
	Dec 2005 Euro'000	Dec 2004 Euro'000
Investments in subsidiary companies	9.197.717	9.028.533
Impairment losses on investments in subsidiary companies	-1.846.128	-1.758.798
<b>Carrying amount</b>	<u>7.351.589</u>	<u>7.269.735</u>

The breakdown of **Investments in subsidiary companies** is analysed as follows:

	Company			
	Dec 2005		Dec 2004	
	Investment Euro'000	Impairment Euro'000	Investment Euro'000	Impairment Euro'000
<b>Investments in subsidiary companies</b>				
EDP Distribuição de Energia, S.A.	2.044.047	-452.902	2.044.047	-452.902
EDP Comercialização de Energia, S.A.	42.761	-3.059	42.761	-3.059
Edinfor - Sistemas Informáticos, S.A.	-	-	151.706	-14.279
EDP Gestão de Produção de Energia, S.A. (ex-CPPE)	2.067.565	-	-	-
EDP-Participações, SGPS, S.A.	789.308	-446.513	1.117.230	-446.513
Enernova, S.A.	31.258	-	31.258	-
EDP Produção Bioelétrica, S.A.	13.200	-	13.200	-
EDP Internacional, S.A.	1.211.125	-226.792	1.211.125	-226.792
Enercorp - Serviços Corporativos, Lda.	-	-	22.259	-
EDP Valor - Gestão Integrada de Serviços, S.A.	6.550	-	6.550	-
Edalpro - Imobiliária, Lda.	748	-	748	-
Labelec - Est. Desenv. Activ. Laboratoriais, S.A.	3.465	-	3.465	-
EDP Brasil, S.A.	474.681	-263.273	537.899	-310.168
EDP Investimento, Gestão de Participações e Assistência Técnica, Lda.	5	-	5	-
Hidroelétrica del Cantábrico, S.A.	1.981.798	-	1.975.953	-
EDP Finance Company, Ltd.	1.000	-	1.000	-
ONI, SGPS, S.A.	452.853	-452.853	302.395	-302.395
Sávida, S.A.	2.552	-	-	-
NQF, S.A.	62.761	-	62.761	-
EDP Imobiliária, S.A.	4.458	-	-	-
Balwerk, S.A.	1.686	-	-	-
Patrimonial de la Ribera del Ebro, S.L.	4.000	-	-	-
EDP Gestão de Produção de Energia, S.A.	-	-	1.500.000	-
Other	1.896	-736	4.171	-2.690
	<u>9.197.717</u>	<u>-1.846.128</u>	<u>9.028.533</u>	<u>-1.758.798</u>

In 2005, EDP Gestão de Produção de Energia, S.A. was merged into EDP, S.A., therefore, EDP, S.A. now holds directly CPPE, which changed its registration name to EDP Gestão de Produção de Energia, S.A.

The movement of the year of impairment losses on investments in subsidiary companies, on a company basis, is analysed as follows:

	Balance January 1st Euro'000	Impairment losses for the period Euro'000	Utilisation Euro'000	Transfers Euro'000	Balance December 31 Euro'000
<b>Impairment losses on investment in subsidiary companies:</b>					
EDP Distribuição de Energia, S.A.	-452.902	-	-	-	-452.902
EDP Comercialização Energia, S.A.	-3.059	-	-	-	-3.059
Edinfor-Sistemas Informáticos, S.A.	-14.279	-	-	14.279	-
EDP-Participações, SGPS, S.A.	-446.513	-	-	-	-446.513
EDP Internacional, S.A.	-226.792	-	-	-	-226.792
EDP Brasil, S.A.	-310.168	-	46.896	-	-263.272
ONI, SGPS, S.A.	-302.395	-150.458	-	-	-452.853
Central E - Informação e Comércio Electrónico, SA	-2.640	-	2.640	-	-
EDP Estudos e Consultoria, S.A.	-50	-	-	-	-50
Other	-	-	-	-687	-687
	<u>-1.758.798</u>	<u>-150.458</u>	<u>49.536</u>	<u>13.592</u>	<u>-1.846.128</u>

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

Subsidiary Companies	Head Office	Share capital / Currency	Assets 31-Dec-05 Euro'000	Liabilities 31-Dec-05 Euro'000	Total Equity 31-Dec-05 Euro'000	Total Revenues 31-Dec-05 Euro'000	Net Profit 31-Dec-05 Euro'000	% Group	% Company
<b>Group's parent holding company and related activities - Portugal</b>									
EDP - Energias de Portugal, S.A.	Lisbon	3.656.537.715 EUR	13.912.925	7.904.382	6.008.543	1.635.758	735	-	-
Balwerk - Consultadoria Económica e Participações, Sociedade Unipessoal, Lda.	Lisbon	5.000 EUR	285.514	281.479	4.035	4.998	3.564	100,00%	100,00%
Edalpro - Imobiliária, Lda.	Lisbon	748.197 EUR	780	62	718	11	-346	100,00%	100,00%
EDP Estudos e Consultoria, S.A.	Lisbon	50.000 EUR	3.274	2.766	508	13.621	616	100,00%	100,00%
EDP Finance BV	Amsterdam	20.000 EUR	4.573.674	4.570.442	3.232	135.561	3.211	100,00%	100,00%
EDP Finance Company Ltd.	Dublin	1.000.001 EUR	960	352	608	-	-44	100,00%	100,00%
EDP Imobiliária, S.A.	Lisbon	5.000.000 EUR	7.265	3.551	3.714	12.631	-744	100,00%	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%	100,00%
EDP Investimento, Gestão de Participações e Assistência Técnica, Lda.	Macau	200.000 MOP	744.423	165.455	578.968	96.741	91.480	100,00%	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%	100,00%
EDP Trader Internacional - Comércio, Consultoria e Serviços, Sociedade Unipessoal, Lda.	Funchal	5.000 EUR	5	-	5	-	-	100,00%	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%	100,00%
Heralds Securities Inc.	Bahamas	1 USD	17.315	-	17.315	6.287	-3.153	100,00%	-
Interhel - 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%	-
Sávida - Medicina Apoiada, S.A.	Lisbon	450.000 EUR	16.234	14.085	2.149	36.368	-403	100,00%	100,00%
SCS - Serviços Complementares de Saúde, S.A.	Lisbon	50.000 EUR	225	1.480	-1.255	108	-412	100,00%	-
<b>Electricity business - Portugal</b>									
<b>Electricity generation</b>									
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%	100,00%
Domus Eólia - Produção de Energia Renováveis, Lda.	Vila Real	5.000 EUR	1.453	1.451	2	-	-	100,00%	-
EDP Produção Bioelétrica, S.A.	Lisbon	50.000 EUR	33.420	25.983	7.437	4.125	-1.938	100,00%	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%	74,88%
Energim, 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%	100,00%
Eólica da Serra das Alturas, S.A.	Batocas - 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 Termoelectricas, S.A.	Carregado	250.000 EUR	1.882	1.531	351	1.537	89	80,00%	-
<b>Electricity distribution and supply</b>									
EDP Comercial - Comercialização de Energia, S.A.	Lisbon	50.100.200 EUR	241.587	238.428	3.159	103.399	-59.792	100,00%	60,00%
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%	100,00%
EDP Powerline, Infraestruturas de Comunicação, S.A.	Lisbon	50.000 EUR	2.547	2.454	93	211	43	100,00%	100,00%
EDP Serviner - Serviços de Energia, S.A.	Lisbon	50.000 EUR	3.026	2.099	927	5.531	621	100,00%	100,00%
EDP Soluções Comerciais, S.A.	Lisbon	50.000 EUR	76.403	67.051	9.352	144.619	9.302	100,00%	100,00%
<b>Gas distribution</b>									
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., S.A.	Lisbon	5.500.000 EUR	68.352	4.609	63.743	35.431	35.334	100,00%	-
NQF-Gás, S.G.P.S., S.A.	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%	100,00%
<b>Group's parent holding company and related activities - Spain</b>									
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%	95,95%
Gas Capital, S.A.U.	Oviedo	60.110 EUR	306	14.611	-14.305	833	-	95,95%	-
Hidrocanábico Gestión de la Energía S.A.	Oviedo	300.500 EUR	2.897	1.102	1.795	3.395	617	95,95%	-
Hidrocanábico Servicios S.A.	Oviedo	60.150 EUR	9.269	7.476	1.793	18.490	1.297	95,95%	-
Keranboulter, SAS	Carhaix	37.000 EUR	613	599	14	14	1	95,95%	-
Le Gollat, 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%	-



Subsidiary Companies	Head Office	Share capital / Currency	Assets 31-Dec-05 Euro'000	Liabilities 31-Dec-05 Euro'000	Total Equity 31-Dec-05 Euro'000	Total Revenues 31-Dec-05 Euro'000	Net Profit 31-Dec-05 Euro'000	% Group	% Company
<b>Electricity business - Spain</b>									
<b>Electricity generation</b>									
Ambitec Laboratorio Medioambiental ITSEMAPI, S.A.	Madrid	1.021.700 EUR	120.5	338	867	1.003	-204	76,75%	-
Asociación Central Producción Térmica S.A.	Cuenca	390.658 EUR	852	846	6	-	-	46,06%	-
Biogas y Energía, 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%	-
Cerámica 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 Energéticos Bahía Cádiz, S.A.	Cádiz	60.102 EUR	102	683	-581	32	-638	86,36%	-
Eléctrica de la Ribera del Ebro S.A.	Pamplona	5.000.000 EUR	241.509	190.270	51.239	151.474	29.149	86,74%	-
Energía 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%	-
Eólica 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 Explotación Centrales, S.A.	Oviedo	60.150 EUR	420	332	88	1.386	26	95,95%	-
Hidroeléctrica del Rumberal, S.L.	Madrid	276.460 EUR	1.000	610	390	207	58	61,41%	-
Hidroeléctrica Fuentesnueva, 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 Solonera, 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%	30,00%
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%	-
Sinac Inversiones Eólicas S.A.	Madrid	6.010.000 EUR	88.370	80.150	8.220	2.173	1.008	76,76%	-
Sinova Medioambiental, S.A.	Soria	2.687.364 EUR	16.985	13.753	3.232	5.227	-554	64,48%	-
Sotromat, S.A.	Soria	450.800 EUR	367	196	171	-	-	69,08%	-
Tratamientos Ambientales 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 Solón, S.A.	Madrid	60.200 EUR	74	12	62	2	1	76,76%	-
Unierer S.A.	Madrid	940.500 EUR	7.567	7.088	479	414	-612	76,76%	-
<b>Electricity distribution and supply</b>									
Hidroantabaco Distribución Eléctrica, S.A.U.	Oviedo	44.002.000 EUR	715.599	493.609	221.990	669.555	-7.934	95,95%	-
Hidroantabaco Energía Verde, S.A.U.	Oviedo	60.300 EUR	56	1	55	-	-	95,95%	-
Hidroantabaco Energía, S.A.U.	Oviedo	60.110 EUR	218.295	377.471	-159.176	378.143	-136.712	95,95%	-
Hidroantabaco Explotación Redes, S.A.	Oviedo	70.000 EUR	203	123	80	398	11	95,95%	-
<b>Gas distribution</b>									
EDP Energía Ibérica, S.A.	Madrid	60.200 EUR	53.245	65.048	-11.803	471.517	-10.471	100,00%	-
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 Pasaja, 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 Energía Distribución, S.A.U.	Bilbao	100.000.000 EUR	1.111.872	113.713	998.159	222.027	37.651	53,91%	-
Naturgás Energía 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%	-
<b>Group's parent holding company and related activities - Brazil</b>									
EDP Energias do Brasil, S.A.	São Paulo	3.182.715.954 BRL	3.776.661	266.911	3.509.750	725.509	439.406	62,37%	12,20%
Energest, S.A.	São Paulo	120.480.870 BRL	180.611	98.491	82.120	47.650	16.742	62,37%	-
Escelsapar	Espirito Santo	2.800.000 BRL	6.587	6.210	377	3.068	-63	62,37%	-
<b>Electricity business - Brazil</b>									
<b>Electricity generation</b>									
CESA - Castelo Energética, S.A.	São Paulo	44.500.622 BRL	194.528	135.073	59.455	25.359	10.137	62,37%	-
Costa Rica Energética, Lda.	Mato Grosso Su	14.318.185 BRL	22.689	4.357	18.332	9.172	6.307	31,81%	-
EDP Lajeado Energia, S.A.	São Paulo	132.519.841 BRL	473.824	148.893	324.931	192.219	109.434	37,38%	-
Enercoto, S.A.	São Paulo	1.000 BRL	1.252	1.612	-360	-	-361	62,37%	-
Enerpeixe, S.A.	São Paulo	646.471.400 BRL	1.627.328	820.006	807.322	-	-	37,42%	-
PANTANAL	São Paulo	602.100 BRL	27.498	22.732	4.766	10.661	5.463	62,37%	-
<b>Electricity distribution and supply</b>									
Bandeirante Energia, S.A.	São Paulo	254.628.684 BRL	2.379.127	1.693.059	686.068	2.131.898	41.420	62,37%	-
Energul - Empresa Energética de Mato Grosso do Sul, S.A.	Mato Grosso Sul	463.412.296 BRL	1.866.322	1.272.982	593.340	931.376	163.933	62,37%	-
Enertrade - Comercializadora de Energia, S.A.	São Paulo	26.284.758 BRL	142.411	112.647	29.764	4.50.562	47.907	62,37%	-
Escelsa - Espirito Santo Centrais Elétricas, S.A.	Espirito Santo	376.021.630 BRL	1.998.408	1.389.906	608.502	1.390.546	155.191	62,37%	-

Subsidiary Companies	Head Office	Share capital / Currency	Assets 31-Dec-05 Euro'000	Liabilities 31-Dec-05 Euro'000	Total Equity 31-Dec-05 Euro'000	Total Revenues 31-Dec-05 Euro'000	Net Profit 31-Dec-05 Euro'000	% Group	% Company
<b>Telecommunications business - Portugal</b>									
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%	56,61%
FCTE - Forum do Comércio, Transacções Electrónicas e Serviços Empresariais On-Line, S.A.	Lisbon	500.000 EUR	49	487	-438	-	-90	45,29%	-
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%	-
<b>Information technologies business - Portugal</b>									
Central E - Informação e Comércio Electrónico, SA	Lisbon	5.000.000 EUR	1.029	1.154	-125	1.037	-2.774	52,80%	-
<b>Other</b>									
Energia RE - Sociedade Cative de Resseguro	Luxemburgo	1.239.468 EUR	33.471	32.232	1.239	5.799	-	100,00%	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%	100,00%

The Associated companies included in the consolidation under the proportional consolidation method as at 31 December, 2005, are as follows:

Subsidiary Companies	Head Office	Share capital / Currency	Assets 31-Dec-05 Euro'000	Liabilities 31-Dec-05 Euro'000	Total Equity 31-Dec-05 Euro'000	Total Revenues 31-Dec-05 Euro'000	Net Profit 31-Dec-05 Euro'000	% Group	% Company
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%	-
Cogeneracion y Mantenimiento 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%	-
Infraestructuras 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	14.864.777	746.000	740.477	200.833	19.725	10,33%	-

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

Subsidiary Companies	Head Office	Share capital / Currency	Assets 31-Dec-05 Euro'000	Liabilities 31-Dec-05 Euro'000	Total Equity 31-Dec-05 Euro'000	Total Revenues 31-Dec-05 Euro'000	Net Profit 31-Dec-05 Euro'000	% Group	% Company
Affinis - Serviços de Assistência e Manutenção Global, S.A.	Lisbon	1.361.100 EUR	-	-	1.280	-	-91	45,00%	-
Carriço Cogeração, S.A.	Vila Rei	50.000 EUR	-	-	998	-	1.102	35,00%	-
CBE - Centro de Biomassa para a Energia CEM, S.A.	Portugal	641.735 EUR	-	-	748	-	84	23,32%	23,32%
DECA - Distribuição Eléctrica Centroamericana Dos III, S.A.	Macau	580.000.000 MOP	-	-	2.497.822	-	423.057	21,19%	-
DECA - Distribuição Eléctrica Centroamericana Dos III, S.A.	Guatemala	2.077.097.000 GTQ	-	-	2.783.052	-	368.310	21,00%	21,00%
Ecogen - Serviços de Energia Descentralizada, S.A.	Laoues	100.000 EUR	-	-	-790	-	-183	34,99%	34,99%
EDEL - Empresa Editorial Electrotécnica, Lda.	Portugal	1.798 EUR	-	-	-74	-	-	47,77%	47,77%
Edinfor - Sistemas Informáticos, SA	Portugal	17.000.000 EUR	-	-	92.695	-	-16.478	40,00%	40,00%
Eólica da Alagoa, S.A.	Arcoz	50.000 EUR	-	-	1.822	-	332	40,00%	-
Geolerceria - S. Geo. Terceira, S.A.	Valdevez	1.000.000 EUR	-	-	996	-	-2	49,90%	-
LBC Tanquapor - Movimentação e Armazenagem de Líquidos, S.A.	Azores	1.350.000 EUR	-	-	3.655	-	600	28,89%	-
Portosines - Terminal Multipurpose de Sines, S.A.	Barreiro	10.000.000 EUR	-	-	19.394	-	756	39,60%	-
Portugen	Sines	250.000 EUR	-	-	3.168	-	2.868	26,67%	-
REN - Rede Eléctrica Nacional, S.A.	Lisbon	534.000.000 EUR	-	-	924.692	-	109.064	30,00%	30,00%
SETGAS - Sociedade de Produção e Distribuição de Gás, S.A.	Oporto	9.000.000 EUR	-	-	20.453	-	4.090	10,11%	-
Turbogás - Produtos Energéticos, S.A.	Caparica	13.308.000 EUR	-	-	37.248	-	30.432	40,00%	-
Biomassas del Pirineo, S.A.	Oporto	454.896 EUR	-	-	407	-	-	28,79%	-
Cultivos Energéticos de Castilla, S.A.	Huesca	300.000 EUR	-	-	287	-	-	28,79%	-
Empresa Provincial de Energia, S.A.	Burgos	601.000 EUR	-	-	511	-	-	19,19%	-
Enercem, S.L.	Sevilla	210.350 EUR	-	-	638	-	75	19,19%	-
Giroaga, A.I.E.	Oviedo	300.510 EUR	-	-	350	-	49	5,39%	-
Hidráulica Rio Lena, S.A.	S. Sebastián	901.518 EUR	-	-	2.413	-	-	8,29%	-
Hidroastur, S.A.	Oviedo	4.808.000 EUR	-	-	8.704	-	906	23,99%	-
Inkolán, A.I.E.	Bilbao	84.142 EUR	-	-	163	-	-	45,56%	-
Kosorkuntza, A.I.E.	Bilbao	1.502.500 EUR	-	-	3.019	-	1.152	23,99%	-
Parque Eólico Altos del Voltoya, S.A.	Madrid	7.813.157 EUR	-	-	12.015	-	2.745	29,75%	-
Parque Eólico de Belmonte, S.A.	Asturias	120.400 EUR	-	-	2.861	-	-	28,69%	-
Parque Eólico Sierra del Madero, S.A.	Soria	7.194.021 EUR	-	-	11.991	-	3.462	40,30%	-
Sociedad Promotora de las Telecomunicaciones en Asturias, S.A.	Oviedo	55.379.523 EUR	-	-	38.280	-	1.042	44,09%	-
Sodecoan, S.L.	Sevilla	6.010 EUR	-	-	-3	-	-	47,98%	-
Solar Siglo XXI, S.A.	Ciudad Real	80.000 EUR	-	-	69	-	-	23,99%	-
Tolosa Gasa, S.A.	Tolosa	1.021.700 EUR	-	-	2.010	-	413	38,38%	-
Yedesa Cogeneración, S.A.	Sevilla	234.390 EUR	-	-	44	-	-	9,60%	-

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

<b>Companies excluded</b>	<b>Head Office</b>	<b>% Group</b>	<b>% Company</b>
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 31 December, 2005, are as follows:

<b>Other companies</b>	<b>Head Office</b>	<b>% Group</b>	<b>% Company</b>
Valorsul, S.A.	Lisbon - Portugal	11,00%	-
Tejo Energia, S.A.	Abrantes - Portugal	11,11%	-
EDA, S.A.	Azores - Portugal	10,00%	-

## 18. Investments in associates

This balance is analysed as follows:

	<b>Group</b>		<b>Company</b>	
	<b>Dec 2005 Euro'000</b>	<b>Dec 2004 Euro'000</b>	<b>Dec 2005 Euro'000</b>	<b>Dec 2004 Euro'000</b>
<b>Investments in associates</b>				
Equity holdings in associates	351.302	316.775	442.946	446.585
Impairment losses on investments in associates	-	-	-88.311	-73.894
<b>Carrying amount</b>	<b>351.302</b>	<b>316.775</b>	<b>354.635</b>	<b>372.691</b>

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

### Associated companies:

	<b>Group</b>		<b>Company</b>	
	<b>Dec 2005 Investment Euro'000</b>	<b>Dec 2005 Impairment Euro'000</b>	<b>Dec 2004 Investment Euro'000</b>	<b>Dec 2004 Impairment Euro'000</b>
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	-
Portisines - 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	-
	<b>351.302</b>	<b>-</b>	<b>316.775</b>	<b>-</b>

### Associated companies:

	<b>Company</b>		<b>Company</b>	
	<b>Dec 2005 Investment Euro'000</b>	<b>Dec 2005 Impairment Euro'000</b>	<b>Dec 2004 Investment Euro'000</b>	<b>Dec 2004 Impairment Euro'000</b>
DECA - Distribucion Eléctrica Centroamerica, S.A.	62.954	-13.002	62.954	-13.002
REN - Rede Eléctrica Nacional, S.A.	319.589	-60.891	319.589	-60.891
Portgás-Soc.de Prod.e Distrib.de Gás, S.A.	-	-	61.359	-
AIST-Administradora de Inmuebles Santo Tomas, S.A.	-	-	1.649	-
Edinfor - Sistemas Informáticos, SA	59.978	-14.279	-	-
Other	425	-139	1.034	-1
	<b>442.946</b>	<b>-88.311</b>	<b>446.585</b>	<b>-73.894</b>

From the 1st of January, 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.

The movement of impairment on investments in associates, on a company basis, is analysed as follows:

	Balance January 1st Euro'000	Impairment losses for the period Euro'000	Perimeter Variations Euro'000	Reversal of impairment losses Euro'000	Transfers Euro'000	Balance December 31 Euro'000
<b>Impairment on Investments in associates</b>						
DECA, S.A.	-13.002	-	-	-	-	-13.002
REN - Rede Eléctrica Nacional, S.A.	-60.891	-	-	-	-	-60.891
Edinfor, S.A.	-	-	-	-	-14.279	-14.279
Other	-1	-	-	-	-138	-139
	<u>-73.894</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-14.417</u>	<u>-88.311</u>

## 19. Available for sale investments

This balance is analysed as follows:

	Group		Company	
	Dec 2005 Euro'000	Dec 2004 Euro'000	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	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	894	894
	<u>566.446</u>	<u>1.169.098</u>	<u>260.394</u>	<u>336.894</u>

On the 7th December, 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 720.5 million euros. The payment conditions were 20% with the signature of the agreement and the remaining balance by 30th January, 2006. The full payment of the remaining agreed amount was received by EDP on the 27th January, 2006. This transaction generated a gain, on a consolidated basis, of 397.5 million euros. Following the derecognition of this financial asset, the cumulative gains arising from changes in fair value, of 5.6 million euros, previously recognised in equity under Fair value reserve were recognised in the income statement.

The main investments available for sale are analysed as follows:

	Dec 2005			
	Balance January 1st Euro'000	Acquisitions Euro'000	Disposals Euro'000	Potential gain/(loss) Euro'000
BCP - Banco comercial Português, S.A.	295.939	-	-140.501	41.345
CERJ - Companhia Eléctrica do Estado Rio Janeiro	85.905	-	-	-10.392
OPTEP (Optimus)	336.000	-	-	-76.500
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
Other	51.136	-	-27.931	-
	<u>1.169.098</u>	<u>1.367</u>	<u>-563.562</u>	<u>-40.457</u>

During 2005, the equity investment in Red Eléctrica de España, S.A., recorded under Available for sale investments, was sold, generating a gain, on a consolidated basis, of 8.27 million euros.

In June 2005, the Group transferred approximately 2.01% of BCP ordinary shares to the Pension Fund, with a value of 153 million euros, generating a gain of approximately 12.7 million euros, 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 analysed 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	-	-
	<u>892.653</u>	<u>852.181</u>	<u>369.722</u>	<u>286.409</u>	<u>522.931</u>	<u>565.772</u>

EDP, S.A., on a company basis, 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 analysed 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
Provisions	6.317	6.171	-	-	6.317	6.171
Amortisations	7.756	5.509	-	-	7.756	5.509
Pension plans	-	12.334	-	-	-	12.334
Derivative financial instruments	107.836	53.815	61.621	61.215	46.215	-7.400
Available for sale investments	21.369	35.120	17.833	2.922	3.536	32.198
Other	4.858	6.773	15.365	181	-10.507	6.592
	<u>148.136</u>	<u>119.722</u>	<u>94.819</u>	<u>64.318</u>	<u>53.317</u>	<u>55.404</u>

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

	Deferred taxes Group		Deferred taxes Company	
	Dec 2005 Euro '000	Dec 2004 Euro '000	Dec 2005 Euro '000	Dec 2004 Euro '000
<b>Balance at the beginning of the year</b>	565.772	365.167	55.404	-14.687
Charges through the profit and loss account	-41.128	243.289	-13.501	70.091
Charges against reserves:				
Changes in fair value of financial instruments	14.577	-6.980	10.609	-
Actuarial gains or losses	7.486	-	-	-
Other	-	177	-	-
Foreign exchange differences, perimeter variations and transfers	-23.776	-35.881	805	-
<b>Balance at the end of the year</b>	<u>522.931</u>	<u>565.772</u>	<u>53.317</u>	<u>55.404</u>

Taxes recorded against reserves are analysed as follows:

#### Current tax

Fair value of derivative financial instruments  
Gains from the sale of treasury stock

#### Deferred tax

Fair value of derivative financial instruments  
Gains from the sale of assets  
Other

Group		Company	
Dec 2005 Euro'000	Dec 2004 Euro'000	Dec 2005 Euro'000	Dec 2004 Euro'000
3.931	-	3.931	-
-693	-	-693	-
3.238	-	3.238	-
10.606	-	10.609	-
4.058	-	-	-
8.179	-600	-	-
22.843	-600	10.609	-
26.081	-600	13.847	-

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

Expiration date:

2006  
2007  
2008  
2009  
2010  
2011  
2018  
2019  
2020  
Without expiration date but with a limit of 30% of the taxable income of each year

Group	
Dec 2005 Euro'000	Dec 2004 Euro'000
70.346	70.346
130.188	130.339
289.551	289.596
76.303	76.848
64.606	64.987
164.656	-
309	309
440	440
10.471	-
948.089	1.024.191
1.754.959	1.657.056

## 21. Inventories

This balance is analysed as follows:

Merchandise  
Purchases and advances on account of purchases  
Finished and intermediate products  
Products and work in progress  
Sub-products, waste, residues and scrap  
Raw and subsidiary materials and consumables:  
Coal  
Fuel  
Other consumables

Group		Company	
Dec 2005 Euro'000	Dec 2004 Euro'000	Dec 2005 Euro'000	Dec 2004 Euro'000
12.235	1.972	-	-
104	312	-	-
16.719	-	-	-
224	2.330	-	-
5.049	3.994	-	-
52.951	28.567	-	-
66.664	24.060	-	-
65.248	95.571	-	-
219.194	156.806	-	-

## 22. Trade receivables

The **Trade receivables** balance, by sector of activity, is analysed as follows:

#### Short term trade receivables - Current:

Resident customers:

State and official entities  
Local government  
Corporate sector and individuals  
Trade accounts - Bills receivable

Non-resident customers:

Corporate sector and individuals

Doubtful debts

Impairment losses on doubtful debts

Group		Company	
Dec 2005 Euro'000	Dec 2004 Euro'000	Dec 2005 Euro'000	Dec 2004 Euro'000
23.620	39.891	-	-
23.664	29.260	-	-
806.337	820.219	70.534	4.262
796	-	-	-
854.417	889.370	70.534	4.262
618.938	272.764	-	-
1.473.355	1.162.134	70.534	4.262
197.488	188.261	10.952	12.043
-207.338	-188.551	-10.822	-11.144
1.463.505	1.161.844	70.664	5.161

**Medium and long-term trade receivables - Non Current:**

Resident customers:

Local government - Debt at 31 December, 1988 (i)

Corporate sector and individuals

Impairment losses on Local government

Group		Company	
Dec 2005 Euro'000	Dec 2004 Euro'000	Dec 2005 Euro'000	Dec 2004 Euro'000
164.127	178.127	-	-
21.595	5.241	-	-
185.722	183.368	-	-
-63.730	-88.228	-	-
121.992	95.140	-	-
1.585.497	1.256.984	70.664	5.161

(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 analysed as follows:

	Balance 1 January Euro'000	Perimeter Variations/ Regularisations Euro'000	Impairment Losses Euro'000	Reversal of Impairment Losses Euro'000	Utilisations 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 31 December, 1988 (i)	88.228	-	697	-	-	-25.195	63.730
	276.779	-3.495	24.927	-35.661	1.817	6.701	271.068

The movements in **Impairment losses**, for the **Company**, are analysed as follows:

	Balance 1 January Euro'000	Impairment Losses Euro'000	Reversal of Impairment Losses Euro'000	Transfers Euro'000	Balance 31 December Euro'000
Corporate sector and individuals	11.144	223	-545	-	10.822
	11.144	223	-545	-	10.822

### 23. Other current assets

The balance **Other current assets** is analysed as follows:

	Group		Company	
	Dec 2005	Dec 2004	Dec 2005	Dec 2004
	Euro'000	Euro'000	Euro'000	Euro'000
<b>Short term debtors - Current</b>				
Loans to subsidiaries	-	-	91.299	97.959
Dividends	-	-	495.000	-
Other related companies	6.090	15.516	1.620	1.560
Advances to suppliers	663	2.149	-	-
Other debtors:				
- Current account with the Pension Fund	1.656	12.120	1.656	12.120
- Amounts owed to staff	2.263	2.195	12	6
- 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	6.748	5.832
- Debtors in respect of other goods and services	63.271	55.326	50.030	19.548
- 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	-	6.233	-
- Amounts receivable from EDP Brasil shares sale	16.626	-	16.626	-
- Amounts receivable from Fafen sale	-	19.919	-	-
- Derivative financial instruments	226.819	363.709	218.728	334.490
- Other debtors - Subsidiaries	-	-	347.539	232.606
- Advances to pensioners, on account of the Social Security	5.376	6.242	37	-
- Advances to pensioners, on account of the Pension Fund	11.017	9	-	-
- Amounts receivable related to power management activity	14.792	84	14.792	-
- 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	314	3
- Insurances	3.961	3.467	3.631	3.305
- Deferred costs	117.433	28.658	6.507	860
- Financial assets advanced payments	35.796	16.961	-	-
- CO2 licences - SENV	98.073	-	-	-
- Sundry debtors	148.211	149.000	96.601	133.891
	<u>1.516.246</u>	<u>851.841</u>	<u>1.357.373</u>	<u>842.180</u>
Impairment losses on short-term debtors - Current	<u>-80.461</u>	<u>-12.947</u>	<u>-1.213</u>	<u>-</u>
	<u>1.435.785</u>	<u>838.894</u>	<u>1.356.160</u>	<u>842.180</u>
<b>Medium and long-term debtors - Non Current:</b>				
Other related companies	38.355	37.446	11.351	27.930
Loans to subsidiaries	-	-	3.481.868	3.804.819
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	-	-
- Compensations receivable from CNE	213.000	-	-	-
- Guarantees and tied deposits	67.858	60.298	977	2
- Sundry debtors	30.716	20.526	-	1
	<u>377.151</u>	<u>175.514</u>	<u>3.494.196</u>	<u>3.832.752</u>
Impairment losses on medium/long-term debtors - Non Current	<u>-2.550</u>	<u>-21.821</u>	<u>-</u>	<u>-</u>
	<u>374.601</u>	<u>153.693</u>	<u>3.494.196</u>	<u>3.832.752</u>
	<u>1.810.386</u>	<u>992.587</u>	<u>4.850.356</u>	<u>4.674.932</u>

(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 31 December, 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 depending on the celebration of the concession agreements or debt regularisation protocols to be contracted by EDP and the Municipalities.

The balance Sundry debtors includes, as at 31 December, 2005, the amount of 576.4 million euros related to the remaining 80% of the selling price of GALP Energia, S.G.P.S., which was received on the 27th of January, 2006. See notes 12 and 19.



Medium and long term caption includes an Hidrocarb rico balance, which is receivable (tariff deficit) from the spanish regulatory entities (CNE), in the amount of 213 million euros. During December, a Royal Decree was issued which governs the conditions of recovering this deficit through an increase in tariffs in future years.

The balance **Impairment losses on short-term debtors - Current**, for the **Group**, is analysed as follows:

	Balance 1 January Euro'000	Perimeter Variations/ Regularisations 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 short-term debtors - Current**, for the **Company**, is analysed as follows:

	Balance 1 January 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	-	1.213	-	-	-	1.213
	-	1.213	-	-	-	1.213

The balance **Impairment losses on medium and long-term debtors - Non Current**, for the **Group**, is analysed as follows:

	Balance 1 January Euro'000	Perimeter Variations/ Regularisations 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 analysed as follows:

	Group		Company	
	Dec 2005 Euro'000	Dec 2004 Euro'000	Dec 2005 Euro'000	Dec 2004 Euro'000
State and other public entities:				
- Income tax	25.139	2.036	103.633	160.624
- Value added tax	255.810	164.893	36.958	19.976
- Other taxes	65.226	15.925	-	-
	346.175	182.854	140.591	180.600

## 25. Financial assets held for trading

The balance financial assets held for trading is analysed as follows:

	Group		Company	
	Dec 2005 Euro'000	Dec 2004 Euro'000	Dec 2005 Euro'000	Dec 2004 Euro'000
Debt securities:				
- Bonds	10.040	-	-	-
- Other debt securities	53.459	56.249	-	-
	63.499	56.249	-	-
Equity securities:				
- Shares	211.698	-	204.955	-
- Other equity securities	421	-	421	-
	212.119	-	205.376	-
	275.618	56.249	205.376	-

## 26. Cash and cash equivalents

The balance **Cash and cash equivalents** is analysed as follows:

	Group		Company	
	Dec 2005 Euro'000	Dec 2004 Euro'000	Dec 2005 Euro'000	Dec 2004 Euro'000
Cash:				
- Cash in hand	33	57	-	-
Bank deposits:				
- Current deposits	270.301	183.855	62.220	94
- Term deposits	58.114	8.744	2.320	2.320
- Other deposits	84	-	-	-
	328.499	192.599	64.540	2.414
Other short term investments:				
- Domestic banks	123.500	8.701	118.499	8.700
- Foreign banks	133.467	29.343	295	6.588
	256.967	38.044	118.794	15.288
	585.499	230.700	183.334	17.702
Cash equivalents				
- Bank overdrafts (see note 32)	-318.141	-533.728	-	-
<b>Cash and cash equivalents in the Cash Flow Statement</b>	<b>267.358</b>	<b>-303.028</b>	<b>183.334</b>	<b>17.702</b>

## 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 privatisation process began in 1997, and the second and third stages of the privatisation 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 3,656,537,715 euros 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 analysed as follows:

	Group and Company	
	Share Capital Euro'000	Share Premium Euro'000
Balance as at 31 December, 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 31 December, 2004	3.656.538	472.955
Reversal of estimated tax expense from share capital increase	-	29.037
Balance as at 31 December, 2005	3.656.538	501.992

In accordance with the General Meeting of 7 October, 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 2 December, 2004.

This increase in share capital took place in order to finance the acquisition of an additional 56.2% stake in Hidrocarbúrico 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		Company	
	Dec 2005	Dec 2004	Dec 2005	Dec 2004
Profit attributable to the equity holders of the parent	1.071.102.496	42.815.266	509.834.599	157.672.876
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	3.639.274.980	3.040.423.819
Earnings per share attributable to equity holders of the parent	0,29	0,01	0,14	0,05
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 31 December, 2005.

The weighted average number of ordinary shares outstanding during the year is analysed as follows:

	Group and Company	
	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
<b>Realised shares</b>	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 analysed as follows:

	Group and Company	
	Dec 2005 Euro'000	Dec 2004 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.

## 29. Reserves

This balance is analysed as follows:

	Group		Company	
	Dec 2005 Euro'000	Dec 2004 Euro'000	Dec 2005 Euro'000	Dec 2004 Euro'000
Legal reserve	367.454	345.446	367.454	345.446
Fair value reserve (cash flow hedge)	-16.709	-643	-16.709	-643
Fair value reserve (available for sale investments)	-49.735	19.515	-13.197	63.303
Currency translation reserve	113.963	936	-	-
Other consolidation reserves	-2.203.920	-2.049.266	-	-
Other reserves	123.214	71.164	123.214	71.164
	-1.665.733	-1.612.848	460.762	479.270

#### 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 analysed 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 derecognised. The amount of potential gains or losses of available for sale investments, as at 31 December, 2005, is recorded under Fair value reserve (available for sale investments). This balance, for the Group, is analysed as follows:

		Group	
		Increases Euro'000	Decreases Euro'000
<b>Balance as at 1 January, 2004</b>		47.948	-37.191
Changes in fair value		44.438	-35.680
<b>Balance as at 31 December, 2004</b>		92.386	-72.871
Changes in fair value		59.088	-86.893
Transfers to profit or loss		-	-41.445
<b>Balance as at 31 December, 2005</b>		151.474	-201.209
<b>Net potential gains / (losses) as at 31 December, 2005</b>			-49.735

In 2005, the fair value reserve increases include 12.7 million euros related to the sale of BCP shares. This gain was transferred into the income statement.

As at 31 December, 2005, proposed dividends before the approval of the accounts, which are not yet recorded as a distribution to shareholders, amounted to 365.7 million euros, 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	
		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 analysed as follows:

		Group	
		Dec 2005 Euro'000	Dec 2004 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

The balance **Minority interests**, by company, is analysed as follows:

		Group	
		Dec 2005 Euro'000	Dec 2004 Euro'000
Edinfor Group		-	6.989
Brazil Group		702.296	200.211
Hidroantábrico 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 40,859 thousand euros (2004: 3,276 thousand euros).

The increase in minority interest from the Brazil Group resulted from the merger of the total share capital of Bandeirante, Escelsa and Enersul into EDP - Energias do Brasil, S.A., with the consequent roll-up of the respective minority interest, who now participate in 37.63% of EDP - Energias do Brasil, S.A share capital.

During this reorganisation, there was a capital increase in EDP - Energias do Brasil, S.A., subscribed by the referred minority interests in the amount of 1,170,661 thousand brazilian real (approximately 427 million euros).

Minority interests of EDP - Energias do Brasil, S.A. include the effect of the capital increase in EDP Lajeado Energia, fully subscribed by Electrobás through the delivery of Investco's PN-R shares. This capital increase amounted to 295.1 million brazilian real (approximately 108 million euros).

### 31. Hydrological correction account

The movements in this balance are analysed as follows:

	Group and Company	
	Dec 2005 Euro'000	Dec 2004 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

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.

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.

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.

## 32. Debt and borrowings

This balance is analysed as follows:

### Short term debt and borrowings - Current

Overdrafts:

- ONI Group
- Other

Bank loans:

- EDP, S.A.
- ONI Group
- EDP Produção Group
- Brazil Group
- Hidrocanfábrico Group
- Other

Bonds loans - Non convertible:

- EDP, S.A.
- EDP Finance B.V.
- Brazil Group

Commercial paper:

- EDP, S.A.
- Hidrocanfábrico Group

Other short term debt and borrowings:

- Other

Interest payable

Group		Company	
Dec 2005	Dec 2004	Dec 2005	Dec 2004
Euro'000	Euro'000	Euro'000	Euro'000
315.712	533.720	-	-
2.429	8	-	-
318.141	533.728	-	-
141.098	336.628	141.098	336.628
-	88.818	-	-
4.718	-	-	-
332.736	211.624	-	-
111.646	54.574	-	-
10.754	26.555	-	-
600.952	718.199	141.098	336.628
106.542	9.951	106.542	9.951
27.882	-	-	-
3.332	2.738	-	-
137.756	12.689	106.542	9.951
636.000	470.000	3.081.400	1.905.407
123.030	105.460	-	-
759.030	575.460	3.081.400	1.905.407
3.173	3.486	-	-
3.173	3.486	-	-
164.527	117.218	57.398	67.384
1.983.579	1.960.780	3.386.438	2.319.370

### Medium/Long term debt and borrowings - Non Current

Bank loans:

- EDP, S.A.
- EDP Produção Group
- Brazil Group
- Hidrocanfábrico Group
- EDP Finance B.V.
- Other

Bonds loans - Non convertible:

- EDP, S.A.
- EDP Finance B.V.
- Brazil Group

Commercial paper:

- EDP, S.A.

Other medium/long term debt and borrowings:

- Investco preference shares
- Other

Other liabilities:

- Recognition of liabilities on the sale of OPTEP (Optimus) in 2002
- Fair value related with the hedging of issued debt risk

530.338	571.436	530.338	571.436
23.588	-	-	-
580.882	419.196	-	-
482.982	1.487.195	-	-
2.605.000	635.000	-	-
57.439	2.559	-	-
4.280.229	3.115.386	530.338	571.436
2.107.003	2.466.299	2.107.003	2.466.299
1.590.836	963.694	-	-
87.751	75.435	-	-
3.785.590	3.505.428	2.107.003	2.466.299
100.000	100.000	100.000	100.000
100.000	100.000	100.000	100.000
-	22.439	-	-
25.930	15.295	-	-
25.930	37.734	-	-
8.191.749	6.758.548	2.737.341	3.137.735
315.000	315.000	315.000	315.000
93.972	107.557	119.558	146.520
408.972	422.557	434.558	461.520
8.600.721	7.181.105	3.171.899	3.599.255
10.584.300	9.141.885	6.558.337	5.918.625

As referred in note 16 (Concession rights in Brazil), and following the acquisition of Investco's PN-R shares (27.65%) by EDP Lageado Energia from Eletrobrás at the end of December 2005, they have become 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 315 million Euros 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 recognition 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 recognised 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 197 million euros, indexed to the Euribor rate for the agreed period of use, with margin conditions agreed in advance, of which 177 million euros have a firm underwriting commitment. There is also a 350 million euros commercial paper programme with guaranteed placement. As far as medium-term credit facilities are concerned, 1,300 million euros is available to EDP, SA, with a firm underwriting commitment, also indexed to Euribor under previously agreed conditions. As at 31 December, 2005, these credit facilities have not been used.

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 **Bonds loans** issues as at 31 December, 2005 is analysed as follows:

Issuer		Issue date	Interest rate	Hedge Accounting	Repayment conditions	Group Euro'000	Company Euro'000
<b>Issued by EDP, S.A.</b>							
EDP, S.A.	22nd Issue	30-Mai-1996	Euribor 6 months - 0.10%		(i)	6.582	6.582
EDP, S.A.	23rd Issue	20-Dez-1996	Euribor 6 months - 0.125%		(ii)	10.332	10.332
EDP, S.A.	25th Issue	23-Nov-1998	Euribor 6 months + 0.225%		(iii)	299.279	299.279
EDP, S.A.	26th Issue	26-Mar-2003	Euribor 6 months + 0.5%		26-Mar-2013	150.000	150.000
						<u>466.193</u>	<u>466.193</u>
<b>Issued by EDP under "Euro Medium Term Notes" Programme</b>							
EDP, S.A.	1st Issue	29-Out-1999	Fixed rate EUR 6.40%	Fair Value	29-Out-2009	1.000.000	1.000.000
EDP, S.A.	2nd Issue	28-Mar-2001	Fixed rate EUR 5.875%	Fair Value	28-Mar-2011	747.352	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-Ago-2002	Fixed rate GBP 6.625%	Fair Value	09-Ago-2017	320.000	-
EDP Finance B.V.	7th Issue	16-Dez-2002	Fixed rate EUR 5.00%		20-Mar-2008	355.024	-
EDP Finance B.V.	8th Issue	23-Dez-2002	Fixed rate EUR 2.661%		23-Dez-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	-
						<u>3.366.070</u>	<u>1.747.352</u>
<b>Issued by Escelsa (Brazil) in the International Market</b>							
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	-
<b>Issued by Investco (Brazil) in the Domestic Market</b>							
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	-
						<u>3.923.346</u>	<u>2.213.545</u>

(i) 4 annual payments beginning on 2 June, 2003. It may be repaid early at the request of bondholders.

(ii) 4 annual payments beginning on 20 December, 2008. As from 20 December, 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 23 May, 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 252.6 and 145 million euros, respectively. According to this swap, EDP Finance BV has issued new bonds in the amount of 500 million euros (9th International Issue) with maturity in 2015, corresponding to an increase of 102.4 million euros in consolidated net debt.

The breakdown of **Loans**, by maturity, is as follows:

	<b>Group</b>		<b>Company</b>	
	<b>Dec 2005</b> <b>Euro'000</b>	<b>Dec 2004</b> <b>Euro'000</b>	<b>Dec 2005</b> <b>Euro'000</b>	<b>Dec 2004</b> <b>Euro'000</b>
<b>Bank loans and overdrafts:</b>				
Up to 1 year	1.086.793	1.272.631	141.098	304.012
1 to 5 years	3.857.469	3.122.157	798.270	1.069.077
Over 5 years	857.662	553.520	224.024	63.879
	<u>5.801.924</u>	<u>4.948.308</u>	<u>1.163.392</u>	<u>1.436.968</u>
<b>Bond loans:</b>				
Up to 1 year	137.756	12.689	106.542	9.951
1 to 5 years	1.668.800	1.916.851	1.207.268	1.466.299
Over 5 years	2.116.790	1.588.577	899.735	1.000.000
	<u>3.923.346</u>	<u>3.518.117</u>	<u>2.213.545</u>	<u>2.476.250</u>
<b>Commercial paper:</b>				
Up to 1 year	759.030	575.460	3.081.400	1.905.407
1 to 5 years	100.000	100.000	100.000	100.000
	<u>859.030</u>	<u>675.460</u>	<u>3.181.400</u>	<u>2.005.407</u>
	<u>10.584.300</u>	<u>9.141.885</u>	<u>6.558.337</u>	<u>5.918.625</u>

The fair value of **EDP Group's debt**, corresponding to the market value of the debt, is analysed as follows:

	<b>Dec 2005</b>		<b>Dec 2004</b>	
	<b>Carrying Value</b> <b>Euro'000</b>	<b>Market Value</b> <b>Euro'000</b>	<b>Carrying Value</b> <b>Euro'000</b>	<b>Market Value</b> <b>Euro'000</b>
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
	<u>10.584.300</u>	<u>10.918.927</u>	<u>9.141.885</u>	<u>9.453.350</u>

According to the accounting policy described in note 2 e), the financial liabilities hedged by financial instruments, are stated at their fair value in accordance with the requirements of IAS 39 concerning the adoption of hedge accounting. However, the remaining financial liabilities are stated at their amortised 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 31 December 2005, the scheduled repayments of Group's debt are as follows:

	<b>Total</b> <b>Euro'000</b>	<b>2006</b> <b>Euro'000</b>	<b>2007</b> <b>Euro'000</b>	<b>2008</b> <b>Euro'000</b>	<b>2009</b> <b>Euro'000</b>	<b>2010</b> <b>Euro'000</b>	<b>Following Years</b> <b>Euro'000</b>
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	-	-	-	-	-
<b>Total</b>	<u>10.584.300</u>	<u>1.983.579</u>	<u>2.979.825</u>	<u>986.402</u>	<u>1.230.493</u>	<u>558.433</u>	<u>2.845.568</u>

The analysis of guarantees is included in note 39.

### 33. Employee benefits

As at 31 December, 2005 and 2004, the number of employees covered by the pension plan is as follows:

	<b>Portugal</b>	
	<b>2005</b>	<b>2004</b>
Number of participants		
Retired employees and pensioners	18.185	18.283
Employees	8.118	8.373
	<u>26.303</u>	<u>26.656</u>



The **Employee benefits** balance is analysed as follows:

	Group		Company	
	Dec 2005 Euro'000	Dec 2004 Euro'000	Dec 2005 Euro'000	Dec 2004 Euro'000
Provisions for social liabilities and benefits	1.099.604	1.259.655	10.693	10.659
Provisions for healthcare liabilities	743.642	725.575	6.394	6.261
	<u>1.843.246</u>	<u>1.985.230</u>	<u>17.087</u>	<u>16.920</u>

As at 31 December, 2005 and 2004, the balance Provision for social liabilities and benefits includes the amount of 50.8 million euros (2004: 50.8 million euros) and 24.3 million euros (2004: 14.5 million euros), resulting from pension benefits of Hidrocontábrico Group employees reflecting the increase in their salaries and estimated costs with external Human resources services resulting from the Rationalisation program, respectively.

The movement in **Provisions for social liabilities and benefits** is analysed as follows:

	Group		Company	
	Dec 2005 Euro'000	Dec 2004 Euro'000	Dec 2005 Euro'000	Dec 2004 Euro'000
Balance at the beginning of the year	1.259.655	660.789	10.659	86.686
Changes in the consolidation perimeter	-	50.842	-	-
Charge for the year	68.618	24.553	509	26
Pre-retirement	34.855	286.396	-	-
Actuarial losses	58.224	390.115	-	1.877
Charge-off	-327.049	-152.989	-475	-70.227
Transfers	5.301	-51	-	-7.703
Balance at the end of the year	<u>1.099.604</u>	<u>1.259.655</u>	<u>10.693</u>	<u>10.659</u>

Actuarial losses, in the amount of 58 million euros (2004: 390 million euros), 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		Company	
	Dec 2005 Euro'000	Dec 2004 Euro'000	Dec 2005 Euro'000	Dec 2004 Euro'000
Balance at the beginning of the year	725.575	680.520	6.261	6.226
Changes in the consolidation perimeter	-	-2.789	-	-
Charge for the year	45.350	42.990	139	634
Actuarial (Gains) / Losses	-23.184	19.274	-	-
Write-backs	-	-	-6	-8
Charge-off	-22.349	-14.168	-	-591
Transfers	18.250	-252	-	-
Balance at the end of the year	<u>743.642</u>	<u>725.575</u>	<u>6.394</u>	<u>6.261</u>

Actuarial (gains) / losses, include a gain of 23 million euros (2004: a loss of 19 million euros), 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:

- BD Plan in force up to 31 March, 1998, a Balance Benefit Plan that grants Balanced Proportional Supplementary Benefit (BSPS) in the form of an annuity payable to participants enrolled until 31 March, 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 31 March, 1998, which grants an annuity in proportion to the accumulated past services after 31 March, 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 31 March, 1998), and not only the past service accumulated after 31 March, 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 31 December, 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
<b>Evolution of Liabilities</b>						
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
<b>Liabilities at the end of the year</b>	<b>2.053.310</b>	<b>178.288</b>	<b>2.231.598</b>	<b>2.015.930</b>	<b>107.403</b>	<b>2.123.333</b>

As at 31 December, 2004, the balance Other fluctuations includes the 2004 initial balance of the actuarial liabilities recognised in 2004 on the Defined-Benefit Plan of Escelsa and Enersul, of 16.8 and 13.4 million euros, respectively.

In calculating the liabilities inherent in these pension plans within the EDP Group the following financial and actuarial assumptions were used:

	Dec 2005			
	Portugal	Brazil		
		Bandeirante	Escelsa	Enersul
<b>Assumptions</b>				
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			
	Portugal	Brazil		
		Bandeirante	Escelsa	Enersul
<b>Assumptions</b>				
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 80 million euros.

Net actuarial losses in 2005, for the pension plan in Portugal, of 13 million euros, 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 39 million euros, 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 26 million euros, resulting from the difference between the expected return on plan assets and the rate of return actually obtained.

As at 31 December 2005 and 2004, according to the accounting policy described in note 2 n), the amounts recognised in the balance sheet are analysed as follows:

	Dec 2005			Dec 2004		
	Portugal Euro'000	Brazil Euro'000	Group Euro'000	Portugal Euro'000	Brazil Euro'000	Group Euro'000
<b>Provision for Pension Plans</b>						
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 recognised during the year 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
<b>Cost for the year</b>						
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
<b>Net cost for the year</b>	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 analysed as follows:

	Dec 2005			Dec 2004		
	Portugal Euro'000	Brazil Euro'000	Group Euro'000	Portugal Euro'000	Brazil Euro'000	Group Euro'000
<b>Pension Funds</b>						
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
<b>Fair value of plan assets at the end of the year</b>	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 31 December, 2005 and 2004 the composition and returns of the fund portfolio are as follows:

	Asset allocation by nature					
	Cash Euro'000	Bonds Euro'000	Shares Euro'000	Properties Euro'000	Other Euro'000	Total Euro'000
31 December, 2005	24.142	591.489	350.065	229.353	12.072	1.207.121
31 December, 2004	41.805	431.989	236.897	218.317	-	929.008

	Asset allocation by nature					
	Cash %	Bonds %	Shares %	Properties %	Other %	Total %
31 December, 2005	2,00%	49,00%	29,00%	19,00%	1,00%	100,00%
31 December, 2004	4,50%	46,50%	25,50%	23,50%	0%	100,00%

As at 31 December, 2005, the amount of expected future benefits to be paid is analysed as follows:

Expected future benefits to be paid				
	Pensions Euro'000	Medical Plan Euro'000	Other Euro'000	Total 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 analysed as follows:

	Dec 2005 Euro'000	Dec 2004 Euro'000
Shares	153.154	-
Cash	48.733	62.012
	<u>201.887</u>	<u>62.012</u>

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 50 million euros (2004: 56 million euros). In 2006, the Group estimates contributions to be paid to the pension Fund of 72 million euros.

## II. Pension Plans – Defined Contribution Type

Hidroantábrico 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 analysed as follows:

	Dec 2005			Dec 2004		
	Portugal Euro'000	Brazil Euro'000	Group Euro'000	Portugal Euro'000	Brazil Euro'000	Group Euro'000
<b>Evolution of Liabilities</b>						
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	<u>727.105</u>	<u>16.537</u>	<u>743.642</u>	<u>721.765</u>	<u>3.810</u>	<u>725.575</u>

Actuarial gains / (losses) include a gain of 23 million euros (2004: 29 million euros), which was charged against reserves, according to the accounting policy presented in note 2 n).

### Assumptions

Discount rate	4,60%
Annual increase rate of medical services costs	4,5% (a)
Mortality table	TV 88/90
Disability table	50% EKV 80
Expected % of adherence by employees eligible for early retirement	b)

Dec 2005		Dec 2004	
Portugal	Brazil	Portugal	Brazil
4,60%	10,75%	5,00%	10,76%
4,5% (a)	8,16%	4,5% (a)	8,16%
TV 88/90	GAM-83	TV 88/90	GAM-83
50% EKV 80	Light-Average	50% EKV 80	Light-Average
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 recognised 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
<b>Provision for Medical Care Plans</b>						
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 recognised during the year with this plan 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
<b>Cost for the year</b>						
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 43 million euros.

### 34. Provisions for liabilities and charges

This balance is analysed as follows:

	Group		Company	
	Dec 2005 Euro'000	Dec 2004 Euro'000	Dec 2005 Euro'000	Dec 2004 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	14.754	39.386
	269.249	293.232	14.754	39.386

The movement in **Provision for legal, labour and other contingencies** is analysed as follows:

	Group		Company	
	Dec 2005 Euro'000	Dec 2004 Euro'000	Dec 2005 Euro'000	Dec 2004 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	-	-

The movement in **Provision for customers guarantees** is analysed as follows:

	Group		Company	
	Dec 2005 Euro'000	Dec 2004 Euro'000	Dec 2005 Euro'000	Dec 2004 Euro'000
Balance at the beginning of the year	35.059	-	-	-
Changes in the consolidation perimeter	-13.246	-	-	-
Charge for the year	95.638	-	-	-
Charge-off for the year	-74.402	-	-	-
Transfers and exchange differences	-16.228	35.059	-	-
Balance at the end of the year	26.821	35.059	-	-

The movement in **Provision for other liabilities and charges** is analysed as follows:

	Group		Company	
	Dec 2005 Euro'000	Dec 2004 Euro'000	Dec 2005 Euro'000	Dec 2004 Euro'000
Balance at the beginning of the year	126.153	198.215	39.386	285.646
Changes in the consolidation perimeter	41.621	21.312	604	-
Charge for the year	225.639	91.532	4.454	10.300
Write-back for the year	-135.608	-7.762	-604	-
Charge-off for the year	-168.494	-79.383	-	-285.646
Transfers and exchange differences	65.113	-97.761	-29.086	29.086
Balance at the end of the year	154.424	126.153	14.754	39.386

### 35. Trade and other payables

This balance is analysed as follows:

	Group		Company	
	Dec 2005 Euro'000	Dec 2004 Euro'000	Dec 2005 Euro'000	Dec 2004 Euro'000
<b>Short term trade payables - Current</b>				
Suppliers	951.464	819.081	65.503	21.861
Property and equipment suppliers	306.302	217.617	3.768	3.328
Other shareholders of Group companies	20.757	33.767	-	-
Advances from customers	11.851	5.908	54	60
Trade payables - subsidiary companies	-	-	6.926	-
Other trade payables:				
- Employees	12.976	12.575	-	-
- Supply of other goods and services	2.489	1.912	10.987	5.864
- 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	-	84.997
Credits to related companies	33.974	-	100.781	159.770
Holiday pay, bonus and other charges	53.200	57.867	681	554
Derivative financial instruments	221.926	262.993	148.817	141.195
Subsidies for investment in fixed assets	1.760.513	1.587.908	2.082	5.059
Accrued costs related to trading activity	51.117	16.357	47.222	-
Deferred income EDP Distribuição	177.530	149.681	-	-
Other deferred income	274.054	122.276	28.693	144
Other creditors and sundry operations	392.754	157.181	-5.461	14.164
	4.371.843	3.570.148	410.053	436.996
<b>Medium/long-term trade payables - Non current:</b>				
Regularisation account - (Reg. DL 344-B/82)	3.589	6.475	-	-
Deposits received from customers and other debtors	43.929	47.284	4	-
Credits to related companies	31.913	7.880	-	-
Property and equipment suppliers	44.270	50.764	1.511	1.084
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	1	-
	137.745	198.974	1.516	1.084

### 36. Income tax payable

This balance is analysed as follows:

	Group		Company	
	Dec 2005 Euro'000	Dec 2004 Euro'000	Dec 2005 Euro'000	Dec 2004 Euro'000
State and other public entities:				
- Income tax	25.608	84.830	5.622	5.652
- Withholding tax	7.476	8.052	132	213
- Social security contributions	8.421	11.620	18	19
- Value added tax	10.744	13.272	-	-
- Other taxes	123.491	92.605	-	4.082
	<u>175.740</u>	<u>210.379</u>	<u>5.772</u>	<u>9.966</u>

The balance Other taxes, for the Group, as at 31 December 2005, includes foreign taxes, namely from Brazil - EDP Brasil Group: 93,701 thousand euros (2004: 43,487 thousand euros) and Spain - Hidrocarbónico Group: 26,098 thousand euros.

### 37. Assets and liabilities classified as held for sale and discontinued operations

Assets and liabilities are classified as held for sale and are disclosed in accordance with the accounting policy 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 1 January, 2004, the assets and liabilities of Edinfor, recognised by full consolidated method until 31 December, 2004, are stated in specific lines of assets and liabilities in the consolidated balance sheet.

The transaction value of 81 million euros was based on the enterprise value of 135 million euros, including the shares and the loans amounts due to shareholders. This transaction generated a gain, on a consolidated basis, of approximately 15 million euros.

As at 31 December 2004, Edinfor assets and liabilities included in the EDP Group consolidated financial statements, amounted to 165 million euros and 69 million euros, respectively.

##### 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, specialised in providing voice and data communication services to small and medium size corporate clients.

This transaction is based on an enterprise value of 257 million euros and a net financial debt of 42 million euros. The receivable amount of 215 million euros includes shareholders' loans of 100 million euros. This transaction generated a gain, on a consolidated basis, of 31 million euros.

	Dec 2004 Euro'000 Edinfor
<b>Assets classified as held for sale</b>	
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	<u>108.072</u>
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	<u>57.265</u>
	<u>165.337</u>

**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
<b>Total Non-Current Liabilities</b>	<b>26.049</b>
Short term debt and borrowings	14.324
Trade and other payables	18.327
Income tax payable	10.027
<b>Total Current Liabilities</b>	<b>42.678</b>
	<b>68.727</b>

**38. Derivative financial instruments**

In accordance with IAS 39, the Group classifies the derivatives as fair value hedge of an asset or liability recognised 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 analysed as follows:

Hedge Type	Hedging Instrument	Hedging Risk	Dec 2005		Dec 2004	
			Fair Value Changes		Fair Value Changes	
			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	-
			<b>-31.220</b>	<b>30.903</b>	<b>57.918</b>	<b>-58.561</b>

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	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
<b>Balance at the end of the year</b>	<b>-16.709</b>	<b>-643</b>

The balance Fair value reserve (cash flow hedge) includes, in fair value changes, an amount of 16,615 thousand euros related to the hedge of forecast cash flows. This amount is amortised 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 analysed as follows:

	Group		Company	
	Dec 2005 Euro'000	Dec 2004 Euro'000	Dec 2005 Euro'000	Dec 2004 Euro'000
Derivatives held for trading	-153.493	-42.788	-108.201	-29.778
Fair value hedge				
- Derivatives	-30.903	58.561	-53.634	50.734
- Hedged liabilities	30.903	-58.561	53.634	-50.734
Cash flow hedge				
- Derivatives	-866	2.074	-866	1.684
	<b>-154.359</b>	<b>-40.714</b>	<b>-109.067</b>	<b>-28.094</b>



The maturity of derivatives associated to financing operations is analysed 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
<b>Interest rate contracts:</b>				
Interest rate swaps	-	400.000	1.859.344	807.640
Options purchased and sold	-	235.000	1.007.832	37.194
	-	635.000	2.867.176	844.834
<b>Interest rate and exchange rate contracts:</b>				
CIRS (currency interest rate swaps)	-	35.410	60.634	336.922
	-	670.410	2.927.810	1.181.756
				4.347.010
				4.779.976

The effective interest rates on the derivatives portfolio associated to financing operations are analysed as follows:

Group Dec 2005		
Currency	EDP Pays	EDP Receives
<b>Interest rate contracts:</b>		
Interest rate swaps	EUR [ 5,15% - 2,26% ]	[ 6,40% - 2,10% ]
<b>Interest rate and exchange rate contracts:</b>		
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% ]
<b>Nominal value</b>	<b>Group Dec 2005</b>	<b>Company Dec 2005</b>
<b>Interest rate contracts:</b>		
Options purchased on interest rates (CAP purchases)	1.280.026 [ 5,25% - 3,50% ]	[ 4,82% - 4,33% ]
Options sold on interest rates (CAP sale)	750.000 [ 5,30% - 4,75% ]	[ 5,30% - 4,75% ]
Options sold on interest rates (Floor sale)	1.280.026 [ 3,60% - 1,99% ]	[ 3,50% - 3,00% ]

### 39. Commitments

As at 31 December, 2005, the financial commitments in respect of guarantees provided are analysed as follows:

Commitments	Group		Company	
	Dec 2005 Euro'000	Dec 2004 Euro'000	Dec 2005 Euro'000	Dec 2004 Euro'000
<b>Guarantees of a financial nature</b>				
Guarantees provided by Group entities - Portugal				
To domestic banks	61.782	67.527	61.782	67.527
To foreign banks	194.146	187.664	194.146	157.690
To other foreign entities	70.945	71.823	70.945	69.162
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	326.873	294.379
<b>Guarantees of an operational nature</b>				
Guarantees provided by Group entities - Portugal				
To other domestic entities	68.467	57.568	32.359	30.658
To foreign banks	20.044	15.216	20.044	15.216
To other foreign entities	73.247	43.000	21.633	8.000
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	74.036	53.874
	929.364	574.976	400.909	348.253
<b>Real guarantees</b>				
Mortgages	74.293	-	-	-

The part of guarantees with an operational nature presented by financial institutions, are as follows:

	Group		Company	
	Dec 2005 Euro'000	Dec 2004 Euro'000	Dec 2005 Euro'000	Dec 2004 Euro'000
Domestic banks	59.839	12.827	190	-
Foreign banks	381.584	35.000	20.500	-
	<u>441.423</u>	<u>47.827</u>	<u>20.690</u>	<u>-</u>

#### 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 analysed as follows:

	Option activity	Weighted average exercise price
Balance as at 31 December 2004	612.725	2,44
Options forfeited	-262.391	
Options granted	1.692.810	
Balance as at 31 December 2005	2.043.144	2,27

The stock options information related to 2005, is analysed 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	6,04	603.830	956

#### 41. Related Parties

As at 31 December, 2005 the credits over subsidiaries and associated companies, for the **Company**, are analysed as follows:

	Intra-group financial mov. Eur'000	Loans Eur'000	Other assets Eur'000	Total Eur'000
<b>Companies</b>				
Balwerk	-	266.078	-	266.078
CPPE	-	1.599.474	31.697	1.631.171
EDP Distribuição	330.993	1.228.125	50.041	1.609.159
EDP Energia Ibérica	-	-	10.197	10.197
EDP Comercial	163.124	-	36.355	199.479
EDP Finance	-	278.109	5.523	283.632
EDP Internacional	875	-	1.039	1.914
EDP Outsourcing	31.600	-	11.663	43.263
EDP Participações	-	1.886	343	2.229
EDP Produção Bioelétrica	7.953	13.493	51	21.497
EDP Produção EM	-	-	2.866	2.866
EDP Valor	7.205	2.501	3.045	12.751
Enernova	7.068	166.428	2.693	176.189
Labelec	577	-	273	850
NQF, SGPS	-	4.202	1	4.203
ONI Telecom	-	-	2.513	2.513
Other	6.321	13.111	7.997	27.429
	<u>555.716</u>	<u>3.573.407</u>	<u>166.297</u>	<u>4.295.420</u>

As at 31 December, 2005 the debts to subsidiaries and associated companies, for the **company**, are analysed as follows:

	Intra-group financial mov. Eur'000	Loans Eur'000	Other liabilities Eur'000	Total Eur'000
<b>Companies</b>				
CPPE	106.945	-	325.841	432.786
Edinfor	-	-	22.029	22.029
EDP Comercial	-	-	6.479	6.479
EDP Distribuição	-	-	63.074	63.074
EDP Outsourcing	-	-	673	673
EDP Participações	156.669	-	220.805	377.474
EDP Produção EM	4.847	-	757	5.604
EDP Serviner	1.409	-	-	1.409
EDP Valor	-	-	7.078	7.078
Enernova	-	-	1.233	1.233
Internel	2.127	-	46	2.173
O&M Serviços	1.880	-	-	1.880
Sávida	5.605	-	98	5.703
Other	1.634	-	9.512	11.146
	<u>281.116</u>	<u>-</u>	<u>657.625</u>	<u>938.741</u>

#### 42. Fair values of financial assets and liabilities

	2005			2004		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
<b>Financial assets</b>						
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	-
	<u>3.239.879</u>	<u>3.239.879</u>	<u>-</u>	<u>3.076.740</u>	<u>3.076.740</u>	<u>-</u>
<b>Financial liabilities</b>						
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	-
	<u>12.063.992</u>	<u>12.398.619</u>	<u>334.627</u>	<u>10.441.576</u>	<u>10.753.041</u>	<u>311.465</u>

#### 43. Gains or losses on the sale of discontinued operations

In accordance with IFRS 5, at the transition date 1 January, 2004, the assets and liabilities of Edinfor, recognised using the full consolidated method in the previous GAAP until 31 December, 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 81 million euros was based on the enterprise value in the amount of 135 million euros, including the shares and the loans amounts due to shareholders. This transaction generated a gain, on a consolidated basis, of approximately 15 millions euros.

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 257 million euros and a net financial debt of 42 million euros. The receivable amount of 215 million euros includes shareholders' loans of 100 million euros. This transaction generated a gain, on a consolidated basis, of 31 millions euros.

The breakdown of these operations is detailed in note 37 - Assets and liabilities classified as held for sale and discontinued operations.

#### 44. Transition and implementation of International Financial Reporting Standards

In accordance with Regulation (EC) no. 1606/2002 of 19 July 2002 from the European Council and Parliament, and its adoption into Portuguese Law through Decree-Law no. 35/2005, of 17 February, EDP Group ('the Group') is required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards ('IFRS') from 2005. Therefore, from 1 January 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 31 December, 2005, the financial information for the year ended 31 December, 2004, as well as the preparation of the opening consolidated balance sheet in accordance with IFRS as at 1 January 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 31 December, 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 1 January and 31 December 2004, the reconciliation of the equity and the effect on the profit for the year ended 31 December, 2004, is presented below:

		31 December, 2004		1st January, 2004
		Equity	Net profit	Equity
<b>In accordance with Portuguese GAAP</b>				
Equity		6.401.714	440.152	5.298.007
<b>Transition adjustments</b>				
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 amortisation	(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		<u>-2.363.856</u>	<u>-397.337</u>	<u>-1.756.011</u>
<b>In accordance with IFRS</b>		<u><b>4.037.858</b></u>	<u><b>42.815</b></u>	<u><b>3.541.996</b></u>

#### 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 (1 January, 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 capitalised 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.

Under Portuguese GAAP, general and administrative overhead costs associated with assets under construction are capitalised and amortised 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 capitalised 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 capitalised and amortised 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 recognised as income under IFRS, as the related research and development costs are expensed.

As at 1 January and 31 December, 2004 the impact under equity of the IFRS adjustments to Property, plant, equipment and intangible assets caption is analysed as follows:

	31 December, 2004	1st January, 2004
	Shareholders' equity	Shareholders' equity
Capitalised overhead costs	-693.969	-702.033
Foreign exchange differences	-249.411	-272.289
Intangible assets and other deferred costs	-78.525	-101.618
	<u>-1.021.905</u>	<u>-1.075.940</u>

## 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, unrecognised actuarial gains and losses were amortised 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 recognised or amortised as part of the net pension cost for the year. The amount of the unrecognised actuarial net gains or losses that exceeds the referred 10 percent shall be amortised over the average remaining service period of the employees.

In accordance with IFRS 1, the Group decided to recognise at the date of transition, 1 January 2004, the unrecognised 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 recognised as an expense in the period to which they relate. Consequently under IFRS, the 2003 Bonus to employees was recognised against reserves.

## d) Goodwill amortisation

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 amortised over the estimated useful life not exceeding 20 years.

IFRS requires that goodwill, including previously existing goodwill, is not amortised but is tested for impairment annually. Therefore, goodwill amortisations recorded during 2004 under Portuguese GAAP were reversed under IFRS. The Group reviews the recoverable amount of the goodwill recognised as an asset. During 2004 impairment losses related to the information and technology business were identified and recognised in the income statement.

## e) Hedge accounting

As at 1 January, 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 1 January, 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 recognised against reserves as a transition adjustment, in accordance with IFRS 1.

## 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 recognised as profit or loss of the year.

In accordance with the IFRS conceptual framework, regulatory assets and liabilities are not recognised 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.

### 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 recognised, 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 capitalised, 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 1 January, 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 recognised by the Group until the losses attributable to the minority interest previously recognised have been recovered.

#### i) Concession subsidies

The amount classified as deferred income related to subsidies on assets under concession in Brazil was not amortised. Under IFRS, considering that the assets under concession are amortised on a straight-line basis over the concession period, the amortisation of the deferred income was recorded using the same period as the assets amortisation.

#### 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.

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, 1 January 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 315 million Euros. Payments to the third party to be nominated by the Regulator will be recorded against the liability actually booked in the Group financial statements.

#### l) Transition and implementation of International Financial Reporting Standards (IFRS) on an unconsolidated basis

An explanation of how the transition to IFRS affected the unconsolidated reported financial position as at 1 January and 31 December 2004, the reconciliation of the equity and the effect on the profit for the year ended 31 December, 2004, is presented below:

		31 December, 2004	
		Equity	Net profit
<b>In accordance with Portuguese GAAP</b>			
Equity		6.401.714	440.152
<b>Transition adjustments</b>			
Property, plant, equipment and Intangible assets	(a)	-1.541	11.650
Pensions and other retirement benefits	(b)	-38.951	-63.771
Bonus to employees	(c)	-27	-27
Hedge accounting	(e)	-146.520	27.334
Deferred taxes	(j)	58.024	74.901
Hydrological correction account	(k)	-	-315.590
Equity method reversal	(m)	-27.865	-16.976
IFRS Adjustments		-156.880	-282.479
<b>In accordance with IFRS</b>		<u>6.244.834</u>	<u>157.673</u>

Except for the adjustment related to the equity method reversal explained in note m) below, the adjustments considered on an unconsolidated basis are similar to those defined in the previous sub-headings.

#### m) Equity method reversal

According to IAS 27, investments in subsidiaries, jointly controlled entities and investments in associates, which are not classified as held for sale (or included in a group classified as held for sale) under IFRS 5 must be recorded in the company financial statements at cost (net of impairment losses) or according to IAS 39. Consequently, in transition to IFRS accounting, the application of the equity method under Portuguese GAAP was reversed.

**45. Reconciliation of Balance Sheet and Profit and Loss Account according to Portuguese GAAP and to IFRS as at 31 December, 2004**

Balance sheet	Group Dec 2004			Company Dec 2004		
	PT GAAP	Transition Adjustments	IFRS	PT GAAP	Transition Adjustments	IFRS
	(Thousands of Euros)			(Thousands of Euros)		
<b>Assets</b>						
Property, plant and equipment	13.559.325	-1.002.224	12.557.101	118.858	-	118.858
Intangible assets	2.958.487	5.817	2.964.304	640.103	-640.072	31
Investments in associates	431.415	-114.640	316.775	327.305	45.386	372.691
Available for sale investments	1.183.878	-14.780	1.169.098	7.414.124	192.505	7.606.629
Deferred tax assets	589.094	263.087	852.181	61.699	-6.295	55.404
Trade receivables	95.140	-	95.140	-	-	-
Other assets	850.283	-696.590	153.693	3.832.752	-	3.832.752
Total Non-Current Assets	19.667.622	-1.559.330	18.108.292	12.394.841	-408.476	11.986.365
Inventories	168.567	-11.761	156.806	-	-	-
Trade receivables	1.202.250	-40.406	1.161.844	5.162	-1	5.161
Other current assets	460.411	378.483	838.894	366.873	475.307	842.180
Income tax receivable	171.428	11.426	182.854	180.600	-	180.600
Accrued income and deferred costs	641.038	-641.038	-	520.157	-520.157	-
Financial assets held for trading	81.922	-25.673	56.249	15.288	-15.288	-
Cash and cash equivalents	196.083	34.617	230.700	2.414	15.288	17.702
Assets classified as held for sale	-	165.337	165.337	-	-	-
Total Current Assets	2.921.699	-129.015	2.792.684	1.090.494	-44.851	1.045.643
	22.589.321	-1.688.345	20.900.976	13.485.335	-453.327	13.032.008
<b>Equity</b>						
Share capital	3.656.538	-	3.656.538	3.656.538	-	3.656.538
Treasury stock	-31.662	-	-31.662	-31.662	-	-31.662
Share premium	472.955	-	472.955	472.955	-	472.955
Reserves and retained earnings	2.303.883	-2.363.856	-59.973	2.303.883	-156.880	2.147.003
Minority interests	801.018	-57.081	743.937	-	-	-
Total Equity	7.202.732	-2.420.937	4.781.795	6.401.714	-156.880	6.244.834
<b>Balance sheet</b>	<b>Group Dec 2004</b>			<b>Company Dec 2004</b>		
	PT GAAP	Transition Adjustments	IFRS	PT GAAP	Transition Adjustments	IFRS
	(Thousands of Euros)			(Thousands of Euros)		
<b>Liabilities</b>						
Medium / Long term debt and borrowings	6.741.014	440.091	7.181.105	3.137.735	461.520	3.599.255
Employee benefits	959.907	1.025.323	1.985.230	22.820	-5.900	16.920
Provisions for liabilities and charges	297.790	-4.558	293.232	411.752	-372.366	39.386
Hydrological correction account	364.197	-	364.197	364.197	-	364.197
Deferred tax liabilities	545.901	-259.492	286.409	64.318	-64.318	-
Trade and other payables	588.130	-389.156	198.974	316.085	-315.001	1.084
Total Non-Current Liabilities	9.496.939	812.208	10.309.147	4.316.907	-296.065	4.020.842
Short term debt and borrowings	1.857.830	102.950	1.960.780	2.251.986	67.384	2.319.370
Trade and other payables	1.379.048	2.191.100	3.570.148	280.507	156.489	436.996
Income tax payable	220.406	-10.027	210.379	9.965	1	9.966
Accrued costs and deferred income	2.432.366	-2.432.366	-	224.256	-224.256	-
Liabilities classified as held for sale	-	68.727	68.727	-	-	-
Total Current Liabilities	5.889.650	-79.616	5.810.034	2.766.714	-382	2.766.332
Total Liabilities	15.386.589	732.592	16.119.181	7.083.621	-296.447	6.787.174
	22.589.321	-1.688.345	20.900.976	13.485.335	-453.327	13.032.008



Income Statement	Group Dec 2004			Company Dez 2004		
	PT GAAP	Transition Adjustments	IFRS	PT GAAP	Transition Adjustments	IFRS
	(Thousands of Euros)			(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	33.151	-	33.151
Own work capitalised	258.774	-258.774	-	-	-	-
Other income	17.731	58.990	76.721	3.532	9.401	12.933
	798.901	-199.895	599.006	36.683	9.401	46.084
	3.480.925	-37.022	3.443.903	36.683	9.401	46.084
Other expenses						
Supplies and services	-649.504	-11.390	-660.894	-85.610	268	-85.342
Personnel costs	-496.492	-31.203	-527.695	-5.380	876	-4.504
Employee benefits expense	-146.127	-293.956	-440.083	-	-1.139	-1.139
Other expenses	-220.761	-463.601	-684.362	-2.145	-330.871	-333.016
	-1.512.884	-800.150	-2.313.034	-93.135	-330.866	-424.001
	1.968.041	-837.172	1.130.869	-56.452	-321.465	-377.917
Provisions	-114.078	49.789	-64.289	-2.944	-7.356	-10.300
Net depreciation and amortisation expense	-795.517	46.177	-749.340	-8.677	3.823	-4.854
	1.058.446	-741.206	317.240	-68.073	-324.998	-393.071
Financial income / (expenses)	-239.727	-15.051	-254.778	432.194	-3.312	428.882
Amortisation of goodwill and concession rights	-95.525	95.525	-	-13.670	13.670	-
Current profit	723.194	-660.732	62.462	350.451	-314.640	35.811
Extraordinary gains / (losses)	-164.732	164.732	-	42.232	-42.232	-
Profit before tax	558.462	-496.000	62.462	392.683	-356.872	35.811
Income tax expense	-159.617	143.246	-16.371	47.469	74.393	121.862
Profit after tax but before gain on discontinued operation	398.845	-352.754	46.091	440.152	-282.479	157.673
Profit for the year	398.845	-352.754	46.091	440.152	-282.479	157.673
<b>Attributable to:</b>						
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	440.152	-282.479	157.673

#### 46. Relevant and subsequent events

##### Banco Espírito Santo notifies EDP of a 2.17% Ownership in EDP's Share Capital

On the 5th of January 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%
<b>Total</b>	<b>79.524.691</b>	<b>2,18%</b>

#### **BRISA sold its 2.0020% Ownership in EDP's Share Capital**

On February 2nd, 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 Elétricas 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 instalments, 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 totalled 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 Eletrobrás 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" (I) 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.

#### **47. 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 analysed 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 16 December 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 1 January 2006.

IFRIC 5 applies to accounting in the financial statements of a contributor for interests arising from decommissioning funds, in particular 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 12 January 2006 an Interpretation – IFRIC 8 Scope of IFRS 2, which is effective for annual periods beginning on or after 1 May 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 2 December 2004 an Interpretation— IFRIC 4 Determining whether an Arrangement contains a Lease, which is effective for annual periods beginning on or after 1 January 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.

#### ***IFRS 6 - Exploration for and Evaluation of Mineral Resources***

The International Accounting Standards Board (IASB) issued on 9 December 2004 International Financial Reporting Standard 6 Exploration for and Evaluation of Mineral Resources (IFRS 6). The publication of this IFRS provides, for the first time, guidance on accounting for exploration and evaluation expenditures, including the recognition of exploration and evaluation assets, and completes the first step in the IASB's project to achieve the convergence of widely varying accounting practices for extractive activities around the world.

IFRS 6 is effective for annual periods beginning on or after 1 January 2006. However, earlier application is encouraged, and if an entity adopts IFRS 6 before 1 January 2006, transitional relief is available for some comparative disclosures.

#### ***Amendment to the hedge accounting provisions of IAS 39 Financial Instruments: Recognition and Measurement***

The International Accounting Standards Board (IASB) issued on 14 April 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 16 June 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 1 January 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 21 April 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 18 August 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.

#### ***Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts***

The International Accounting Standards Board (IASB) issued on 18 August 2005 amended requirements for financial guarantee contracts, in the form of limited amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts.

The amendments are intended to ensure that issuers of financial guarantee contracts include the resulting liabilities in their balance sheet. The amendments define a financial guarantee contract as a 'contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument'. These contracts could have various legal forms, including a guarantee, some types of letter of credit, or a credit insurance contract. Issuers must apply the amendments for annual periods beginning on or after 1 January 2006.

#### ***Amendment to International Accounting Standard (IAS) 21 - The Effects of Changes in Foreign Exchange Rates***

The International Accounting Standards Board (IASB) issued on 15 December 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).

## **48. 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.

(Thousands of Euros)

	Generation				Electricity Distribution				Supply				Gas Distribution				Telecommu- nications	Other Operations	Consolidation Adjustments	Discontinued Operations	EDP Group
	Portugal	Spain	Brazil	Total	Portugal	Spain	Brazil	Total	Portugal	Spain	Brazil	Total	Portugal	Spain	Total						
Turnover																					
Sales of electricity	1,961,005	1,069,031	47,193	3,077,229	3,765,959	614,259	1,324,281	5,704,499	524,668	343,392	141,867	1,010,127	63,415	-	63,415	-	11,031	-1,281,926	-	8,384,375	
Other sales	24,113	116,593	-	140,706	3,176	37	-	3,206	3,206	47,850	-	3,206	562,184	610,034	562,184	-	-	-99,217	2,404	664,330	
Services rendered	19,281	3,517	12,356	35,154	26,821	37,056	21,407	85,284	42,298	7,924	506	50,728	50,728	117,9	30,315	-	127,751	-194,104	125,568	4,283,320	
	2,004,399	1,189,141	59,549	3,253,089	3,795,956	651,352	1,345,688	5,792,956	587,166	354,522	142,373	1,064,061	679,912	729,491	679,912	-	138,782	-1,575,247	127,972	9,677,025	
Raw materials and consumables used																					
Cost of consumed electricity	248,724	49,999	-5,275	303,398	-2,580,184	-529,595	-867,680	-3,977,459	-581,023	-502,897	-120,390	-1,204,310	-74,923	-	-74,923	-	-1,761	1,339,848	-	-4,222,003	
Fuel costs	-703,594	-377,932	-1,981,548	-1,981,548	-14,058	3,400	-12,825	-23,483	-	-5,554	-	-5,554	-23,980	-23,980	-23,980	-	-110,370	1,887	-	-1,103,701	
Other materials	-4,618	-117,148	-304	-122,070	-	-	-	-	-	-	-	-	-	-2	-430,242	-	-3,760	99,795	-2,062	-487,488	
	-956,938	-544,459	-5,579	-1,507,016	-2,594,242	-526,195	-880,505	-4,000,942	-581,023	-508,451	-120,390	-1,209,864	-505,165	-509,147	-509,147	-	-1,871	1,441,470	-2,062	-5,813,192	
Gross margin	1,047,461	644,642	53,970	1,746,073	1,201,714	1,251,57	465,183	1,792,054	-13,857	-153,929	21,983	-145,803	170,747	170,747	170,747	-	136,911	-133,777	125,910	3,863,833	
Operating expenses																					
Supplies and services	-105,996	401,139	-16,330	-182,485	-252,386	-48,907	48,719	-387,012	-14,145	23,836	-3,105	-41,086	-34,228	-34,228	-34,228	-	-124,269	167,418	-102,299	-816,781	
Personnel costs	-135,303	-42,352	-1,084	-178,710	-358,610	-33,139	-81,539	-512,688	-4,093	-5,864	-934	-10,891	-22,402	-22,402	-22,402	-	-100,359	124,715	-17,264	-746,278	
	-241,299	-102,462	-17,434	-361,195	-648,596	-84,046	-167,058	-899,700	-18,238	-29,700	-4,039	-51,977	-56,633	-56,633	-56,633	-	-224,628	292,133	-119,563	-1,563,059	
Other income / (other expenses)																					
Concession rights	-4,496	-	-1,601	-6,097	-201,439	-	-6,662	-202,101	-23	-	-	-23	-	-	-	-	-827	-	-	-209,048	
Other income / (other expenses)	3,748	28,913	29,148	61,809	58,741	-12,840	-41,428	4,473	-40,859	-572	-163	-41,594	-18,77	-18,77	-18,77	-	-6,253	-51,681	-3,382	-38,433	
	-748	28,913	27,547	55,712	-142,698	-12,840	-42,090	-197,628	-40,882	-572	-163	-41,617	-18,77	-18,77	-18,77	-	-7,080	-51,681	-3,382	-247,481	
Gross operating results	805,414	571,093	64,083	1,440,590	410,420	28,271	256,035	694,726	-72,977	-184,201	17,781	-239,397	18,825	102,237	102,237	-	114,469	106,675	2,965	2,053,293	
Provisions	1,779	-541	10	1,248	-5,438	-32,142	757	-4,681	-6,403	-	-	-6,403	-135	8	8	-	-6,847	-502	-	-12,474	
Depreciation and amortization expense	-245,360	-121,233	-4,709	-371,302	-356,831	-32,142	-71,841	-460,814	-4,623	-4,233	-241	-9,097	-3,477	-40,847	-40,847	-	-16,935	13,594	-14,846	-996,539	
Compensation of amortisation	1,458	362	-	1,820	78,214	2,014	-	80,228	-	-	-	-	-	1,777	1,777	-	366	13,409	-	97,600	
Operating results	563,291	449,681	59,384	1,072,356	126,365	-1,857	184,951	309,459	-84,003	-188,434	17,540	-254,897	53,175	68,388	53,175	-	-118,213	133,176	-11,881	1,141,880	
Gains / losses from the sale of financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-83	440,730	-	83	
Financial income / (expenses)	-42,892	-26,774	-9,767	-79,433	-26,063	-10,241	-43,562	-79,866	-7,810	-421	5,592	-2,632	-2,055	19,252	21,307	-	-321,623	133,566	-2,113	-369,982	
Profit before tax	520,399	422,907	49,617	992,923	100,302	-12,098	141,389	229,593	-91,813	-188,855	23,139	-257,529	13,158	74,482	74,482	-	894	266,742	-13,911	1,288,628	
Income tax expense	-151,080	-150,483	-4,501	-306,064	-26,200	4,167	-22,160	-44,193	22,171	66,136	-7,296	81,011	-3,207	-14,700	-14,700	-	199,263	-15,172	4,799	-152,189	
Gain on sale of discontinued operation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	45,522	
<b>Profit for the year</b>	<b>369,319</b>	<b>272,424</b>	<b>45,116</b>	<b>686,859</b>	<b>74,102</b>	<b>-7,931</b>	<b>119,229</b>	<b>185,400</b>	<b>-69,642</b>	<b>-122,719</b>	<b>15,843</b>	<b>-176,518</b>	<b>9,951</b>	<b>59,779</b>	<b>59,779</b>	-	<b>200,157</b>	<b>215,170</b>	<b>36,530</b>	<b>1,111,961</b>	
Attributable to:																					
Equity holders of EDP	369,319	272,424	45,116	686,859	74,102	-7,931	119,229	185,400	-69,642	-122,719	15,843	-176,518	9,951	59,779	59,779	-	200,157	210,669	40,615	1,071,102	
Minority interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-40,905	40,859	
<b>Profit for the year</b>	<b>369,319</b>	<b>272,424</b>	<b>45,116</b>	<b>686,859</b>	<b>74,102</b>	<b>-7,931</b>	<b>119,229</b>	<b>185,400</b>	<b>-69,642</b>	<b>-122,719</b>	<b>15,843</b>	<b>-176,518</b>	<b>9,951</b>	<b>59,779</b>	<b>59,779</b>	-	<b>200,157</b>	<b>215,170</b>	<b>36,530</b>	<b>1,111,961</b>	

(Thousands of Euros)

	Generation				Electricity Distribution				Supply			Gas Distribution		Telecommu- nications	Other Operations	Consolidation Adjustments	Hydrological Correction and PAR	Discontinued Operations	EPP Group	
	Portugal		Spain		Portugal		Spain		Portugal		Spain									
Turnover	1.480.840	611.101	282.249	2.120.190	3.518.074	406.877	933.289	4.858.240	324.768	244.044	88.958	-	657.770	-	-	-1.096.816	-	-	6.539.384	
	216.448	4.504	2.769	28.921	2.734	47	-	2.781	-	2.695	-	583.601	2.695	-	4.328	-	22.508	294.019		
	53.899	4.457	10.532	68.888	24.612	29.882	73.301	127.795	2.487	7.167	585	51.767	10.239	585	151.407	127.042	207.796	522.285		
	1.556.387	620.062	41.550	2.217.999	3.545.420	486.806	1.006.590	4.988.816	327.255	253.906	89.546	635.368	670.704	89.546	155.735	127.042	230.304	7.310.688		
Raw materials and consumables used	-51.417	-48.172	-5.878	-100.467	-2.324.118	-318.409	-624.644	-3.267.171	-311.763	-234.108	-74.637	-409.334	-620.338	-	-	131.677	-	-	-3.385.803	
	-417.116	-293.035	-2.306	-772.457	-628	-	-	-628	-	-1.990	-	-2.713	-1.990	-	-	165.655	-	-	-551.593	
	-10.789	5.013	-105	-5.881	-14.205	2.617	-10.323	-22.111	401	13	-	-1.751	414	-	-225	1.135	-23.497	-56.110		
	-479.322	-331.194	-8.289	-818.805	-2.338.323	-316.420	-635.167	-3.289.910	-311.362	-236.085	-74.637	-483.258	-622.084	-74.637	-4.194	-225	1.298.467	-23.487	-3.943.506	
Gross margin	1.077.065	288.868	33.261	1.399.194	1.207.097	120.386	371.423	1.698.906	15.893	17.821	14.906	152.110	48.620	14.906	151.541	126.817	-416.813	206.807	3.367.182	
Operating expenses	-85.331	-38.027	-14.369	-137.727	-219.663	-37.465	-56.446	-313.574	-8.489	-16.972	-1.212	-23.164	-26.673	-1.212	-113.634	-143.171	191.798	-	-94.749	-660.894
	-134.238	-345.16	-1.050	-169.804	-417.545	-231.770	-63.939	-505.254	-3.740	-5.328	-622	-17.009	-9.690	-622	-29.294	14.418	173.208	-337.317	-87.036	-967.778
	-219.569	-72.543	-15.419	-307.531	-637.208	-61.235	-120.385	-818.828	-12.229	-22.300	-1.834	-40.173	-36.363	-1.834	-142.928	-128.753	365.006	-337.317	-181.785	-1.628.672
Other income / (other expenses)	-4.083	-	-	-4.083	-186.095	-	-	-186.095	-16	-	-	-16	-	-	-	-	-	-	-190.194	-
	7.003	-11.472	-344	-4.813	33.219	4.965	-48.922	-10.728	-7.749	11.996	-1.061	1.227	3.186	-1.061	-3.278	-16.321	-79.020	-315.590	8.100	-417.447
	2.920	-11.472	-344	-8.896	-152.876	4.965	-48.922	-106.833	-7.765	11.996	-1.061	1.227	3.170	-1.061	-3.278	-16.321	-79.020	-315.590	8.100	-607.641
Gross operating results	860.416	204.853	17.498	1.082.767	417.013	641.116	202.116	683.245	-4.101	7.517	12.011	113.164	15.427	12.011	5.335	-18.457	-180.827	-652.907	33.122	1.180.869
Provisions	-14.418	-31	-	-14.449	-34	-332	-3.343	-3.759	-7	-	-	-134	-7	-	-44.330	-18.796	19.966	-	-2.780	-6.4289
Depreciation and amortisation	-246.076	-105.363	-4.635	-356.074	-349.776	-30.649	-55.261	-435.686	-3.848	-4.529	-149	-63.334	-8.526	-149	-42.510	-18.619	137.339	-	-47.821	-835.231
Compensation of amortisation	5.007	342	-	5.349	72.402	1.760	-	74.862	-	-	-	1.517	-	-	-	591	4.244	-	28	85.891
Operating results	604.929	99.801	12.863	717.593	139.555	34.895	143.512	317.962	-7.956	2.988	118.62	6.894	512.13	6.894	-81.505	-55.281	30.722	-652.907	-17.451	317.240
Gains / losses from the sale of financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9.837	-	125	9.962
Financial income / (expenses)	-80.876	-18.359	-9.928	-199.163	-25.125	-10.243	-46.853	-82.221	-1.446	-3.013	-419	-1.412	-4.878	-419	-33.324	112.766	-142.062	-	-4.432	-264.740
Profit before tax	524.053	81.442	2.935	608.430	114.430	24.652	96.659	235.741	-9.402	-25	11.443	49.794	2.016	11.443	-114.829	57.885	-101.510	-652.907	-21.758	62.462
Income tax expense	-143.446	-26.593	-16.19	-171.658	-48.574	-8.360	8.005	-48.592	2.176	308	-4.724	-15.442	-1.740	-4.724	-13.746	29.442	13.906	179.549	12.254	-16.371
Profit for the year	380.607	54.849	1.316	436.772	65.856	16.292	104.664	186.812	-7.226	283	7.219	34.345	276	7.219	-128.575	86.927	-87.604	-473.358	-9.504	46.091
Attributable to:																				
	380.607	52.823	1.316	434.746	65.856	16.292	104.664	186.812	-7.226	283	7.219	18.449	276	7.219	-131.849	86.927	-79.417	-473.358	229	42.815
	-	-	-	-	-	-	-	-	-	-	-	15.896	-	-	-	-	-8.167	-	-9.733	3.276
Profit for the year	380.607	54.849	1.316	436.772	65.856	16.292	104.664	186.812	-7.226	283	7.219	34.345	276	7.219	-128.575	86.927	-87.604	-473.358	-9.504	46.091

(\*) Write-off adjustment receivable from hydrological correction account and from restructuring costs of EPP Distrito Açor 2003-2004

**Fernando Calhau**  
(1948-2002)

**untitled**, 1974

acrylic on canvas  
110cmx110cm

This painting is one in a highly significant set of works by the artist and one of the most profound reflections on Portuguese art regarding matters of colour and light.

Together with the other paintings in the series, at first sight this painting appears to be nothing more than a uniform or slightly shadowy green surface. However, if we look more closely, we can begin to distinguish a series of subtle optical effects created with the mastery of execution that has always characterised the work of this artist.

Using the square canvas as the basic shape of the work, Fernando Calhau has inscribed (diagonal or median) lines highlighting (triangular or other square) shapes to achieve a remarkable series of luminous and geometric effects in the international language that may be considered pure painting.

João Pinharanda

**Works in the EDP.arte Collection:** two drawings and a painting







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## EDP – Energias de Portugal, S.A.

### AUDITORS' REPORT ON THE CONSOLIDATED ACCOUNTS

#### Introduction

- 1 In accordance with the applicable legislation, we present our Audit Report on the financial information included in the Board of Directors report and in the accompanying consolidated financial statements, included in the Financial Report of **EDP – Energias de Portugal, S.A.** ("EDP"), which comprise: the Consolidated Balance Sheet as at 31 December, 2005 (showing total assets of Euros 24,032,975 thousand and shareholders' equity attributable to the equity holders of EDP of Euros 4,823,400 thousand, including a profit for the year of Euros 1,071,102 thousand), the Consolidated Statement of Income and the Consolidated Cash Flow Statement for the year then ended and the corresponding Notes to the accounts.

#### Responsibilities

- 2 The Board of Directors is responsible for:
  - a) the preparation of the Board of Directors report and the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) as adopted for use in the European Union, that present fairly, in all material respects, the consolidated financial position of EDP, the consolidated results of its operations and its cash flows;
  - b) maintaining historical financial information which is complete, true, current, clear, objective and lawful as required by the Stock Exchange Code ("Código dos Valores Mobiliários");
  - c) the adoption of adequate accounting policies and criteria;
  - d) maintaining an appropriate system of internal control; and
  - e) the communication of any relevant fact that may have influenced the activity of EDP and its subsidiaries, their financial position or results.

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

KPMG & Associados - SROG, S.A.  
Capital Social: 511.700 Euros  
Pessoa Colectiva N.º PT 502 161 078  
Inscrito na O.R.O.C. N.º 189  
Inscrito na C.M.V.M. N.º 9093

Matriculada na  
Conservatória do registo  
Comercial de Lisboa sob o  
n.º 715, fls. 178 do Livro C -  
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- 3 Our responsibility is to verify the consolidated financial information included in the above referred documents, namely as to whether it is complete, true, current, clear, objective and lawful as required by the Stock Exchange Code (“Código dos Valores Mobiliários”), in order to issue a professional and independent report based on our audit.

#### Scope

- 4 Our audit was performed in accordance with the Technical Standards, and Guidelines issue by the Portuguese Institute of Statutory Auditors (“Ordem dos Revisores Oficiais de Contas”), which require that we plan and perform the audit to obtain a reasonable degree of assurance about whether the consolidated financial statements are free of material misstatements. Accordingly our audit included:
- verification that the financial statements of the companies included in the consolidation have been properly audited and, in those significant cases in which they were not, verification, on a test basis, of the information underlying the figures and its disclosures contained therein, and an assessment of the estimates, based on the judgements and criteria defined by the Board of Directors, used in the preparation of the referred financial statements;
  - verification of the consolidation procedures and of the application of the equity method;
  - assessment of the appropriateness of the accounting policies used and of their disclosure, taking into account the circumstances applicable;
  - verification of the application of the going concern principle;
  - assessment of the appropriateness of the overall presentation of the financial statements and;
  - assessment of whether the consolidated financial information is complete, true, current, clear, objective and lawful.
- 5 Our review also included the verification that the consolidated financial information contained in the Board of Directors report is consistent with the financial statements presented.
- 6 We believe that our audit provides a reasonable basis for the expression of our opinion.



### Opinion

- 7 In our opinion, the consolidated financial statements referred to above present fairly in all material respects the consolidated financial position of **EDP – Energias de Portugal, S.A.** as at 31 December, 2005, the consolidated results of its operations and cash flows for the year then ended, in accordance with the International Financial Reporting Standards (IFRS) as adopted for use in the European Union, and the information contained therein is complete, true, current, clear, objective and lawful.

Lisbon, 7 March 2006

**KPMG & Associados - SROC, S.A.**

Represented by



Jean-éric Gaign (ROC n° 1013)



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## EDP – Energias de Portugal, S.A.

### AUDITORS' REPORT

#### Introduction

- 1 In accordance with the applicable legislation, we present our Audit Report on the financial information included in the Board of Directors report and in the accompanying financial statements, included in the Financial Report of **EDP – Energias de Portugal, S.A.** ("EDP"), which comprise: the Balance Sheet as at 31 December, 2005 (showing total assets of Euros 13,566,114 thousand and shareholders' equity of Euros 6,388,628 thousand, including a profit for the year of Euros 509,835 thousand), the Statement of Income and the Cash Flow Statement for the year then ended and the corresponding Notes to the accounts.

#### Responsibilities

- 2 The Board of Directors is responsible for:
  - a) the preparation of the Board of Directors report and the financial statements in accordance with the International Financial Reporting Standards (IFRS) as adopted for use in the European Union, that present fairly, in all material respects, its financial position, the results of its operations and its cash flows;
  - b) maintaining historical financial information which is complete, true, current, clear, objective and lawful as required by the Stock Exchange Code ("Código dos Valores Mobiliários");
  - c) the adoption of adequate accounting policies and criteria;
  - d) maintaining an appropriate system of internal control; and
  - e) the communication of any relevant fact that may have influenced the activity of EDP, its financial position or results.

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Matriculada na  
Conservatória do registo  
Comercial de Lisboa sob o  
n.º 715, fls. 178 do Livro C -  
2/3



- 3 Our responsibility is to verify the financial information included in the above referred documents, namely as to whether it is complete, true, current, clear, objective and lawful as required by the Stock Exchange Code (“Código dos Valores Mobiliários”), in order to issue a professional and independent report based on our audit of these financial statements.

#### **Scope**

- 4 Our audit was performed in accordance with the Technical Standards, and Guidelines issue by the Portuguese Institute of Statutory Auditors (“Ordem dos Revisores Oficiais de Contas”), which require that we plan and perform the audit to obtain a reasonable degree of assurance about whether the financial statements are free of material misstatements. Accordingly our audit included:
- verification, on a test basis, of the information underlying the figures and its disclosures contained in the financial statements, and an assessment of the estimates, based on the judgements and criteria defined by the Board of Directors, used in the preparation of the referred financial statements;
  - assessment of the appropriateness of the accounting policies used and of their disclosure, taking into account the circumstances applicable;
  - verification of the application of the going concern principle;
  - assessment of the appropriateness of the overall presentation of the financial statements and;
  - assessment of whether the financial information is complete, true, current, clear, objective and lawful.
- 5 Our review also included the verification that the financial information contained in the Board of Directors report is consistent with the financial statements presented.
- 6 We believe that our audit provides a reasonable basis for the expression of our opinion.



#### Opinion

- 7 In our opinion, the financial statements referred to above present fairly in all material respects the financial position of **EDP – Energias de Portugal, S.A.** as at 31 December, 2005, the results of its operations and cash flows for the year then ended, in accordance with the International Financial Reporting Standards (IFRS) as adopted for use in the European Union, and the information contained therein is complete, true, current, clear, objective and lawful.

Lisbon, 7 March 2006

**KPMG & Associados - SROC, S.A.**

Represented by



Jean-éric Gaign (ROC n° 1013)



**KPMG & Associados - Sociedade de Revisores  
Oficiais de Contas, S.A.**  
Edifício Monumental  
Av. Praia da Vitória, 71 - A, 11º  
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Telefone: +351 210 110 000  
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## REPORT AND OPINION OF THE STATUTORY AUDITOR

### Consolidated Accounts

Year ended 31 December, 2005

To the Shareholders of

**EDP – Energias de Portugal, S.A.**

- 1 In accordance with the applicable legislation, we herewith, as statutory auditor of EDP – Energias de Portugal, S.A. (“EDP”), present the report on our supervisory activity and our conclusions on the review of the Board of Directors report, included in the Institutional Report, and on the consolidated financial statements, included in the Financial Report, presented by the Board of Directors of EDP, for the year ended 31 December, 2005.
- 2 Since our appointment, we have accompanied the evolution of the company’s, and its most significant subsidiaries and associated companies, activities. We have verified the timeliness and adequacy of the accounting records and supporting documentation. We have enquired about the compliance with the law and the Articles of Association.
- 3 As a consequence of the work carried out, we have issued the attached Auditors’ Report as well as the Report on the Work Carried Out sent to the Board of Directors, as required by Article 451 of the Companies Code.
- 4 Within the scope of our mandate, we have verified that:
  - i) the consolidated balance sheet, the consolidated income statement, the consolidated cash flows statement and the related notes, present adequately the financial position and the results of EDP and its subsidiaries;
  - ii) the accounting policies and valuation criteria used are appropriate;
  - iii) the Board of Directors report is sufficiently clear to present the evolution of the business and the consolidated financial position of EDP, highlighting the more significant aspects.

KPMG & Associados - Sociedade de Revisores Oficiais de Contas, S.A., a portuguese company is a member firm of KPMG International, a swiss cooperative.

KPMG & Associados - SROC, S.A.  
Capital Social: 511.700 Euros  
Pessoa Colectiva Nº PT 502 161 078  
Inscrito na D.R.O.C. Nº 189  
Inscrito na C.M.V.M. Nº 9093

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



5 As result of the work carried out, and taking into account the above referred documents, we are of the opinion that the Annual General Meeting of EDP – Energias de Portugal, S.A., may approve:

- i) the Board of Directors annual report;
- ii) the consolidated financial statements.

Lisbon, 7 March 2006

**KPMG & Associados - SROC, S.A.**

Represented by



Jean-éric Gaign (ROC n° 1013)





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## REPORT AND OPINION OF THE STATUTORY AUDITOR

**Year ended 31 December, 2005**

To the Shareholders of

**EDP – Energias de Portugal, S.A.**

- 1 In accordance with the applicable legislation, we herewith, as statutory auditor of EDP – Energias de Portugal, S.A. (“EDP”), present the report on our supervisory activity and our conclusions on the review of the Board of Directors report, included in the Institutional Report, and on the financial statements, included in the Financial Report, presented by the Board of Directors of EDP, for the year ended 31 December, 2005.
- 2 Since our appointment, we have accompanied the evolution of the company’s, and its most significant subsidiaries and associated companies, activities. We have verified the timeliness and adequacy of the accounting records and supporting documentation. We have enquired about the compliance with the law and the Articles of Association.
- 3 As a consequence of the work carried out, we have issued the attached Auditors’ Report as well as the Report on the Work Carried Out sent to the Board of Directors, as required by Article 451 of the Companies Code.
- 4 Within the scope of our mandate, we have verified that:
  - i) the balance sheet, the income statement, the cash flows statement and the related notes, present adequately the financial position and the results of EDP;
  - ii) the accounting policies and valuation criteria used are appropriate;
  - iii) the Board of Directors report is sufficiently clear to present the evolution of the business and the position of EDP.

KPMG & Associados - Sociedade de Revisores Oficiais de Contas, S.A., a Portuguese company is a member firm of KPMG International, a Swiss cooperative.

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2/3





5 As result of the work carried out, and taking into account the above referred documents, we are of the opinion that the Annual General Meeting of EDP – Energias de Portugal, S.A., may approve:

- i) the Board of Directors annual report;
- ii) the financial statements.

Lisbon, 7 March 2006

**KPMG & Associados - SROC, S.A.**

Represented by



Jean-éric Gaign (ROC nº 1013)





[www.edp.pt](http://www.edp.pt)