









Financial Analysis



1. THE EDP GROUP

The EDP Group net profit reached EUR 940.8 million in 2006, compared with EUR 1,071.1 million in 2005.

Balance Sheet - EDP Group (EUR million)	2006	2005
Assets Tangible fixed assets Intangible assets and goodwill Financial investments	15,082 3,722 1,024	13,864 3,509 918
Inventories Accounts receivable - trade, net Accounts receivable - other, net Financial assets available for trading Cash and cash equivalents	229 1,593 2,051 116 753	219 1,585 2,186 276 585
Deferred tax (asset)	898	893
Total Assets	25,469	24,036
Shareholders' equity Share capital Own shares and share premium Earnings and other reserves Minority interest	3,657 488 1,445 946	3,657 464 703 1,288
Shareholders' equity	6,535	6,111
Liabilities Short-term debt Long and medium-term debt	1,528 8,625	1,984 8,601
Staff benefits and provisions Hydrological correction account Accounts payable - net	2,159 199 5,866	2,112 170 4,688
Deferred tax (liability)	557	370
Total Liabilities	18,934	17,924
Total Liabilities and Shareholders' equity	25,469	24,036

Statement of income - EDP Group (EUR million)	2006	2005	Var. 06/05
Electricity sales Other sales Services rendered Operating Income	8,984.5 1,065.6 299.8 10,349.8	8,564.3 655.5 428.3 9,648.2	-30.0%
Electricity & gas Fuel Material and goods for resale Direct Business Costs	4,380.7 967.4 843.3 6,191.4	4,222.0 1,083.5 487.3 5,792.8	-10.7%
Gross Margin % Operating income	4,158.5 40.2%	3,855.3 40.0%	7.9% 0.2 p.p.
External supplies and services Staff costs Costs with social benefits Concession fees Other operating costs/(income) Operating Costs	741.4 585.1 162.3 220.4 143.9 1,853.0	816.8 546.0 200.3 209.0 33.1 1,805.2	7.2% -19.0% 5.4% 335.1%
Gross Operating Results % Operating income	2,305.4 22.3%	2,050.2 21.2%	
Provisions for risks and contingencies Depreciation and amortisation Compensation of subsidised assets' depreciation	94.6 1,059.6 (101.8)	12.5 993.4 (97.6)	6.7%
Operating Results % Operating income	1,253.0 12.1%	1,141.9 11.8%	9.7% 0.3 p.p.
Capital gains/(losses) in divestiture of financial assets Financial income/(expense) Income/(losses) from group and associated companies	4.8 (207.4) 245.3	440.7 (399.3) 35.3	48.1%
Profit before Tax	1,295.8	1,218.6	6.3%
Income tax and deferred taxation	265.9	152.2	74.7%
Discontinued activities	(12.8)	45.5	-
Minority interests	76.3	40.9	86.6%
Net Profit	940.8	1,071.1	-12.2%

In 2006, the EDP Group gross operating results rose by 12.5% to EUR 2,305.4 million, reflecting improvements in the operational performance of the main Group business units and, in particular, strong growth in installed wind power capacity, a reduction in operating costs, especially in the electricity distribution business, and favourable developments within the liberalised market.

Gross Operating Results (EUR million)	2006	2005	Var. 06/05
IBERIAN MARKET			
Generation and Supply	1,070.8	1,045.8	2.4%
Renewable Energies	146.9	65.7	123.6%
Distribution	571.8	458.6	24.7%
Gas	144.8	123.4	17.3%
Brazil	433.9	412.3	5.2%
Other & Adjustments	(62.7)	(55.7)	-12.7%
Consolidated	2,305.4	2,050.2	12.5%
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Gross operating results for the production and supply business in the Iberian Peninsula rose by 2.4% during this period, due to: i) a 25.6% increase in the gross margin for liberalised generation and supply, reflecting improvements in the unit margin per MWh sold, boosted by an increase in the average sales price in both retail markets (Portugal and Spain) and wholesale markets(OMEL, Free Parcel, OMIP) and a 4% reduction in generation in the liberalised market due to scheduled stoppages and a reduction in CCGT use during the final quarter of 2006; ii) a 0.3% reduction in the gross PPA margin, since fuel purchase prices rose above the standard rates for the period and these costs could not, therefore, be fully transferred to the REN; (iii) a 5.4% increase in external supplies and services, staff costs and social benefits, reflecting an increase in the installed capacity and non-recurring payments related to reductions in staff; (iv) a negative impact of 32 million euros related to other operational costs involving the possible withdrawal of free CO₂ licences in accordance with RD 3/2006 in Spain.

Gross operating results in the renewable energies business more than doubled, reflecting increases in: (i) installed wind power capacity, which more than doubled to 1,093MW (or 1,568MW in terms of gross installed capacity); (ii) the level of use of wind farms



in the Iberian Peninsula, which rose from 25% in 2005 to 26% in 2006; iii) the average sales price for energy generated by wind farms in the Iberian Peninsula.

Gross operating results for distribution in the Iberian Peninsula rose 24.7% as a result of 6.0% growth in the gross margin and a 4.2% fall in operating costs. This development reflects: i) in Portugal, a 3.7% increase in consumption, a 9.7% rise in permitted income and a EUR 26.6 million reduction in operating costs; ii) in Spain, a 0.4% increase in regulated income, a positive impact of EUR 8.0 million due to variations in the cost of purchasing electricity and a EUR 10.1 million increase in the provision of services (in particular, connections and meter installations). This performance was partially offset by the following: i) in Portugal, an increase in tariffs deviation to be recovered (EUR 117.9 million in 2006 vs. EUR 77.1 million in 2005); ii) in Spain, the effects of RD 3/2006, altering the liquidation mechanism for the system, establishing a price of only EUR 42.35/MWh for the purchase of distributed energy and the sale of generated energy effected simultaneously by the same business group (- EUR 15.6 million).

Gross operating results for the gas business in the Iberian Peninsula rose 17.3% following alterations to the consolidation method used for Portgás (full consolidation in 2006; proportional consolidation in 2005), an increase in the amounts sold on the liberalised market in Spain and an increase in Naturgas regulated income following the purchase in 2006 of the remaining 50% of the capital of Bilbogas and Gasnalsa. This performance more than compensated for losses from gas purchases on the spot market during the first quarter of 2006.

Gross operating results of Energias do Brasil rose 5.2%, benefiting from the fact that the Peixe Angical (452 MW) hydroelectric power station and the 4th. (50 MW) group of generators at the Mascarenhas hydroelectric power station had begun operating, a 4% increase in electricity consumption in EDP concession areas and an 11% appreciation of the BRL against the EUR. However, this good performance was partially offset by non-recurring costs, including uncontrollable costs that exceeded the amount provided for in the tariff (to be recovered through tariffs in future tariff readjustments) and costs related to the staff reduction programme, which led to a 19% cut in Energias do Brasil staff.

Financial Results (EUR million)	2006	2005	Var. 06/05
Investment income Financial Investment Gains/(Losses)	8.0 8.0	36.1 36.1	-77.9% -77.9%
Net financial interest paid Net foreign exchange differences Other financials Financing Gains/(Losses)	(402.2) 0.9 185.9 (215.3)	(378.2) 68.7 (125.9) (435.3)	-6.3% -98.6% - 50.5%
Financial Results	(207.4)	(399.3)	48.1%

The EDP Group Financial Profits reflect:

- A 6.3% increase in "Net Interest" due to a 19 b.p. increase in the average cost of the EDP Group debt (4.4% in 2006 vs. 4.2% in 2005), following a rise in market interest rates and a 5.8% increase in the mean debt level for the period:
- The 2006 appreciation of the BRL over the USD (9%), which was lower than the 2005 appreciation (13%).
 The impact on the debt expressed in USD in Brazil led to a EUR 67.8 million reduction in "Exchange Rate Differences";
- Improvements under "Other Financial Gains and Losses" in 2006, given that this item is essentially linked to the fair value of derivatives: i)due to an increase in interest rates, the financial provision of EUR 118 million created in 2005 relative to the fair value of the derivative security contracted by EDP to cover the effects of changes in interest rates on the actual net value of the CMEC was fully reversed in the first quarter of 2006. In addition, a gain of EUR 30 million from this derivative was reported for the second quarter of 2006, following a rise in interest rates which occurred during the period in which this financial instrument was active. ii) there was a EUR 40 million increase during this period in the fair value of other EDP Group derivative securities, EUR 23 million of which was related to gains from hedging operations in energy markets associated to generation and supply on the liberalised market.

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A increased contribution was also recorded under "Group company and associate gains". A total of EUR 245.3 million was registered under this heading in 2006, due essentially to: i) the input from the consolidation by the equity equivalence method of 30% of REN, reflecting the capital gain obtained by the sale of REN's 18.3% holding in Galp, in addition to recognition of the tariff deficit; ii) the imparity of the financial holding in Electra (Cabo Verde), the result of guarantees provided by EDP to finance the company, under the terms of which EDP assumed responsibility for 60% of the debt; iii) improvements in Edinfor, Setgás and EEGSA net profits; iv) the positive input of EUR 3.7 million from NEO subsidiaries consolidated under the equity equivalence method.

Operating Investment (EUR million)	2006	2005	Var. 06/05
Power plants in service New power plants Environmental Supply Portugal Power plants in service New power plants Environmental Supply Spain Iberian Generation & Supply	36.5 44.3 57.8 0.5 139.0 18.5 175.1 57.4 0.1 251.1 390.1	78.3 106.7 17.2 5.7 207.9 15.6 25.7 14.6 4.5 60.4 268.3	-53.4% -58.5% 235.9% -92.0% -33.1% 19.1% -292.4% -97.4% 316.0% 45.4%
Wind farms Portugal Wind farms Other Spain France Renewable Energies	130.0 130.0 227.0 7.6 234.6 21.4 386.0	46.0 46.0 177.2 2.9 180.2 - 226.2	182.5% 182.5% 28.1% 157.3% 30.2%
Distribution grid Other (-) Investment subsidies Portugal Distribution grid (-) Investment subsidies Spain Iberian Distribution	360.8 48.6 140.8 268.5 49.9 11.8 38.0 306.6	436.1 50.3 150.5 335.9 59.7 10.2 49.5 385.4	-17.3% -3.4% -6.4% -20.1% -16.5% 16.1% -23.1% -20.5%
Distribution grid Other Portugal Distribution grid Other Spai n Iberian Gas	14.1 4.8 19.0 23.7 9.1 32.8 51.8	7.1 2.0 9.2 26.8 26.1 52.9 62.1	98.5% 137.3% 107.1% -11.6% -65.2% -38.0% -16.6%
Iberian Core Business	1,134.5	941.9	20.4%
Generation Distribution Supply & other Brazil	104.2 190.8 0.2 295.1	255.4 163.4 0.6 419.3	-59.2% 16.8% -68.4% -29.6%
Other	26.9	65.9	-59.2%
EDP Group	1,456.5	1,427.2	2.1%

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

The EDP Group operating investment totalled EUR 1,456.5 million in 2006, representing an increase for the year of 2.1% and reflecting a 20.4% increase in Iberian "Core Business" operating investment. In 2006, approximately 46% of operating investment was directed towards expanding the installed capacity, particularly with regard to investment in wind power, the new Castejón CCGT plant in Spain and the Peixe Angical hydroelectric power station in Brazil. These are investments which will reinforce the medium-term growth potential. It should also be noted that approximately 70% of operating investment was linked to regulated businesses associated with a low return on investment risk, such as energy generation from renewable sources, gas and electricity distribution in the Iberian Peninsula and electricity generation contracted under PPAs.

With regard to generation and supply in the Iberian Peninsula, the reduced operating investment in generation in Portugal reflects the completion of construction work at Frades hydroelectric power station (192 MW - Aug-05, with PPAs until 2027) and the third group of generators at the Ribatejo CCGT (392 MW fourth quarter of 2005). In Spain, EDP continued building the 2nd. 400 MW group of generators at the Castejón CCGT plant, which is expected to become operational during the fourth quarter of 2007 (EUR 117 million was invested in the project in 2006) and EUR 58 million was also invested in building another 400 MW CCGT plant in Soto, which is expected to become operational in the third quarter of 2008. In addition, EDP invested EUR 115.2 million in reducing SO₂ and NOx emissions at the Sines, Aboño and Soto coal-fired power stations, in order to comply with the EU Directive on large combustion plants by December 2007.

In 2006, EDP Group operating investment in wind farms totalled EUR 378.5 million

- In Portugal, NEO invested EUR 130.0 million, around half of which was channelled into completing the construction of the wind farms that became operational in 2006, with a total gross installed capacity of 88 MW. The remaining amount was invested in projects and wind farms which are expected to become operational in 2007 and 2008;
- In Spain, NEO invested EUR 227.0 million, almost 1/3 of which was channelled into completing work on the wind farms which became operational or



- were connected to the grid in 2006, providing a total gross installed capacity of 330 MW. The remaining amount was invested in wind farms that are expected to become operational by the end of 2007;
- In France, NEO invested EUR 17.6 million in two wind farms with a total capacity of 20 MW which were connected to the grid at the end of December 2006. It also invested EUR 3.8 million in building a 10 MW farm that is expected to become operational this year. Currently, NEO has 559 MW under construction which is expected to be operational at the end of 2007 426 MW in Spain, 86 MW in Portugal and 46 MW in France. In December 2006, the balance of NEO investments in progress totalled EUR 610 million.

In 2006, operating investment in distribution in the Iberian Peninsula totalled EUR 306.6 million and was aimed essentially at improving the service provided by our distribution network. In Portugal, following large-scale investment in the distribution network in recent years, to improve the quality of the service, the Equivalent Interruption Time (EIT) in 2006 was 203 minutes. It should be noted that 2006 was marked by far less favourable atmospheric conditions and a load interruption on the national grid caused by an incident which took place in the German grid on 4 December, both of which added 27 minutes to the EIT. Excluding the impact of extraordinary factors on EIT in both years, it remained at 176 minutes in 2006 vs. 175 minutes in 2005

In the gas business in the Iberian Peninsula, operating investment totalled EUR 51.8 million in 2006, 73% of which was invested in expanding the gas distribution network. The remainder was channelled into the transport network in Spain, meters and reducers for new consumption areas and adapting LPG facilities to NG.

Operating investment in euros in Energias do Brasil fell by 29.6% during this period, due essentially to the completion of work on the Peixe Angical hydroelectric power station (EUR 86.6 million in 2006 vs. EUR 232.7 million in 2005) which became commercially operational in the third quarter of 2006. In October 2006, a new 50 MW group of generators also became operational at the Mascarenhas hydroelectric power station. In 2007, Energias do Brasil expects to increase

its installed capacity by 25 MW following the completion of the São João hydroelectric power station. In addition, the company has already announced the prospective construction of Santa Fé hydroelectric power station (29 MW), which is expected to become operational in 2009. Energias do Brasil has also invested EUR 190.8 million in electricity distribution, 57 million of which is associated to "Universalização", the universal connection programme for all low-voltage customers in the Bandeirante, Escelsa and Enersul concession areas.

Consolidated Cash-Flow (EUR million)	2006	2005
Operating Activities Receivables (Irade) Payables (suppliers) Payables (staff) Payables (staff) Payables (concession fees) Other receivables/(payables) relating to operating activities	10,219 (7,148) (735) (213)	9,401 (6,743) (757) (206)
Cash flow generated	2,147	1,914
Income tax receivable/(payable)	(129)	(261)
Cash Flow of Operating Activities Discontinued Activities Continuing Activities	2,018 34 1,983	1,653 4 1,648
Investing Activities Receivables from: Financial assets Tangible and intangible fixed assets Investment subsidies Interest and similar income Dividends Payables:	805 11 183 36 177 1,212	519 26 79 26 36 687
Financial assets Tangible and intangible fixed assets Investment subsidies	(465) (1,589) - (2,053)	(1,219) (1,507) - (2,726)
Cash Flow of Investing Activities Discontinued Activities Continuing Activities	(842) (21) (820)	(2,039) 200 (2,240)
Financing Activities Receivables/Payables of loans contracted and related interest Interest and similar costs Share capital increases and share issue premiums Receivables/Payables	40 (429) -	1,523 (580) 176
of derivate financial instruments Dividends payable Sale/(purchase) of own stock	38 (366) 27	146 (336) (6)
Cash Flow of Financing Activities Discontinued Activities Continuing Activities	(690) (48) (642)	923 24 899
Variation in cash and cash equivalents Impact of exchange rate fluctuations	486 (29)	536 34
Cash and cash equivalents at beginning of financial year Cash and cash equivalents at the end of the financial year Cash variation due to inclusion within consolidation perimeter Discontinued activities Cash and cash equivalents	267 724 26 (2)	(303) 267
of continuing operations at the end of the year	752	

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Capital debt

At the end of 2006, the Group consolidated debt rose to EUR 10,013 million, roughly 80% of which was placed with EDP, S.A. and EDP Finance BV. As regards 2005, the Group's debt remained relatively stable, despite the acquisition of Agrupacion Eólica, which took place at the end of the year and the continuation of the Group's Capex programme, as a result of the implementation of the divestiture programme. The sale of part of the shareholding in REN and the partial sale of the EDP Group's stake in Sonaecom SGPS S.A. were particularly relevant aspects of this programme.

At the end of 2006, the EDP Group net debt amounted to EUR 9,285 million, due to the existence of cash and equivalents essentially resulting from cash resources in the Group's Brazilian subsidiaries and the fact that the aforementioned divestitures took place at the end of the year.

Capital Debt (EUR million)	2006	2005	Var. 06/05
EDP, S.A. and EDP Finance BV HidroCantábrico Brazil NEO Telecommunications Others	8,044 213 1,019 579 0 158	7,845 718 1,005 0 316 128	2.5% (70.3%) 1.4% - 23.3%
Capital Debt	10,013	10,011	0.0%
Interest payable OPTEP Swap Fair value of debt	135 - 5	165 315 94	(18.1%) - (94.6%)
Capital debt	10,153	10,584	(4.1%)

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 the Brazilian holdings and the debt contracted as part of "project finance" and basically associated with wind power partnership projects. It should be added that, on the basis of the agreement to sell ONI, this company is presented as a discontinuing operation.

In 2006, EDP S.A. took advantage of favourable market conditions to refinance its debt becoming due in 2007, thus extending its maturity and reducing costs. In order to ensure a diverse portfolio of funding sources, the refinancing was undertaken through capital market and banking operations:

- In June 2006 bonds were issued by EDP Finance BV under the Euro Medium Term Notes
 ("EMTN")programme totalling EUR 1,500 million, divided into three 4, 6 and 10-year EUR 500 million tranches. The 4-year tranche was set at a variable rate, whilst the longer term tranches were issued at fixed rates:
- In November, EDP S.A. and EDP Finance BV contracted a 7 year Revolving Credit Facility ("RCF") of EUR 1,100 million, arranged through a syndicate of international blue chip banks. The RCF structure offers EDP greater flexibility in choosing its time to enter the market and refinance its debt that will mature in the coming years, under the best conditions;
- In December 2006, two medium to long-term loans were also contracted (i) a bilateral loan from the BEI to finance environmental investments in the Sines, Soto and Aboño power stations to the value of EUR 190 million over 10 years (bullet), (ii) a EUR 150 million, 5-year bilateral loan (bullet) to refinance the short-term debt.

During the first half of 2006, Bandeirante, Escelsa and Enersul in Brazil issued bonds on the local market to the value of BRL 250 million, BRL 264 million and BRL 338 million, respectively. The bonds are valid for 5 years, with a 2-year grace period. They have also contributed towards extending the mean life of the Group's debt and reducing financial costs, since they were used to substitute heavier debt due to mature in 2006-2008

During the second half of the year, the Group's Brazilian distributors also contracted, through a syndicate of banks, total funding of BRL 189 million over 7 years, with a 2-year grace period. These loans are to fund the distributors' Capex programme for 2006-2007 and supplementary funding is being negotiated with BNDES.

In terms of maturity, the EDP Group's consolidated debt breaks down into 14% in short-term debt and 86% in medium- and long-term debts.



Capital Debt (EUR million)	2006	2005	Var. 06/05
Debt - Medium- and Long-term Loans by bonds and equity securities Debts to credit institutions Other loans contracted	8,620 5,413 3,162 45	8,192 3,786 4,280 126	5.2% 43.0% (26.1%) (64.3%)
Debt - Short-term Loans by non-convertible bonds Debts to credit institutions Comercial paper Other loans contracted	1,393 166 411 813 3	1,819 138 919 759 3	(23.4%) 20.8% (55.3%) 7.1% 0.0%
Capital debt	10,013	10,011	(0.0%)
Interest payable OPTEP Swap Fair Value of debt	135 - 5	164 315 94	(17.7%) (100.0%) (94.7%)
Capital debt IFRS	10,153	10,584	(4.1%)

In relation to short-term financing and cash flow management, EDP, S.A. continues to favour recourse to issues of "Euro Commercial Paper" programmes, 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.

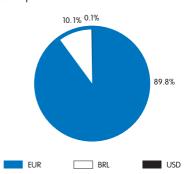
By maintaining a financial management policy based on prudence, by the end of 2006 EDP, S.A. had access to EUR 1,477 million in credit facilities and EUR 350 million in commercial paper with underwriting commitment, EUR 1,727 million of which was available for use.

By the end of 2006, the average interest rate for the EDP, S.A. and EDP Finance BV capital debt was 4.3% per year and approximately one-third of the medium/long term debt was set at a fixed rate.

With regard to currency, the EDP Group debt has maintained the profile it held in 2005, with approximately 90% of the Group debt expressed in euros and the remaining amount, pertaining to the debt contracted by the Brazilian subsidiaries, essentially in BRL (or USD with BRL swap).

Breakdown of Debt by Currency

The EDP Group



Rating

The medium and long-term rating for EDP, S.A. and EDP Finance BV has not altered since the previous year and the three rating agencies (S&P, Fitch and Moody's) have reaffirmed the rating as A/A2 with Stable Outlook.

EDP S.A. and EDP Finance BV / Change in Rating

Date	S&P	Date	Moody's	Date	Fitch
06/02/03	A / St / A1	05/06/23	A2 / St / P1	06/02/16	A / St / F1
04/07/30	A / CW (-) / A1	03/08/19	A3 / St / P2	05/07/23	A / St / F1
03/08/28	A / St / A1	02/06/12	A2 / St / P1		
02/05/30	A+ / Neg / A1	01/10/01	Aa3 / Neg / P1		
01/05/21	AA- / St / A1	99/08/05	Aa3 / St / P1		
99/08/05	AA / St / A1+				

The HC rating attributed by Fitch was upwardly revised to A-, one level below the EDP SA rating and in line with the A3 rating previously attributed by Moody´s. In both cases the outlook is stable.

During 2006 and as part of the aforementioned bond issue procedures, all Brazilian companies were rated by Moody's and S&P, as shown in the following table. It should be noted that these ratings show the operational and financial robustness of the Group's Brazilian subsidiaries and rank them within the best in the sector in that country.

	Glo	Global		onal
	S&P	Moody's	S&P	Moody's
Bandeirante		Ba3	A-	А3
Escelsa	BB-	Ba3	A-	A3
Enersul		Ba3	Α	A2
Investco				Aq2



Financial Analysis



2. GENERATION AND SUPPLY IN THE IBERIAN **PENINSULA**

Operating results for the generation and supply business in the Iberian Peninsula showed a 2.7% decrease in 2006, down to EUR 727.0 million.

Statement of Operating Results (EUR million)	2006	2005	Var. 06/05
Operating income	3,519.2	3,664.4	-4.0%
Direct business costs	2,087.3	2,338.3	-10.7%
Gross margin % Operating income	1,431.9	1,326.1	8.0%
	40.7%	36.2%	4.5 p.p.
External supplies and services	171.8	169.5	
Staff costs	123.9	119.9	
Costs with social benefits	39.5	28.8	
Concession fees	3.8	3.8	
Other operating costs/(income)	22.1	(41.7)	
Operating costs	361.1	280.3	
Gross operating results % Operating income	1,070.8	1,045.8	2.4%
	30.4%	28.5%	1.9 p.p.
Provisions for risk and contingencies	13.2	5.6	135.0%
Depreciation and amortisation	333.2	298.1	11.8%
Compensation of subsidised assets' depreciation	(2.6)	(4.7)	44.3%
Operating results % Operating income	727.0	746.9	-2.7%
	20.7%	20.4%	0.3 p.p.

2.1. Generation in the Iberian Peninsula

Statement of Operating Results (EUR million)	2006	Portug 2005	al Var. 06/05	2006	Spain 2005	Var. 06/05
Operating income	1,882.8	1,803.8	4.4%	772.6	981.1	-21.2%
Direct business costs	793.0	834.9	-5.0%	328.0	413.9	-20.7%
Gross margin % Operating income	1,089.8 57.9%			444.6 57.5%	567.1 57.8%	
External supplies and services Staff costs Costs with social benefits Concession fees Other operating costs/(income) Operating costs	89.7 84.5 37.7 3.7 1.5 217.1	74.1 27.0 3.8 (10.3)		39.1 28.6 1.3 - 36.6 105.6		-20.7% -1.8% -
Gross operating results % Operating income	872.7 46.4%	781.7 43.3%	11.6% 3.0 p.p.	338.9 43.9%	523.9 53.4%	-35.3% -9.5 p.p.
Provisions for risk and contingencies Depreciation and amortisation Compensation of	20.5 228.9		18.0%	(1.0) 97.1	0.7 95.6	1.6%
subsidised assets' depreciation	(2.5)	(4.6)	45.6%	(0.1)	(0.2)	2.2%
Operating results % Operating income	625.8 33.2%	594.3 32.9%	5.3% 0.3 p.p.	243.0 31.5%		-43.2% -12.2 p.p.

On the Regulated Market, EDP's installed capacity in the Iberian Peninsula is bound to the low risk profile of Power Purchase Agreements (PPAs), thus guaranteeing stable cash flow. PPAs ensure revenue that is based on availability at power stations, not on volume generated, and guarantee a real ROA of 8.5% before tax and the recovery of fuel and CO₂ emissions costs.

PPAs Gross Margin (EUR million)	2006	2005	Var. 06/05
PPA "parcela fixa" [fixed portion] PPA "parcela variável" [variable portion] Steam (Barreiro) & ashes	934.5 311.3 7.0	909.3 495.2 6.5	2.8% -37.1% 7.8%
(-) Direct costs	318.6	474.3	-32.8%
Gross margin	934.2	936.6	-0.3%

In 2006, the gross margin for power stations with PPAs fell by 0.3%, affected by the negative impact of a EUR 9.6 million adjustment with REN pertaining to the variable component of coal consumed at the Sines power station.

The PPA fixed tranche rose by 2.8%, boosted by improved availability at our hydroelectric and thermoelectric power stations (km: 1.051 in 2006 vs. 1.045 in 2005), by the start-up of Frades hydroelectric power station in August 2005 (192 MW, with PPAs until 2027) and adjustments in line with inflation.

On 16 February 2007 the Portuguese government approved a legislative package for the electricity sector, following a review of the procedures for early termination of PPAs and the use of water resources to generate electricity.

Following this, in relation to the procedures for the early termination of PPAs, the system established under Decree-Law no. 240/2004 of 27 December was maintained. This Decree-Law defines the terms under which the Costs for Preserving the Contractual Equilibrium of PPAs (CMECs) are calculated. Essentially, an adjustment to the benchmark market sales price for electricity was considered, which shall cause the mean annual value to increase from EUR 36/MWh to EUR 50/MWh.

It was also announced that a charge would be introduced for producers of hydroelectric power under PPAs, associated to the economic and financial equilibrium of commercially operating hydroelectric resources in the marketplace in the period following the expected termination of PPAs.

These measures offer EDP the opportunity to preserve the stability of the gross margin for power stations currently operating under the PPA/CMEC system over the next 10 years and maintain the market operations of the hydroelectric power stations after the CAE/CMEC system ends.



Generation in the liberalised market is managed in terms of supply in the liberalised market and takes into account the cost of generation and market demand. The energy generated on the liberalised market is sold on the liberalised wholesale and retail markets.

Gross Margin of Liberalised Generation (EUR million)	2006	2005	Var. 06/05
Portugal Spain	122.3 444.6	13.5 567.1	803.5% -21.6%
Gross margin	566.9	580.7	-2.4%

During the final quarter of 2005, the third group of 400 MW generators became operational at the Ribatejo CCGT plant, thus increasing EDP's installed capacity on the Iberian liberalised market by 11% to 3,911 MW. Despite this, the electricity generated by EDP power stations in the Iberian liberalised market fell by 4% due to: i) various stoppages for maintenance - one scheduled stoppage at Aboño 2, the market's principal coal-fired power station (536 MW), for 7 weeks during the second quarter of 2006 to carry out general 3-yearmaintenance and make environmental investments, and scheduled stoppages at the Castejón CCGT plant (6 weeks) during the first quarter of 2006 and the Trillo nuclear power station (4 weeks) during the second quarter of 2006; ii) a reduction in the use of our CCGT plants, particularly in Portugal during the final quarter of 2006, due to the high level of hydroelectric power generated during this period.

Throughout 2006, fuel costs per MWh rose sharply. The cost per MWh of natural gas rose 17% due to a sharp increase in Brent prices, to which the CCGT gas supply contracts are tied. The EDP Group coal-fired power stations in Spain continued to benefit from the stability of international coal prices and a reduction in the price of CO₂ emissions licences. The rise in average sales prices on wholesale markets and the upward revision of intra-Group sales prices for sellers more than compensated for the increase in production costs, thus permitting an increase in gross unit margin.

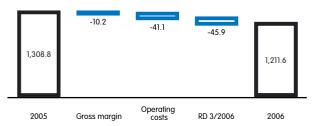
The reduction in the volumes produced in 2006 by thermoelectric power stations on the liberalised market enabled EDP to make significant savings on CO₂ emissions. In Portugal, CO₂ emissions amounted to 2.0Mt, which was 0.8Mt less than the licensed amount

for the period, resulting in a positive impact of EUR 17.1 million on the gross margin for 2006. In Spain, CO₂ emissions amounted to 11.4Mt, 1.2Mt less than the licensed amount for the period.

The 2.4% decrease in the gross margin for liberalised generation in the Iberian Peninsula did not include the gains linked to financial hedging operations in the energy markets associated with this area of business, which were reported under financial profits. If the impact of these hedging instruments on the energy markets were included, the gross margin for generation on the liberalised market would have risen 0.4% in 2006

In Portugal, the gross margin for generation on the liberalised market amounted to EUR 122.3 million, due to: i) the fact that the price agreed with EDP Comercial was upwardly revised; ii) a reduction in the volumes contracted with EDP Comercial, allowing trading activity to generate supply requirements through own generation, leading to fewer electricity purchases on the spot market which, in 2005, were effected at a higher price than that agreed with EDP Comercial. In Spain, the 21.6% decrease in the gross margin for liberalised generation is explained by: i) a lower level of generation; ii) a reduction in the mean sales price - in 2006 the generation business in Spain altered the accounting procedures for electricity sold through bilateral agreements (67%), reporting the contract price under sales rather than the market price (nevertheless, the fall in generation had the opposing effect on the supply business).

Gross Operating Results - Iberian Generation (EUR million)



Financial Analysis



Gross operating results for the generation business in Portugal rose 11.6% bolstered by 12.5% growth in the gross margin, following a strong recovery by the liberalised market generation business. Operating costs rose 12.7%, boosted by an increase in installed capacity and non-recurring costs related to staff reductions.

In Portugal, external supplies and services for the generation business showed a reduction of 3.3%, even taking into account the rise in maintenance costs associated to the increased installed capacity (+392 MW Group III at Ribatejo CCGT plant and +192 MW at Frades hydroelectric power station, with PPAs until 2027). The renegotiation of insurance contracts and outsourcing contracts for operations and maintenance contributed significantly to this reduction.

Staff costs for generation in Portugal rose 14.1% and the cost of social benefits rose by 39.8%, essentially due to the fact that restructuring costs involving the shedding of 60 members of staff and the constitution of provisions for future redundancies (25 employees) were reported in 2006. Taking only changes in staff numbers and salaries in 2006 into account, recurring staff costs fell by 4%.

In Spain, gross operating results fell by 35.3%, due to an 11.7% reduction in the volumes generated in the liberalised market and a reduction in gross unit margin, which resulted from the alteration of the intra-Group transfer price with sellers - the 2005 spot market price vs. the internal transfer price in line with the 2006 forward market. The other operating costs were penalised by the impact of RD 3/2006, whilst controllable operating costs - external supplies and services, staff costs and social benefit costs - fell 9.9% during the year.

With the aim of reducing the 2006 tariff deficit, on 24 February 2006 the Spanish government approved Royal Decree 3/2006 altering the compensation mechanism for energy sold/purchased on the wholesale market by producers and distributors within the same economic group and reassessing the value of CO₂ licences freely awarded to electricity producers. According to HC Energía's interpretation of current legislation, the total estimated tariff deficit for the period rose to EUR 2.5 billion, 6.08% of which (EUR 154m) will have to be financed by HC Energía. This amount was not deducted from sales, given that

current legislation ensures that it will be recovered in future years. With regard to CO₂ licences, EDP's interpretation of RD3/2006 conforms with the earlier opinion given by the Spanish regulatory body (the CNE), which implied a provision of EUR 32 million to cover the potential withdrawal of CO₂ emissions licences freely awarded to HC Energía for 2006. According to information currently available, the Spanish government shall establish the final total for the tariff deficit and potential withdrawal of CO₂ emissions licences during the second quarter of 2007.

2.2. Supply in the Iberian Peninsula

Statement of Operating Results (EUR million)	2006	Portug 2005	al Var. 06/05	2006	Spain 2005	Var. 06/05
Operating income	326.7	525.0	-37.8%	538.3	354.5	51.8%
Direct business costs	377.4	581.0	-35.1%	588.8	508.5	15.8%
Gross margin % Operating income	(50.7) -15.5%	(56.0) -10.7%		(50.5) -9.4%	(153.9) -43.4%	67.2% 34.0 p.p.
External supplies and services Staff costs Costs with social benefits Concession fees Other operating costs/(income) Operating costs	15.3 5.5 0.4 0.0 (0.5) 20.7	12.4 4.0 0.4 0.0 1.6 18.4	-5.0% -12.3%	28.9 5.3 0.2 - (15.4) 18.8	5.8 0.1	21.5% -8.8% 5.1% - - 40.1%
Gross operating results % Operating income	(71.3) -21.8%	(74.4) -14.2%	4.2% -7.7 p.p.	(69.3) -12.9%	(185.4) -52.3%	62.6% 39.4 p.p.
Provisions for risk and contingencies Depreciation and amortisation Compensation of subsidised assets' depreciation	(3.0) 4.8	6.4 4.4 -	8.1%	(3.3) 2.5 -	0.4 4.2 -	-40.5% -
Operating results % Operating income	(73.1) -22.4%	(85.2) -16.2%	14.3% -6.1 pp	(68.5) -12.7%	(190.0) -53.6%	

The amount of electricity sold by the EDP Group on the liberalised retail markets in the Iberian Peninsula fell 12.5% to 10,708 GWh in 2006, reflecting the fact that these markets were a less attractive proposal both for liberalised sellers and electricity consumers in general, given the strong competition of lower regulated tariffs for end clients. Throughout 2006 this led to the creation of significant tariff deficits in both the Iberian regulated systems. However, the non-additive tariff system in both countries, which is stronger in Spain, allowed contracts with clients with specific consumption profiles to be renegotiated at prices that were attractive for EDP and competitive in terms of existing regulated tariffs. The mean cost per MWh supplied showed a significant increase reflecting the price increases of fixed term contracts established between liberalised sellers and the EDP Group's liberalised generation of electricity for the Iberian market.

In Spain, the low additive tariff system enabled HC



Energía to increase both the amount supplied, by 12.6% to 6,671 GWh, and the mean net sales price, by 15.4% to EUR 48/MWh in 2006, even in view of strong competition from a more favourable mean tariff for end clients on the regulated market, which continued to be bolstered by successive accumulated tariff deficits. HC Energía managed to present attractive offers, both to the EDP Group and clients with specific consumption profiles. This growth occurred both in the domestic sector, where there was a marked increase in the number of clients contracting combined electricity and gas supply, and in the major consumer sector, which included a contract with Renfe, in December 2005, to supply 1,500 GWh in 2006. In terms of operating costs, a 15.6% rise in staff costs and the cost of external supplies and services was due to increased trade in the domestic sector.

In Portugal, after growth in contracted volumes during 2005, the volumes sold by EDP on the liberalised retail market declined during 2006. Throughout 2006, the termination of supply contracts at less favourable prices led to a 36% reduction in volumes sold and a 12.5% rise in the mean net sales price compared to 2005. The number of retail customers in the liberalised market rose by 145% to 22,600 in December 2006, following total liberalisation of the domestic sector in Portugal on 4 September 2006. EDP Comercial was the only liberalised seller to present a product targeted at domestic consumers of electricity in Portugal edp5D - which had acquired 18,127 customers by the end of 2006. The launch of this commercial product for the liberalised domestic market involved a 26.5% increase in staff costs and external supplies and services in 2006.



Financial Analysis



3. RENEWABLE ENERGIES IN THE IBERIAN PENINSULA

Energy generated from renewable sources showed an operating result of EUR 57.7 million in 2006, representing a year-on-year increase of EUR 21.3 million

Statement of Operating Results (EUR million)	2006	2005	Var. 06/05
Operating income	249.1	127.6	95.2%
Direct business costs	47.3	29.0	62.8%
Gross margin % Operating income	201.8 81.0%	98.5 77.2%	104.8% 3.8 p.p.
External supplies and services Staff costs Generation centre rental Other operating costs/(income) Operating costs	30.7 14.0 1.3 8.9 54.9	22.0 5.2 0.7 4.9 32.9	169.0% 75.5%
Gross operating results % Operating income	146.9 59.0%	65.7 51.5%	123.6% 7.5 p.p.
Provisions for risks and contingencies Depreciation and amortisation Compensation of subsidised assets' depreciation	12.1 77.6 (0.5)	(0.0) 29.7 (0.4)	161.6% -38.9%
Operating results % Operating income	57.7 23.1%	36.4 28.5%	58.4% (5.4 p.p.)

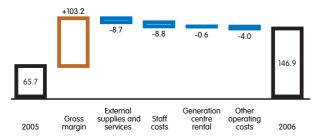
In 2006, 2,253 GWh of electricity (78.0% more than in the previous year) was generated from renewable sources, due to an increase in the installed capacity as well as a rise in the number of equivalent service hours at the wind farms operated by EDP in the Iberian Peninsula: i) in Spain, the number of equivalent service hours rose from 2,100 hours in 2005 to 2,309 hours in 2006; ii) in Portugal, the equivalent number of service hours decreased from 2,463 hours in 2005 to 2,199 hours in 2006. It should be noted that Portuguese regulations allowed the gross margin wind power generation to remain stable, given that tariffs per MWh decrease as the annual number of service hours rise.

Gross Margin (EUR million)	2006	2005	Var. 06/05
Wind - Portugal Wind - Spain Waste & biomass Small hydro Others & consolidation adjustments	46.6 131.2 15.2 0.15 8.6	30.0 43.8 20.2 0.35 4.2	55.6% 199.5% -25.0% -58.3% 105.7%
Total	201.8	98.5	104.8%

The gross margin for the renewable energy business more than doubled during 2006, benefiting from a rise in installed capacity and utilisation factors, in addition to a rise in the mean sales price for wind power produced at our wind farms in the Iberian Peninsula. In 2006, the wind power produced by our wind farms in Portugal and Spain was sold at a mean price of

EUR 91/MWh and EUR 90/MWh respectively, compared with mean prices of EUR 86/MWh and EUR 79/MWh respectively in 2005.

Gross Operating Results - Renewable Energies (EUR million)



External supplies and services rose by EUR 8.7 million during this period, reflecting: i) a EUR 2.7 million increase due to the first-time consolidation of Desa in 2006; ii) a EUR 3.4 million increase in maintenance and repair costs for the existing wind parks. The remainder was essentially due to an increase in rent and hire expenditure. Staff costs went up by EUR 8.8 million during this period, due to salary increases and a rise in the number of employees (75 employees, following the purchase of Desa).

In 2006, provisions for liabilities and charges included an impairment with a view to the future transfer of the waste and biomass assets to HC Energía, which is expected to be completed by the first quarter of 2007.

Gross operating results rose EUR 81.2 million to EUR 146.9 million in 2006, or 59.0% in the context of operational income (+7.5 p.p. for the period). Excluding the small-scale hydros and waste and bimoass businesses, which registered a gross operating result as percentage of operating income equivalent to 43.2% and 18.1% respectively, the gross operating result from the wind power business in Portugal and Spain totalled EUR 149.4 million (or 86.4% of operating income) in 2006.

Amortisation rose from EUR 29.7 million in 2005 to EUR 77.6 million in 2006, essentially due to the aforementioned increase in the installed wind power capacity through purchases and organisational expansion.



4. DISTRIBUTION IN THE IBERIAN PENINSULA

The distribution business in the Iberian Peninsula includes EDP Distribuição, a subsidiary of the EDP Group which operates in the areas of electricity distribution and supply within the regulated system in Portugal, and the distribution company HC Energía, which operates in the Spanish electricity market.

The distribution business in the Iberian Peninsula showed an operating result of EUR 236.1 million euros in 2006, representing 38.6% year-on-year growth.

Statement of Operating Costs (EUR million)	2006	2005	Var. 06/05
Operating income	4,416.5	3,920.5	12.6%
Direct business costs	3,041.8	2,623.9	15.9%
Gross margin % Operating income	1,374.6 31.1%	1,296.6 33.1%	6.0% -1.9 p.p.
External supplies and services Staff costs Costs with social benefits Generation centre rental Other operating costs/(income) Operating costs	293.7 210.4 98.3 211.4 (11.1) 802.8	304.5 215.3 129.9 201.4 (13.1) 838.1	-24.3% 5.0%
Gross operating results % Operating income	571.8 12.9%	458.6 11.7%	24.7% 1.3 p.p.
Provisions for risks and contingencies Depreciation and amortisation Compensation of subsidised assets' depreciation	61.1 360.7 (86.1)	5.4 364.8 (82.0)	1024.1% -1.1% -5.0%
Operating results % Operating income	236.1 5.3%	170.3 4.3%	38.6% 1.0 p.p.

The gross margin for the EDP Group distribution business in the Iberian Peninsula rose 6.0% during 2006: i) in Portugal, permitted income rose 9.7% during the period whilst the gross margin for electricity rose 6.8%, reflected in a tariff deviation of EUR 117.9 million to be recovered; ii) in Spain, the gross margin included a positive impact of EUR 8.0 million from variations in the cost of purchased electricity and a negative impact of EUR 15.6 million resulting from the implementation of RD 3/2006.

The gross operating result for the distribution business in the Iberian Peninsula benefited from a 4.2% reduction in operating costs due, on the one hand, to a sharp reduction in commercial costs for electricity distribution in Portugal - the result of increased subscriptions to the "conta certa" scheme and the introduction of bimonthly billing - and a reduction in expenditure on social benefits following the restructuring of human resources.

In Portugal in 2005, the unexpected increase in fuel

costs and special regime generation volumes was reflected in a significant increase in system costs and, in 2006, the Energy Service Regulatory Body (ERSE) altered the criteria for apportioning the surcharge for the generation of electrical energy from renewable sources amongst electricity customers. These two events, together with the fact that the average increase in LV tariffs in 2006 was limited to the rate of inflation, gave rise to a tariff deficit of EUR 399 million, EUR 125 million of which was attributed to EDP Distribuição.

On 16 October 2006, the ERSE proposed an average increase in electricity tariffs of 12.4% for 2007, together with the recovery of the deficit created in 2006 over 3 years. However, in November 2006, the Portuguese government approved Decree-Law no. 237-B/2006 establishing a 6% ceiling on average LV tariff increases for 2007. Consequently, the ERSE revised the average electricity tariff increase for 2007 and, in December 2006, the Regulatory Body announced an average increase of 6.2% on tariffs and recognised the existence of an additional deficit of EUR 79 million for the system - created by the 6% cap on average LV tariff increases - EUR 49 million of which was attributed to EDP Distribuição. The decree-law approved by the Portuguese government in November 2006 acknowledged the recovery of tariff deficits over a period of 10 years commencing in 2008, thus allowing the securitisation of these amounts. EDP Distribuição therefore acknowledged the 2006 deficit (EUR 125 million) under electricity sales and reported it as an asset

4.1. Distribution in Portugal

Statement of Operating Results (EUR million)	2006	2005	Var. 06/05
Operating income	4,289.0	3,767.6	13.8%
Direct business costs	3,041.8	2,594.2	17.3%
Gross margin % Operating income	1,247.2 29.1%	1,173.4 31.1%	6.3% (2.1 p.p.)
External supplies and services Staff costs Costs with social benefits Generation centre rental Other operating costs/lincome) Operating costs	240.1 185.7 97.2 211.4 (17.0) 717.4	255.0 181.1 128.9 201.4 (22.5) 744.0	5.0%
Gross operating results % Operating income	529.8 12.4%	429.4 11.4%	23.4% 1.0 p.p.
Provisions for risks and contingencies Depreciation and amortisation Compensation of subsidised assets' depreciation	57.0 334.6 (83.9)	5.4 332.7 (80.0)	
Operating results % Operating income	222.0 5.2%	171.3 4.5%	29.6% 0.6 p.p.

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In 2006, the quantity of electricity distributed in Portugal rose by 3.7% to 45.4 TWh. The HV and MV segments benefited from energy consumption by cogenerators within the regulated system (+0.7 p.p.), which opted to sell into the system all the energy produced under the special regime tariff in order to benefit from the difference in price between the two regimes. Excluding the impact of the cogenerators and the temperature effect (-0.6 p.p.), energy consumption rose by 3.6%.

Permitted Income (EUR million)	2006	2005	Var. 06/05
Fixed component of the URD: HV and MV (EUR million) Unit revenue for URD: HV and MV (EUR / MWh) Electricity delivered to SEP/SENV: HV and MV (GWh) Fixed component of the URD: 1/ (EUR million) Unit revenue for the UDGr: IV (E / MWh) Electricity delivered to SEP/SENV: LV (GWh) URD permitted income	136.4 5.6 45,548 266.2 13.6 24,132 986.0	8.3 43,998 - 24.5 23,610 941.6	3.5%
Average value of assets assigned to CREDES (net of amortisations). Return on assets assigned to CREDES (%). Amortisation of assets assigned to CREDES Annual costs of commercial structural associated to CREDES CREDES permitted income	246.2 8.0 43.4 71.1 134.2	277.7 8.5 47.6 58.6 129.8	-5.9% -8.8% 21.3%
Average value of assets assigned to CSEP (net of amortisations) Return on assets assigned to CSEP (%) Amortisation of assets assigned to CSEP Annual costs of commercial structural associated to CSEP CSEP permitted income	15.9 8.0 2.1 67.2 70.6	49.0 8.5 6.5 67.5 78.2	-0.5%
Incentives for loss reduction +2 tariff adjust. for URD, CSEP and CREDES +1 & +2 tariff adjust. for energy acquisition and sale activity Recovery PAR costs	15.9 36.7 86.5 24.1	3.2 16.3 27.6 37.7	125.2% 213.7% -36.1%
Total permitted income	1,354.1	1,234.5	9.7%

EDP Distribuição permitted income rose by 9.7% during 2006:

- Permitted income for the Use of the Distribution Network (URD) rose by 4.7% due to an increase in the amount of electricity distributed. It should be noted that at the time of the 2006 tariff review, the ERSE altered the formula for calculating permitted income from the URD by introducing a fixed component (EUR 402.6 million in 2006) independent to the volume of electricity distributed, thus reducing EDP Distribuição's exposure to the risk of variations in demand for electricity in Portugal.
- Permitted income for the Supply of Networks
 (CREDES) and Supply in the SEP (CSEP) reflected: i)
 a 50 b.p. reduction in the rate of return on assets
 attributed to these areas of business ii) a smaller
 base of regulated assets, following the transfer of
 some assets to EDP Soluções Comerciais a
 company created in 2005 to manage commercial
 systems, to supply commercial services to EDP

- Distribuição and EDP Comercial and to harness synergies within the supply business, and also to control business costs in an increasingly competitive environment. The ERSE accepted the remuneration and amortisation of these assets as EDP Distribuição controllable costs, reflected in 9.7% rise in costs associated to the commercial structure of CREDES and CSEP.
- Permitted income in 2006 also included EUR 123.2 million associated to the recovery of prior-year costs, EUR 24.1 million associated to the recovery of costs related to EDP Distribuição's Restructuring Support Plan (PAR) and EUR 15.9 million associated to various incentives, in particular cutting losses and demand management.

Expenditure on electricity purchases rose 17.3% during 2006, due to: i) a 2.9% increase in electricity delivered to the distribution network ii) an increase in the share of electricity purchases from special regime producers; iii) an increase in fuel costs; iv) an increase in the mean tariff for global use of the system.

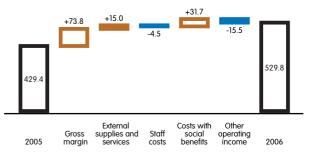
The gross margin for electricity was EUR 117.9 million below the permitted income for 2006, in which:

- EUR 89.5 million derived from the high cost of electricity purchases; i) EUR 43.1 million due to fact that electricity purchases from special regime producers were lower than the estimates made by ERSE when the 2006 tariffs were set, implying the recovery by EDP Distribuição of part of the fixed component of expenditure on electricity purchases charged by REN and associated to special regime generation, whilst also having to meet consumption requirements by purchasing additional energy under the regulated system; ii) EUR 46.4 million from the fact that ERSE had not taken into account the increase in regulated consumption caused by the return of MV/ELV customers to the regulated market from the liberalised market. This meant that the increased demand had to be met through an increase in electricity purchases, namely through market purchases (the "parcela livre" [free portion]), which was also not incorporated into the 2006 tariffs;
- The remaining amount derived from the fact that MV/ELV customers returning to the regulated system benefited, on average, from lower electricity tariffs,



and it was not possible to effect an immediate passthrough to the tariffs of all expenditure on electricity purchases that the company had to incur in order to satisfy this additional demand.

Gross Operating Results - EDP Distribuição (EUR million)



External supplies and services fell 5.9% during 2006, due to: i) a EUR 15.3 million reduction in commercial costs resulting from, on the one hand, a fall in installation expenses following the re-branding of the EDP Distribuição network of shops in 2005 and, on the other hand, a reduction in expenditure on disconnection, billing services and postage as result of a 22% increase in the number of customers joining the "Conta Certa" scheme (1.5 million customers in December 2006) and the fact that in 2006 billing became bimonthly instead of monthly; ii) a EUR 10.4 million reduction in information technology expenditure. Amongst the costs which rose, expenditure on professional training - which increased by EUR 3.5 million - featured significantly, in addition to certain O&M and insurance premium costs.

Staff costs rose 2.5% during 2006 (or 1.4% if capitalisation of staff costs or compensation costs are excluded) due to an average salary increase of 2.7% in 2006, which more than offset the savings achieved by reducing staff numbers.

The number of employees involved in the distribution business in Portugal in 2006 totalled 5,168 (694 of whom worked for EDP Soluções Comerciais), representing a reduction of 154 employees between 2005 and 2006. This reduction was primarily achieved through the Staff Adjustment Programme (PAE) that began in 2006 - encompassing 103 retirements, early retirements and anticipated early retirements.

Expenditure on social benefits in 2006 fell by EUR 31.7 million, essentially due to a EUR 25.3 million reduction in premiums and provisions for pensions as a result of the 2006 actuarial study and an increase in the return on Pension Fund assets. It should be noted that, in 2005, EDP Distribuição reported a non-recurring cost of EUR 29.5 million associated to the loss of 119 employees who left the company in December 2005 under the Restructuring Support Plan implemented in 2005, whilst the non-recurring PAE cost for 2006 totalled EUR 24.7 million.

4.2. Distribution in Spain

Statement of Operating Results (EUR million)	2006	2005	Var. 06/05
Operating income	127.5	152.9	-16.6%
Direct business costs	0.0	29.7	-99.9%
Gross margin % Operating income	127.5 100.0%	123.2 80.6%	3.4% 19.4p.p.
External supplies and services Staff costs Costs with social benefits Other operating costs/(income) Operating costs	53.6 24.8 1.2 5.8 85.4	49.5 34.2 1.0 9.4 94.1	-27.6% 22.4% -38.2%
Gross operating results % Operating income	42.1 33.0%	29.2 19.1%	44.2% 13.9p.p.
Provisions for risks and contingencies Depreciation and amortisation Compensation of subsidised assets' depreciation	4.1 26.1 (2.2)	32.1 (2.0)	-18.8% -10.4%
Operating results % Operating income	14.1 11.1%	(1.0) -0.6%	11.7p.p.

In 2006, all the electricity distributed in Spain was acquired from HC Energía generators which, in accordance with international accounting standards, led to the annulment of the cost of electricity purchase costs by respective sales.

Regulated Income (EUR million)	2006	2005	Var. 06/05
Transmission Distribution Supply	8.6 98.2 7.6	7.8 98.7 7.4	10.3% -0.6% 2.1%
Regulated income	114.3	113.9	0.4%

Financial Analysis

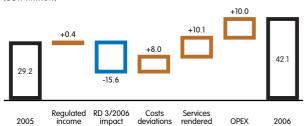


The gross margin for the distribution business in Spain in 2006 rose 3.4% to EUR 127.5 million following i) a EUR 0.4 million increase in remunerations for regulated activities recognised in the 2006 tariff; ii) a positive impact of EUR 8.0 million from deviations in the cost of purchased electricity; iii) a negative impact of EUR 15.6 million resulting from the effects of RD 3/2006, in accordance with the given interpretation (now accounted for under direct costs); iv) a EUR 10.1 million increase in services rendered and other operating income:

- Regulated income rose 0.4% in accordance with the amount recognised in the 2006 tariffs. In 2007, according to RD 1634/2006 which establishes the income from regulated activity in the electricity business in Spain, out of the EUR 3,571.1 billion attributed to the distribution business, EUR 123.1 million or 3.4% was attributed to HC Energia distribution, representing a year-on-year increase of 25%;
- The distribution business obtained extra revenue of EUR 8.0 million due to two contradictory effects resulting from deviations in the cost of purchased electricity: i) the electricity needs of our Spanish distributor were greater than initially estimated, leading to purchases of electricity on secondary markets at higher prices than those of the daily market and giving rise to additional costs of EUR 10.0 million in 2006, which was more than offset by ii) a positive impact of EUR 18.0 million euros resulting from the fact that the mean cost of electricity purchases by our distributor in Spain was lower than the mean cost of electricity purchases from system distributors, which was the standard cost used for the settlement of regulated income/margin. Since June 2006, there has been a substantial increase in the amounts transacted on secondary markets at higher prices than those of the daily market, leading to cost deviations between system distributors due their different business strategies on the wholesale electricity
- RD 3/2006, approved on 24 February 2006, established that from March 2006 onwards sales of generated electricity and purchases of distributed electricity that are simultaneously made by the same business group are settled at a provisional price of EUR 42.35/MWh (the average

cost of conventional generation included in the 2006 tariff). Electricity purchases from the HC Energía distribution business liquidated by own generation increased to 1,512 GWh. The impact of this measure (- EUR 15.6 million) is reported in the distribution business as being the difference between the price of this electricity and the EUR 42.35/MWh rate.

Gross Operating Results - Distribution in Spain (EUR million)



Operating costs fell by 9.2% in 2006, due to reductions in staff costs following the report of a non-recurring cost of EUR 10.0 million in 2005, associated to the restructuring of human resources.



5. GAS IN THE IBERIAN PENINSULA

The EDP gas business in the Iberian Peninsula is based mainly on the regulated distribution sector, in which it has a market share of 7.7%. Naturgas has increased its presence in the Spanish liberalised market. EDP's assets in this business area include: Naturgas, in Spain (56.2% controlled by HC Energía), and in Portugal, Portgás (72.0%; fully consolidated) and Setgás (19.8%; consolidated using the equity equivalence method).

The operating result for the gas business in the Iberian Peninsula rose 23.2% to EUR 110.2 million in 2006.

Statement of Operating Results (EUR million)	2006	2005	Var. 06/05
Operating income	1,128.4	717.4	57.3%
Direct business costs	902.2	528.8	70.6%
Gross margin % Operating income	226.3 20.1%	188.6 26.3%	
External supplies and services Staff costs Costs with social benefits Concession fees	44.5 27.1 0.4	37.9 24.3 0.4	11.6%
Other operating costs/(income) Operating costs	9.5 81.5	2.6 65.2	266.5% 25.0%
Gross operating results % Operating income	144.8 12.8%	123.4 17.2%	17.3% -4.4 p.p.
Provisions for risks and contingencies Depreciation and amortisation Compensation of subsidised assets' depreciation	(2.7) 40.0 (2.8)	0.2 36.8 (3.0)	- 8.7% 7.1%
Operating results % Operating income	110.2 9.8%	89.5 12.5%	23.2% -2.7 p.p.

In April 2006, EDP completed proceedings to reinforce its stake in Portgás from 59.6% to 72.0% and in Setgás from 10.1% to 19.8% respectively, following clearance from the Portuguese Competition Authority to purchase Endesa's indirect holdings in these companies. This operation strengthened EDP's position in the Portuguese gas market, which is expecting an increase in customers following liberalisation. In May 2006, Naturgas completed its acquisition of the remaining 50% of Bilbogas' share capital, after receiving approval from the appropriate authorities and, in September 2006, it signed an agreement for the purchase of the remaining 50% of Gasnalsa's share capital. This agreement enables Naturgas to take one more important step towards reinforcing its position as a comprehensive energy supplier and gas sector leader in the Basque country.

5.1. Gas in Portugal - Portgás

Statement of Operating Results (EUR million)	2006	2005	Var. 06/05
Operating income	96.2	82.3	16.9%
Direct business costs	52.4	40.3	30.2%
Gross margin % Operating income	43.8 45.5%	42.1 51.1%	
External supplies and services Staff costs and social benefits costs Other operating costs/(income) Operating costs	7.1 4.3 (0.5) 10.8	6.3 4.6 1.0 12.0	-6.5%
Gross operating results % Operating income	33.0 34.3%	30.1 36.6%	9.5% -2.3 p.p.
Provisions for risks and contingencies Depreciation and amortisation Compensation of subsidised assets' depreciation	(0.1) 8.1 (1.2)	0.2 7.4 (2.1)	9.0% 42.4%
Operating results % Operating income	26.2 27.2%	24.5 29.8%	6.8% -2.6 p.p.

Income from gas amounted to EUR 94.3 million - EUR 89.1 million of which was from natural gas (NG) and EUR 5.2 million from propane (LPG) - corresponding to a year-on-year increase of 17.4%. This increase was due to a rise in both the unit sales price and the volume of gas distributed. The gross margin rose by 4.1% to EUR 43.8 million meaning that the gross operating result had increased by 9.5% to EUR 33.0 million by the end of 2006.

5.2. Gas in Spain

Statement of Operating Results (EUR million)	2006	2005	Var. 06/05
Operating income	1,032.2	668.4	54.4%
Direct business costs	849.7	504.8	68.3%
Gross margin % Operating income	182.5 17.7%	163.6 24.5%	
External supplies and services Staff costs Costs with social benefits Other operating costs/(income) Operating costs	36.3 22.4 0.3 9.9 69.0	33.8 21.6 0.4 2.0 57.8	3.8% -10.0% 404.9%
Gross operating results % Operating income	113.5 11.0%	105.8 15.8%	7.3% -4.8 p.p.
Provisions for risks and contingencies Depreciation and amortisation Compensation of subsidised assets' depreciation	-0.0 33.5 -1.5	-0.0 32.4 -1.7	
Operating results % Operating income	81.6 7.9%	75.2 11.3%	8.5% -3.3 p.p.

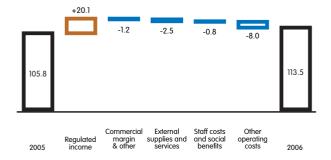
Annual Report 2006 Financial Report **Financial Analysis**



Regulated revenue from the gas business in Spain constituted over 80% of the gross margin, thus allowing for stability in the company's cash flow. The performance of the gross margin for this business area is explained by the following factors:

- A 15.3% increase in regulated income, following the acquisition of the remaining 50% of Bilbogas' share capital(and its full consolidation from January 2006 onwards) and 50% of Gasnalsa's share capital (and its full consolidation from November 2006 onwards);
- An increase in the amount of gas sold to liberalised customers at better sale prices compared to the cost of Naturgas' gas supply contracts (+EUR 30 million). This was the result of Naturgas' success in launching, in mid-2005, a combined gas and electricity product to small-scale customers, which also enabled the company to keep customers that had transferred from the regulated to the non-regulated market, and to renegotiate existing contracts with large-scale customers;
- A shortage of gas at the beginning of 2006 led to exceptional, non-recurring purchases of gas on the spot market at prices higher than those of Naturgas' contracts, which translated into a nonrecurring negative impact of EUR 15 million on the gross margin.

Gross Operating Results - Gas in Spain (EUR million)



Operating costs rose 19.4% due to a 7.3% increase in external supplies and services, largely as a result of the full consolidation of Bilbogas and Gasnalsa, an increase in rent, and the increase of other costs following a rise in local rates after the expansion in gas sales (+EUR 2.5 million) and a rise in regulatory costs associated to gas storage (+EUR 3,5 million).



6. BRAZIL

Energias do Brasil recorded an operating result of EUR 332.1 million in 2006, representing a year-on-year fall of 2.5%.

Statement of Operating Results (EUR million)	2006	2005	Var. 06/05
Operating income	1,726.3	1,503.7	14.8%
Direct business costs	975.1	871.8	11.8%
Gross margin % Operating income	751.2 43.5%	631.8 42.0%	18.9% 1.5p.p.
External supplies and services Staff costs Other operating costs/(income) Operating costs	124.7 127.0 65.6 317.3	118.5 91.9 9.0 219.5	624.9%
Gross operating results % Operating income	433.9 25.1%	412.3 27.4%	5.2% -2.3p.p.
Provisions for risks and contingencies Depreciation and amortisation Compensation of subsidised assets' depreciation	7.1 103.5 (8.8)	(0.8) 79.3 (6.8)	30.6% -30.4%
Operating results % Operating income	332.1 19.2%	340.6 22.7%	-2.5% -3.4p.p.

With the aim of assessing the effective performance of the business in Brazil, the company accounts are presented in Brazilian reais [BRL] (the mean BRL/EUR exchange rate in 2006 was 2.7, and 3.0 in 2005).

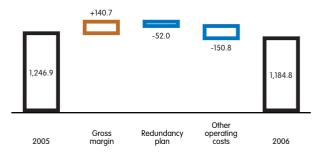
Energias do Brasil recorded an operating result of BRL 906.9 million in 2006, representing a year-on-year fall of 11.9%.

Statement of Operating Results (BRL million)	2006	2005	Var. 06/05
Operating income	4,713.9	4,547.0	3.7%
Direct business costs	2,662.6	2,636.4	1.0%
Gross margin % Operating income	2,051.3 43.5%	1,910.6 42.0%	7.4% 1.5p.p.
External supplies and services Staff costs Other operating costs/(income) Operating costs	340.5 346.9 179.0 866.4	358.4 277.9 27.4 663.7	24.8% 554.6%
Gross operating results % Operating income	1,184.8 25.1%	1,246.9 27.4%	-5.0% -2.3p.p.
Provisions for risks and contingencies Depreciation and amortisation Compensation of subsidised assets' depreciation	19.4 282.7 -24.2	-2.3 239.8 -20.5	
Operating results % Operating income	906.9 19.2%	1,029.9 22.7%	-11.9% -3.4p.p.

The gross operating result of Energias do Brasil fell by 5.0% in 2006. The distribution and supply businesses contributed negatively, which was offset by a of 43.5% rise in the gross operating result for the generation business, due to the deverticalisation process and the fact that the Peixe Angical hydroelectric power station and the fourth group of

generators at Mascarenhas had become operational. The gross operational result for distribution was affected by negative tariff differences (BRL 205 million in 2006 vs. BRL 39 million in 2005). The gross operating result for the supply business fell 93.4% due to the ending of self-dealing contracts and the constitution of a provision in the accounts for the difference between the sale price accepted by the regulator and the tariff estabished in the contract with Ampla.

Gross Operating Results - Energias do Brasil (BRL million)



Energias do Brasil operating costs rose 30.5% as a result of:

- Increased staff costs as a result of: i) the reporting of a non-recurring provision associated to the staff reduction programme (BRL 52 million). The staff reduction programme (PRP), one of the stages of the Vanguarda project, aims to make human resources more compatible with the new organisational structure. 651 employees joined the PRP, i.e. 19% of Group staff, as at March 2006 and, considering the restructuring requirements, this will imply a net staff reduction of approximately 16% by the end of 2007. The implementation of the PRP during the first half of 2006 helped shed 458 posts in 2006; ii) average salary increases of 7%;
- An increase in the cost of external services and supplies in the distribution business due to the

Financial Analysis



plan to cut commercial losses in the distribution network, including an increase in the number of network inspections and meter readings (BRL 22.7 million). Energias do Brasil is investing in a specific programme aimed at reducing commercial losses in the distribution network, by focusing on the improvement of meter reading processes, inspections of consumption outlets, fraud detection operations and the legalisation of illegal connections:

An increase under other operating costs reflecting
the rise in regulatory costs for distribution and a
provision for potential loss (BRL 20 million) in the
supply business, due to a difference of opinion with
the regulator with regard to the terms of the Ampla
supply contract. It is important to note that in 2005
this item had a positive impact due to the reversal
of the BRL 90 million provision associated to the
possible devaluation of the Lajeado project assets.

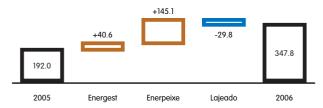
In September 2006, the Peixe Angical hydroelectric power station located in the State of Tocantins became commercially operational. 100% of the annual production of this power station (2,374 GWh) is already under contract to regulated distribution companies up to 2016, at a mean price of approximately BEL 120/MWh (these contracts have been approved by the regulator). After becoming operational, the power station contributed BRL 145.1 million to the increase in gross marain.

In mid-2005, Energias do Brasil separated the generation businesses embedded in its distributors, in compliance with the new regulatory framework for the electricity sector in Brazil. Thus the electricity power stations that were formerly part of the distribution companies (281 MW, 14 MW of which were deactivated at the end of 2005) were incorporated into Energest. This alteration represented yet another factor that contributed towards the growth in the 2006 gross margin (+BRL 40.6 million).

Statement of Operational Results		Dsitribution	1		Generation	n		Supply	
by Business Area- Energias do Brasil (BRL million)	2006	2005	Var. 06/05	2006	2005	Var. 06/05	2006	2005	Var. 06/05
Operating income	4,298.7	4,249.3	1.2%	457.5	214.3	113.5%	494.7	430.5	14.9%
Direct business costs	2,649.7	2,599.4	1.9%	109.7	22.3	391.9%	437.8	364.1	20.3%
Gross margin % Operating income	1,649.0 38.4%	1,650.0 38.8%	-0.1% -0.5p.p.	347.8 76.0%	192.0 89.6%	81.2% -13.6p.p.	56.9 11.5%	66.5 15.4%	-14.4% -3.9p.p.
External supplies and services Staff costs Other operating costs/(income) Operating costs	284.6 303.2 137.7 725.5	262.1 246.0 118.5 626.6	8.6% 23.3% 16.2% 15.8%	36.5 15.5 19.7 71.6	62.9 9.7 -73.2 -0.5	-42.1% 58.6% -	6.8 5.5 41.1 53.4	9.4 2.8 0.5 12.7	-28.1% 94.1% 8,266.2% 320.1%
Gross operating results % Operating income	923.4 21.5%	1,023.3 24.1%	-9.8% -2.6p.p.	276.2 60.4%	192.5 89.8%	43.5% -29.4p.p.	3.6 0.7%	53.8 12.5%	-93.4% -11.8p.p.
Provisions for risks and contingencies Depreciation and amortisation Compensation of subsidised assets' depreciation	19.3 228.6 -24.2	-2.3 209.9 -20.5	8.9% -17.7%	0 41.7 -	0 15.4	170.4%	0.3	0.3	-1.0% -
Operating results % Operating income	699.6 16.3%	836.3 19.7%	-16.3% -3.4p.p.	234.5 51.2%	177.1 82.6%	32.4% -31.4p.p.	3.2 0.7%	53.4 12.4%	-93.9% -11.8p.p.

6.1. Generation in Brazil

Gross Margin - Generation in Brazil (BRL million)



6.2. Distribution in Brazil

The gross margin of Energias do Brasil's distributors in 2006 was identical to that of 2005. However, 2006 was adversely affected by negative tariff deviations of BRL 205 million (vs. a positive deviation of BRL 39 million in 2005), which will be recovered in the next round of annual tariff adjustments. Excluding tariff deviations, the electricity baseline margin increased by 18% on a standardised baseline.



		Bandeirante	•		Escelsa			Enersul	
Gross Distribution Margin (BRL million)	2006	2005	Var. 06/05	2006	2005	Var. 06/05	2006	2005	Var. 06/05
Electricity sales (base)	1,909.0	1,917.8	-0.5%	1,231.7	1,158.7	6.3%	805.8	739.1	9.0%
(-) Non-controllable costs	1,357.9	1,329.5	2.1%	857.6	778.9	10.1%	468.1	423.0	10.7%
Baseline electricity margin	551.0	588.3	-6.3%	374.1	379.8	-1.5%	337.8	316.1	6.9%
Tariff adjustments*	15.8	74.3	-78.7%	57.8	22.4	158.5%	94.2	26.9	250.1%
Extraordinary tariffs **	65.2	65.6	-0.7%	42.6	43.0	-0.8%	36.0	29.8	20.5%
Gross electricity margin	632.0	728.2	-13.2%	474.5	445.1	6.6%	467.9	372.8	25.5%
Other income/(costs)	55.8	31.1	79.5%	6.6	41.8	-84.1%	12.1	30.9	-60.8%
Gross margin	687.8	759.3	-9.4%	481.1	487.0	-1.2%	480.0	403.7	18.9%
-							1 1		

The Bandeirante baseline electricity margin fell 6.3% due to a negative difference of BRL 77 million reais in uncontrollable costs between those incurred and those covered by the tariff (compared to a positive figure of BRL 34 million in 2005). This was partially offset by an increase in the amounts distributed and improvements in the mean unit margin. With regard to tariff adjustments undergoing recovery (or returned) during 2006, it is important to note that Bandeirante returned BRL 102 million between October 2005 and 2006 (reflecting the correction to the 2003 tariff increase), while recovering past costs not covered by the tariff. On 20 October 2006, ANEEL, the regulatory body for the Brazilian electricity system, approved the average annual tariff readjustment of 13.44% for the period from October 2006 to September 2007, which should contribute towards reducing the current tariff deviation.

The Escelsa base electricity margin fell 1.5% due to sharp increases in consumption and in the mean unit margin, which was almost completely offset by a negative difference of BRL 105 million Reais between uncontrollable costs incurred and those covered by the tariff (compared with a positive figure of BRL 3 million in 2005) and by the impact of deverticalisation. In August 2006, ANEEL announced that between August 2006 and July 2007, Escelsa would recover approximately BRL 109 million associated to prior costs not covered by the tariff.

The Enersul base electricity margin rose 6.9% due to: i) an improvement in the mean unit margin attributed by the regulator (Portion B); ii) an increase in consumption, partially offset by a negative difference of BRL 22 million between uncontrollable costs incurred and those covered by the tariff (compared with a positive value of BRL 2 million in 2005). With regard to tariff adjustments being recovered, between April 2006 and March 2007 Enersul is in the process of

recovering BRL 48 million associated to prior costs not covered by the tariff.



^{*} t-n year differences being received or returned ** Recovery of rationing losses & "Parcela A"

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EDP - Energias de Portugal Consolidated Income Statement for the years ended 31 December 2006 and 2005

2006 2005 Continuina Continuina Discontinued Discontinued Notes Total Total operations operations operations operations 10,185,658 10,349,826 9,374,890 273,277 9,648,167 164,168 Cost of consumed electricity -4,380,703 -4,380,703 -4,222,003 4,222,003 -744.350 -744.350 Cost of consumed aas 5 -458.233 -458.233 Changes in inventories and cost of raw 5 material and consumables used -1,052,114 -14,205 -1,066,319 -1,106,791 -5,801 -1,112,592 4.008.491 149.963 4.158.454 3,587,863 267.476 3.855.339 Other operating income / (expenses) 136.386 7.762 144.148 208.318 3.235 211.553 Other operating income Supplies and services -621,674 -119,724 -741,398 -610,966 -205,815 -816,781 Personnel costs 8 -563 894 -21,192 -585 086 -504.024 -41,963 -545.987 Employee benefits expense -162.201 -162.287 -200.163 -128 -200.291 8 -86 10 193 Other operating expenses 498,188 -444,771 8,895 453,666 508,381 -1,80<u>5,172</u> -1.853,004 -1.551,606 -253,566 -1.709.571 -143,433 2,298,920 6,530 2,305,450 2,036,257 13,910 2,050,167 -90,350 -4,214 -94,564 -73,338 60,864 -12,474 Depreciation and amortisation expense 11 -1.018.851 -40,015 -1.058.866 -906,174 -87,239 -993,413 Amortisation of deferred income on partially funded properties received under 11 101,415 -399 101,016 97,600 97,600 1,291,134 -38,098 1,253,036 1,154,345 1,141,880 -12.465 Gains from the sale of 12 4,791 27 440,647 440,730 Other financial income 13 769,351 1,010 770,361 527,260 634 527,894 Other financial expenses 13 -956.053 -21.685 -977,738 -897.249 -29.922 -927.171 Share of profit of associates 19 245.329 245.329 35.295 35.295 Profit before tax 1,354,552 -58.746 1,295,806 1,260,298 -41,670 1,218,628 14 -265,915 -152,189 Income tax expense -266,457 -100,236 -51,953 542 Profit after tax but before gains/losses on discontinued 1,088,095 -58,204 1,029,891 1,160,062 1,066,439 -93,623 operations Gains/ (losses) on sale of discontinued operation, net of tax 44 -12,808 -12,808 45,522 45,522 1,111,961 1,088,095 1,017,083 Profit for the year -71,012 1,160,062 48,101 Attributable to: Equity holders of EDP 1,115,118 1.011.911 -71.088 940 823 -44 016 1.071.102 31 Minority interests -4,085 76,184 76,260 44,944 40,859 Profit for the year 1,088,095 -71,012 1,017,083 1,160,062 48.101 1,111,961 Earnings per share (Basic and diluted) - Euros 0.28 (0.02) 0.26 0.31 (0.01) 0.29

THE CHIEF ACCOUNTANT N.º 17,713

MANAGEMENT THE EXECUTIVE BOARD OF DIRECTORS
ACCOUNTANT N.º 17,713

The following notes form an integral part of these Financial Statements



EDP - Energias de Portugal, S.A. Consolidated Balance Sheet as at 31 December 2006 and 2005

Property plort and equipment 15		Notes	Notes 2006	
Property, plant and equipment 15			(Thousand Euros)	(Thousand Euros)
Indicapable assets	Assets			
Goodwill (mexistments) associates 19 20,166.3 351,302 Awailable for sole investments 20 822,148 566,46.6 Deberred fax assels 21 898,323 892,653 Toda receivables 23 117,651 121,926 Debtors and other assels 24 299,968 374,601 Total Non-Current Assels 22 228,692 219,194 Irwentories 22 228,692 219,194 Trode receivables 23 1475,202 1463,505 Tode receivables 23 1475,202 1463,505 Tox receivable 25 620,840 34,175 Tox receivable 25 620,840 34,175 Cash and cash equivalents 27 753,493 585,499 Assest classified as held for sole 38 25,568 19 Total Current Assets 28 3,656,538 3,656,538 Total Current Assets 28 3,656,538 3,656,538 Tecasury stock 29 14,542 3,319 <td>Property, plant and equipment</td> <td>15</td> <td>15,081,728</td> <td>13,864,146</td>	Property, plant and equipment	15	15,081,728	13,864,146
Investments in associaties 19	Intangible assets	16	1,168,136	1,462,003
Available for sole investments 20 882,148 566,446 Debeferred for assets 21 883,23 882,653 Tode receivables 23 117,651 121,992 Debtors and other assets 24 299,668 374,601 Total Non-Current Assets 21 143,648 19,679,967 Inventories 22 228,692 219,194 Trade receivables 23 1,475,202 1,463,505 Debtors and other assets 24 874,916 1,465,612 Tox receivables 25 620,840 344,175 Tox receivable 25 620,840 344,175 Tox receivable 27 753,493 585,499 Assets classified as held for sole 38 255,661 3 Total Current Assets 27 753,493 585,499 Assets classified as held for sole 28 3,655,338 3,655,338 Total Assets 28 3,655,338 3,655,338 Total Assets 29 14,542 3,8119 Total Current Assets 29 14,542 3,8119 Total Current Assets 29 14,542 3,8119 Total Current Assets 30 50,424 3,8119 Total Current Assets 30 50,424 3,8119 Total Current Assets 30 50,424 3,8119 Total Current Assets 31 940,661 2,877,600 Total Assets 31 940,661 2,877,600 Total Equity Intributable to equity holders of the parent 5,589,235 4,823,400 Total Equity Intributable to equity holders of the parent 5,589,235 4,823,400 Total Equity Intributable to equity holders of the parent 5,589,235 6,611,1163 **Ubblillies** **Ubblillies** **Ubblillies** **Deferred tox lobibilies and charges 35 388,473 269,249 Total Equity Correction account 32 198,596 199,976 Total end of her poyobles 36 2,427,193 1,898,258 Total end of her poyobles 36 2,427,193 1,898,258 Total end of her poyobles 37 5,51,007 175,740 Total considered as held for sole 38 160,098 Total considered as held for sole 38 160,098 Total considered as held for sole 38 160,098 Total Current Liabilities 4,967,229 4,773,244	Goodwill	17	2,553,831	2,046,824
Delemed tox assets	Investments in associates	19	201,863	351,302
Toda receivables	Available for sale investments	20	822,148	566,446
Debtors and other assets 24 299,668 374,601 Total Non-Current Assets 21,143,648 19,679,97 Inventories 22 228,692 21,194 Tradie raceivables 23 1,475,202 1463,505 Debtors and other assets 24 874,916 1,463,505 Tota receivable 25 60,8840 34,775 Financial assets held for trading 26 116,439 275,618 Cash and cash equivalents 27 733,493 365,599 Assets classified as held for sole 38 255,681 Total Current Assets 29 43,25,203 4,335,503 Total Assets 29 -14,542 3,810 Fearer capital 28 3,656,538 3,656,538 Treasury stock 29 -14,542 3,810 Share permitum 28 5,09,225 4,311,071,102 Total Equity indubtable to equity holders of the parent 5,589,235 4,823,400 Minority interest 31 945,661 1,287,763 <td>Deferred tax assets</td> <td>21</td> <td>898,323</td> <td>892,653</td>	Deferred tax assets	21	898,323	892,653
Total Non-Current Assets 21,13,648 19,679,967 Inventories 22 228,692 219,194 Trade receivables 23 1,475,202 1,463,505 Debtors and other assets 24 874,916 1,465,612 Toraceivable 25 620,840 346,175 Financial assets held for trading 26 116,439 275,618 Cash and cash equivalents 27 753,493 585,499 Assets classified as held for sale 38 255,681 Total Current Assets 25,468,911 24,035,570 Total Current Assets 25,468,911 24,035,570 Equity Share capital 28 3,656,538 3,656,538 Treasury stock 29 14,542 -38,119 Share capital 28 50,992 50,1992 Share sea and retained earnings 30 504,424 -368,113 Total Equity attributable to equity holders of the parent 940,823 1,071,102 Total Equity attributable to equity holders of the parent 5,889,235 4,823,400 Minority interest 31 945,661 1,287,633 Total Equity attributable to equity holders of the parent 5,889,235 4,823,400 Minority interest 31 945,661 1,287,633 Total Equity attributable to equity holders of the parent 5,889,235 4,823,400 Minority interest 31 945,661 1,287,633 Total Equity attributable to equity holders of the parent 5,889,235 4,823,400 Minority interest 31 945,661 1,287,633 Total Equity 1,000,000,000,000,000,000,000,000,000,0	Trade receivables	- -	117,651	121,992
Inventories	Debtors and other assets	24	299,968	374,601
Tode receivables	Total Non-Current Assets		21,143,648	19,679,967
Debtors and other assets	Inventories	22	228,692	219,194
Debtors and other assets 24 874,916 1,465,612 Tox receivable 25 620,840 345,175 Financial assets held for trading 26 116,439 275,618 Cash and cash equivalents 27 753,493 555,490 Assets dassified as held for sole 38 255,661 — Total Current Assets 4,325,263 4,355,603 Total Assets 25,468,911 24,035,570 Equity Equity Share capital 28 3,656,538 3,656,538 Treasury stock 29 14,542 -38,119 Share premium 28 50,1992 50,1992 Reserves and retained earnings 30 504,424 -368,113 Consolidated the profit attributable to equity holders of the parent 5,589,235 4,823,400 Minority interest 31 945,661 12,877,63 Total Equity attributable to equity holders of the parent 5,589,235 4,823,400 Minority interest 31 <td< td=""><td>Trade receivables</td><td>23</td><td>1,475,202</td><td>1,463,505</td></td<>	Trade receivables	23	1,475,202	1,463,505
Financial casets held for trading 26 116,439 275,618 Cash and cash equivalents 27 753,493 585,499 Assets classified as held for sale 38 255,681	Debtors and other assets	24		1,465,612
Cosh and cash equivalents 27 753,493 585,499 Assets classified as held for sale 38 255,681 - Total Current Assets 4,325,263 4,355,603 Total Assets 25,468,911 24,035,507 Equity Share capital 28 3,656,538 3,656,538 Teasury stock 29 14,542 -38,119 Share premium 28 501,992 501,992 Shore premium 30 504,424 -368,113 Consolidated net profit attributable to equity holders of the parent 5,589,235 4,823,400 Minority interest 31 945,661 1,287,763 Total Equity attributable to equity holders of the parent 31 945,661 1,287,763 Total Equity attributable management 31 945,661 1,287,763 Total Equity attributable to equity holders of the parent 31 945,661 1,287,763 Total Equity attributable to equity holders of the parent 31 945,661 1,287,763 Total Equity attributable to equity holders of the parent <td>Tax receivable</td> <td>25</td> <td>620,840</td> <td>346,175</td>	Tax receivable	25	620,840	346,175
Assets classified as held for sale 38 255,681	Financial assets held for trading	26	116,439	275,618
Total Current Assets 4,325,263 4,355,003 Total Assets 25,468,911 24,035,570 Equity Share capital 28 3,656,538 3,656,538 Treasury stock 29 14,542 -38,119 Share permium 28 501,992 50,992 Reserves and retained earnings 30 504,424 -368,113 Consolidated net profit ditributable to equity holders of the parent 5,892,355 4,823,400 Minority interest 31 945,661 1,287,763 Total Equity affibutable to equity holders of the parent 6,534,896 6,111,163 Total Equity 6,534,896 6,111,163 Total Equity 10 6,534,896 6,111,163 Europhyce benefits 34 1,770,560 1,843,246 Provisions for liabilities and charges 35 388,473 269,249 Hydrological correction account 32 198,596 169,967 Total Non-Current Liabilities 36 2,427,193 1,898,258 Total Non-Current Liabilities 36 2,757	Cash and cash equivalents	27	753,493	585,499
Equity 25,468,911 24,035,578 Equity Share capital 28 3,656,538 3,656,538 Treasury stock 29 -14,542 -38,119 Share premium 28 501,992 501,992 Reserves and retained earnings 30 504,424 -388,113 Consolidated net profit attributable to equity holders of the parent 940,823 1,071,002 Total Equity attributable to equity holders of the parent 31 945,661 1,287,763 Total Equity 5,589,235 4,823,400 Minority interest 31 945,661 1,287,763 Total Equity 6,534,896 6,111,163 Elubilities We dium / Long term debt and borrowings 33 8,624,695 8,600,721 Employee benefits 34 1,770,560 1,843,246 Provisions for liabilities and charges 35 388,473 269,249 Pydrological correction account 32 198,596 169,967 Deferred tax liabilities and charges 36 2,427,193 1,898,25	Assets classified as held for sale	38	255,681	
Equity Share capital 28 3,656,538 3,656,538 Ireasury stock 29 -14,542 -38,119 Share premium 28 501,992 501,992 Reserves and retained earnings 30 504,424 -368,113 Consolidated net profit attributable to equity holders of the parent 940,823 1,071,102 Total Equity attributable to equity holders of the parent 5,589,235 4,823,400 Minority interest 31 945,661 1,287,763 Total Equity 6,534,896 6,111,163 Etublities Medium / Long term debt and borrowings 33 8,624,695 8,600,721 Employee benefits 34 1,770,560 1,843,246 Provisions for liabilities and charges 35 388,473 269,249 Hydrological correction account 32 198,596 169,967 Deferred tox liabilities 21 557,269 369,722 Trade and other payables 36 2,427,193 1,898,258 Total Non-Current Liabilities <td< td=""><td>Total Current Assets</td><td></td><td>4,325,263</td><td>4,355,603</td></td<>	Total Current Assets		4,325,263	4,355,603
Share capital 28 3,656,538 3,656,538 Treasury stock 29 -14,542 -38,119 Share premium 28 501,992 501,992 Reserves and retained earnings 30 504,424 -368,113 Consolidated net profit attributable to equity holders of the parent 940,823 1,071,102 Total Equity attributable to equity holders of the parent 5,589,235 4,823,400 Minority interest 31 945,661 1,287,763 Total Equity 6,534,896 6,111,163 Liabilities Medium / Long term debt and borrowings 33 8,624,695 8,600,721 Employee benefits 34 1,770,560 1,843,246 Provisions for liabilities and charges 35 388,473 269,249 Hydrological correction account 32 198,596 169,967 Deferred to it liabilities 21 557,269 369,722 Trade and other payables 36 2,427,193 1,898,258 Total Non-Current Liabilities 36 2,757,669 2,61	Total Assets		25,468,911	24,035,570
Treasury stock 29	Equity			
Treasury stock 29	Share capital	28	3.656.538	3,656,538
Share premium 28 501,992 501,992 Reserves and retained earnings 30 504,424 -368,113 Consolidated net profit attributable to equity holders of the parent 940,823 1,077,102 Total Equity attributable to equity holders of the parent 5,589,235 4,823,400 Minority interest 31 945,661 1,287,763 Total Equity 6,534,896 6,111,163 Lubilities Medium / Long term debt and borrowings 33 8,624,695 8,600,721 Employee benefits 34 1,770,560 1,843,246 Provisions for liabilities and charges 35 388,473 269,249 Hydrological correction account 32 198,596 169,967 Deferred tax liabilities 21 557,269 369,722 Trade and other payables 36 2,427,193 1,898,258 Total Non-Current Liabilities 33 1,528,355 1,983,579 Trade and other payables 36 2,757,669 2,613,925 Tox payable 37 521,107 <				
Reserves and retained earnings 30 504,424 -368,113 Consolidated net profit attributable to equity holders of the parent 5,589,235 4,823,400 Minority interest 31 945,661 1,287,763 Total Equity 6,534,896 6,111,163 Liabilities Medium / Long term debt and borrowings 33 8,624,695 8,600,721 Employee benefits 34 1,770,560 1,843,246 Provisions for liabilities and charges 35 388,473 269,249 Hydrological correction account 32 198,596 169,967 Deferred tax liabilities 21 557,269 369,722 Trade and other payables 36 2,427,193 1,898,258 Total Non-Current Liabilities 33 1,528,355 1,983,579 Track and other payables 36 2,757,669 2,613,925 Tax payable 37 521,107 175,740 Liabilities classified as held for sale 38 160,098 Total Current Liabilities 4,967,229 4,773,2		28		
Consolidated net profit attributable to equity holders of the parent 940,823 1,071,102 Total Equity attributable to equity holders of the parent 5,589,235 4,823,400 Minority interest 31 945,661 1,287,763 Total Equity 6,534,896 6,111,163 Liabilities Medium / Long term debt and borrowings 33 8,624,695 8,600,721 Employee benefits 34 1,770,560 1,843,246 Provisions for liabilities and charges 35 388,473 269,249 Hydrological correction account 32 198,596 169,967 Deferred tax liabilities 21 557,269 369,722 Trade and other payables 36 2,427,193 1,898,258 Short term debt and borrowings 33 1,528,355 1,983,579 Trade and other payables 36 2,757,669 2,613,925 Tox payable 37 521,107 175,740 Liabilities classified as held for sale 38 160,098 2,73,244 Total Current Liabilities 18,934,015		30		
Minority interest 31 945,661 1,287,763 Total Equity 6,534,896 6,111,163 Liabilities Medium / Long term debt and borrowings 33 8,624,695 8,600,721 Employee benefits 34 1,770,560 1,843,246 Provisions for liabilities and charges 35 388,473 269,249 Hydrological correction account 32 198,596 169,967 Deferred tax liabilities 21 557,269 369,722 Trade and other payables 36 2,427,193 1,898,258 Total Non-Current Liabilities 13,966,786 13,151,163 Short term debt and borrowings 33 1,528,355 1,983,579 Trade and other payables 36 2,757,669 2,613,925 Tax payable 37 521,107 175,740 Liabilities classified as held for sale 38 160,098 Total Current Liabilities 4,967,229 4,773,244 Total Liabilities 18,934,015 17,924,407		e parent	940,823	1,071,102
Liabilities 6,534,896 6,111,163 Medium / Long term debt and borrowings 33 8,624,695 8,600,721 Employee benefits 34 1,770,560 1,843,246 Provisions for liabilities and charges 35 388,473 269,249 Hydrological correction account 32 198,596 169,967 Deferred tax liabilities 21 557,269 369,722 Trade and other payables 36 2,427,193 1,898,258 Total Non-Current Liabilities 13,966,786 13,151,163 Short term debt and borrowings 33 1,528,355 1,983,579 Trade and other payables 36 2,757,669 2,613,925 Tax payable 37 521,107 175,740 Liabilities classified as held for sale 38 160,098 Total Current Liabilities 4,967,229 4,773,244 Total Liabilities 18,934,015 17,924,407	Total Equity attributable to equity holders of the parent		5,589,235	4,823,400
Liabilities Medium / Long term debt and borrowings 33 8,624,695 8,600,721 Employee benefits 34 1,770,560 1,843,246 Provisions for liabilities and charges 35 388,473 269,249 Hydrological correction account 32 198,596 169,967 Deferred tax liabilities 21 557,269 369,722 Trade and other payables 36 2,427,193 1,898,258 Total Non-Current Liabilities 13,966,786 13,151,163 Short term debt and borrowings 33 1,528,355 1,983,579 Trade and other payables 36 2,757,669 2,613,925 Tax payable 37 521,107 175,740 Liabilities classified as held for sale 38 160,098 - Total Current Liabilities 4,967,229 4,773,244 Total Liabilities 18,934,015 17,924,407	Minority interest	31	945,661	1,287,763
Medium / Long term debt and borrowings 33 8,624,695 8,600,721 Employee benefits 34 1,770,560 1,843,246 Provisions for liabilities and charges 35 388,473 269,249 Hydrological correction account 32 198,596 169,967 Deferred tax liabilities 21 557,269 369,722 Trade and other payables 36 2,427,193 1,898,258 Total Non-Current Liabilities 13,966,786 13,151,163 Short term debt and borrowings 33 1,528,355 1,983,579 Trade and other payables 36 2,757,669 2,613,925 Tax payable 37 521,107 175,740 Liabilities classified as held for sale 38 160,098 - Total Current Liabilities 4,967,229 4,773,244 Total Liabilities 18,934,015 17,924,407	Total Equity		6,534,896	6,111,163
Medium / Long term debt and borrowings 33 8,624,695 8,600,721 Employee benefits 34 1,770,560 1,843,246 Provisions for liabilities and charges 35 388,473 269,249 Hydrological correction account 32 198,596 169,967 Deferred tax liabilities 21 557,269 369,722 Trade and other payables 36 2,427,193 1,898,258 Total Non-Current Liabilities 13,966,786 13,151,163 Short term debt and borrowings 33 1,528,355 1,983,579 Trade and other payables 36 2,757,669 2,613,925 Tax payable 37 521,107 175,740 Liabilities classified as held for sale 38 160,098 - Total Current Liabilities 4,967,229 4,773,244 Total Liabilities 18,934,015 17,924,407				
Employee benefits 34 1,770,560 1,843,246 Provisions for liabilities and charges 35 388,473 269,249 Hydrological correction account 32 198,596 169,967 Deferred tax liabilities 21 557,269 369,722 Trade and other payables 36 2,427,193 1,898,258 Total Non-Current Liabilities 13,966,786 13,151,163 Short term debt and borrowings 33 1,528,355 1,983,579 Trade and other payables 36 2,757,669 2,613,925 Tax payable 37 521,107 175,740 Liabilities classified as held for sale 38 160,098 Total Current Liabilities 4,967,229 4,773,244 Total Liabilities 18,934,015 17,924,407				
Provisions for liabilities and charges 35 388,473 269,249 Hydrological correction account 32 198,596 169,967 Deferred tax liabilities 21 557,269 369,722 Trade and other payables 36 2,427,193 1,898,258 Total Non-Current Liabilities 13,966,786 13,151,163 Short term debt and borrowings 33 1,528,355 1,983,579 Trade and other payables 36 2,757,669 2,613,925 Tax payable 37 521,107 175,740 Liabilities classified as held for sale 38 160,098 - Total Current Liabilities 4,967,229 4,773,244 Total Liabilities 18,934,015 17,924,407				
Hydrological correction account 32 198,596 169,967 Deferred tax liabilities 21 557,269 369,722 Trade and other payables 36 2,427,193 1,898,258 Total Non-Current Liabilities 13,966,786 13,151,163 Short term debt and borrowings 33 1,528,355 1,983,579 Trade and other payables 36 2,757,669 2,613,925 Tax payable 37 521,107 175,740 Liabilities classified as held for sale 38 160,098 Total Current Liabilities 4,967,229 4,773,244 Total Liabilities 18,934,015 17,924,407				
Deferred tax liabilities 21 557,269 369,722 Trade and other payables 36 2,427,193 1,898,258 Total Non-Current Liabilities 13,966,786 13,151,163 Short term debt and borrowings 33 1,528,355 1,983,579 Trade and other payables 36 2,757,669 2,613,925 Tax payable 37 521,107 175,740 Liabilities classified as held for sale 38 160,098 Total Current Liabilities 4,967,229 4,773,244 Total Liabilities 18,934,015 17,924,407			•	•
Trade and other payables 36 2,427,193 1,898,258 Total Non-Current Liabilities 13,966,786 13,151,163 Short term debt and borrowings 33 1,528,355 1,983,579 Trade and other payables 36 2,757,669 2,613,925 Tax payable 37 521,107 175,740 Liabilities classified as held for sale 38 160,098 - Total Current Liabilities 4,967,229 4,773,244 Total Liabilities 18,934,015 17,924,407				
Total Non-Current Liabilities 13,966,786 13,151,163 Short term debt and borrowings 33 1,528,355 1,983,579 Trade and other payables 36 2,757,669 2,613,925 Tax payable 37 521,107 175,740 Liabilities classified as held for sale 38 160,098 Total Current Liabilities 4,967,229 4,773,244 Total Liabilities 18,934,015 17,924,407				
Short term debt and borrowings 33 1,528,355 1,983,579 Trade and other payables 36 2,757,669 2,613,925 Tax payable 37 521,107 175,740 Liabilities classified as held for sale 38 160,098 - Total Current Liabilities 4,967,229 4,773,244 Total Liabilities 18,934,015 17,924,407		30		
Trade and other payables 36 2,757,669 2,613,925 Tax payable 37 521,107 175,740 Liabilities classified as held for sale 38 160,098 Total Current Liabilities 4,967,229 4,773,244 Total Liabilities 18,934,015 17,924,407	Total Non-Current Liabilities		13,966,786	13,151,163
Tax payable 37 521,107 175,740 Liabilities classified as held for sale 38 160,098 — Total Current Liabilities 4,967,229 4,773,244 Total Liabilities 18,934,015 17,924,407	· ·			
Liabilities classified as held for sale 38 160,098 - Total Current Liabilities 4,967,229 4,773,244 Total Liabilities 18,934,015 17,924,407				
Total Current Liabilities 4,967,229 4,773,244 Total Liabilities 18,934,015 17,924,407				175,740
Total Liabilities 18,934,015 17,924,407	Liabilities classified as held for sale	38	160,098	
	Total Current Liabilities		4,967,229	4,773,244
Total Equity and Liabilities 25,468,911 24,035,570	Total Liabilities		18,934,015	17,924,407
	Total Equity and Liabilities		25,468,911	24,035,570

Annual Report 2006 Financial Report Financial Statements 31st December 2006



EDP - Energias de Portugal, S.A. Company Income Statement for the years ended 31 December 2006 and 2005

	Notes	2006	2005
		(Thousand Eu	iros)
Turnover	5	682,261	560,385
Cost of consumed electricity	5	-329,289	-278,006
Cost of raw material and consumables used	5	-243,841	-190,162
		109,131	92,217
Other operating income / (expenses)			
Other operating income	6	12,051	29,722
Supplies and services	7	-103,162	-97,188
Personnel costs	8	-13,272	-6,329
Employee benefits expense	8	-1,469	-882
Other operating expenses	9	-294,121	-131,943
		-399,973	-206,620
		-290,842	-114,403
Provisions	10	-2,424	-3,850
Depreciation and amortisation expense	11	-6,378	-5,374
Amortisation of deferred income on partially funded properties received under			
concessions	11		676
		-299,644	-122,951
Gains/(losses) from the sale of financial assets	10	17.007	01.714
	12	-17,206	-81,714
Other financial income	13	1,439,452	1,556,660
Other financial expenses	13	-632,253	-871,939
Share of profit of associates		-19,399	
Profit before tax		470,950	480,056
Income tax expense	14	44,746	29,779
Profit for the year		515,696	509,835
Earnings per share (Basic and diluted) - Euros	28	0.14	0.14

THE CHIEF MANAGEMENT ACCOUNTANT N.° 17,713

THE EXECUTIVE BOARD OF DIRECTORS

The following notes form an integral part of these Financial Statements



EDP - Energias de Portugal, S.A. Company Balance Sheet as at 31 December 2006 and 2005

	Notes	2006	2005
		(Thousand E	uros)
Assets			
Property, plant and equipment	15	84,899	95,536
Intangible assets	16	1,763	322
Investments in subsidiaries	18	6,673,680	7,351,589
Investments in associates	19	97,919	354,635
Available for sale investments	20	399,805	260,394
Deferred tax assets	21	83,662	53,317
Debtors and other assets	24	3,351,059	3,494,196
Total Non-Current Assets		10,692,787	11,609,989
Trade receivables	23	66,396	70,664
Debtors and other assets	24	1,567,202	1,356,160
Tax receivable	25	50,017	140,591
Financial assets held for trading	26	1,693	205,376
Cash and cash equivalents	27	235,234	183,334
Total Current Assets		1,920,542	1,956,125
Total Assets		12,613,329	13,566,114
Equity			
Share capital	28	3,656,538	3,656,538
Treasury stock	29	-14,542	-38,119
Share premium	28	501,992	501,992
Reserves and retained earnings	30	1,527,942	1,758,382
Net profit		515,696	509,835
Total Equity		6,187,626	6,388,628
Liabilities			
Medium / Long term debt and borrowings	33	2,623,926	3,171,899
Employee benefits	34	-	17,087
Provisions for liabilities and charges	35	19,910	14,754
Hydrological correction account	32	198,596	169,967
Trade and other payables	36	12,740	3,598
Total Non-Current Liabilities		2,855,172	3,377,305
Short term debt and borrowings	33	2,993,257	3,386,438
Trade and other payables	36	566,367	407,971
Income tax payable	37	10,907	5,772
Total Current Liabilities		3,570,531	3,800,181
Total Liabilities		6,425,703	7,177,486
Total Equity and Liabilities		12,613,329	13,566,114

The following notes form an integral part of these Financial Statements $\label{eq:final_part} % \begin{subarray}{ll} \end{subarray} \ben$

Annual Report 2006 Financial Report Financial Statements 31st December 2006



EDP - Energias de Portugal Consolidated Statement of Recognised Income and Expense for the years ended 31 December 2006 and 2005

(Thousand Euros)

	20	06	2005		
	Equity holders	Minority	Equity holders	Minority	
	of the parent	Interests	of the parent	Interests	
Exchange differences arising on Consolidation	-29,312	-17,130	113,027	72,013	
Fair value reserve (cash flow hedge)	1,413	-	-16,066	-	
Tax effect from the fair value reserve (cash flow hedge)	20	-	3,931	-	
Gains/(losses) from the sale of treasury stock	10,872	-	-	-	
Tax effect from the sale of treasury stock	-3,559	-	-	-	
Fair value reserve (available for sale investments)	208,093	-	-69,250	-978	
Tax effect from the fair value reserve (available for sale investments)	-30,179	-	14,577	171	
Actuarial gains/(losses)	6,715	-2,435	-24,689	-5,563	
Tax effect from the actuarial gains/(losses)	3,973	1,966	7,486	316	
Profit for the year recognised directly in equity	168,036	-17,599	29,016	65,959	
Profit for the year	940,823	76,260	1,071,102	40,859	
Total gains and losses recognised in the year	1,108,859	58,661	1,100,118	106,818	

The following notes form an integral part of these Financial Statements



EDP - Energias de Portugal Consolidated and Unconsolidated Cash Flow Statements for the years ended 31 December 2006 and 2005

(Thousand Euros)

	Group	Group		Company		
	2006	2005	2006	2005		
Cash flows from Operating Activities						
Cash receipts from customers Cash paid to suppliers	10,218,895	9,401,466	684,559	585,178		
Cash paid to suppliers Cash paid to employees	-7,147,672 -734,973	-6,743,245 -757,123	-666,117 -11,535	-608,928 -6,366		
Concession rents paid	-213,099	-206,323	-11,555	-0,500		
Other receipts/ (payments) relating to operating activities	23,696	219,499	-187,196	-144,692		
Net cash from operating activities	2,146,847	1,914,274	-180,289	-174,808		
Income tax received / (paid)	-129,324	-261,458	116,605	-136,066		
Net cash from operating activities	2,017,523	1,652,816	-63,684	-310,874		
Discontinued activities	34,430	4,571				
Continuing activities	1,983,093	1,648,245				
Cash flows from Investing Activities Cash receipts resulting from:						
Proceeds from sale of financial assets	804,666	519,399	589,566	167,449		
Proceeds from sale of property, plant and equipment	11,090	26,075	7,472	24,931		
Fixed assets subsidies received	183,155	79,330	-	-		
Interest received	36,421	25,985	170,112	143,261		
Dividends received	176,643	36,069	725,168	909,473		
Cash payments resulting from:	1,211,975	686,858	1,492,318	1,245,114		
Acquisition of financial assets	-464,940	-1,219,350	-473,308	-290,373		
Acquisition of property, plant and equipment	-1,588,536	-1,506,625	-1,449	-23,879		
Fixed assets subsidies received	<u> </u>	<u> </u>	-1,253	_		
	-2,053,476	-2,725,975	-476,010	-314,252		
Net cash from investing activities	-841,501	-2,039,117	1,016,308	930,862		
Discontinued activities	-21,211	200,445				
Continuing activities	-820,290	-2,239,562				
Cash flows from Financing Activities						
Receipts/(Payments) from loans and interest	39,709	1,522,656	-364,216	68,371		
Interest and similar costs	-429,499	-579,585	-281,078	-195,746		
Proceeds from issue of share capital Receipts/(Payments) from derivative financial instruments	38,406	175,747 146,257	82,739	14,448		
Dividends paid	-365,638	-335,968	-365,638	-335,968		
Treasury stock sale/(purchase)	27,351	-6,457	27,351	-6,457		
Net cash from financing activities	-689,671	922,650	-900,842	-455,352		
Discontinued activities	-47,799	23,872				
Continuing activities	-641,872	898,778				
Net increase in cash and cash equivalents	486,351	536,349	51,782	164,636		
Effect of exchange rate fluctuations on cash held	-29,323	34,037	118	996		
Cash and cash equivalents at beginning of the year	267,358	-303,028	183,334	17,702		
Cash and cash equivalents at the end of the year	724,386	267,358	235,234	183,334		
Net increase in cash and cash equivalents resulting from perimeter variations	25,568					
Discontinued activities	-2,277					
Cash and cash equivalents from continuing activities at the end of the year (*)	752,231					
Cash and cash equivalents at the end of the year Net increase in cash and cash equivalents resulting from perimeter variations Discontinued activities Cash and cash equivalents from continuing activities at the end	724,386 25,568 -2,277					

^(*) See details of balance Cash and Cash Equivalents in note 27

Annual Report 2006 Financial Report Financial Statements 31st December 2006



EDP - Energias de Portugal Statement of Changes in Consolidated Equity as at 31 December 2006 and 2005

(Thousand Euros)

	Total Equity	Share capital	Share premium	Legal reserve	Reserves and retained earnings	Exchange Differences	Treasury stock	Equity attributable to equity holders of EDP	Minority interests
Balances as at 31 December 2004	4,781,795	3,656,538	472,955	345,446	-406,355	936	-31,662	4,037,858	743,937
Transfer to legal reserve	_	_	_	22,008	-22,008	-	-	_	_
Dividends paid	-335,968	-	-	-	-335,968	-	-	-335,968	-
Treasury stock	-6,457	-	-	-	_	-	-6,457	-6,457	_
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
Balances as at 31 December 2005	6,111,163	3,656,538	501,992	367,454	221,572	113,963	-38,119	4,823,400	1,287,763
Transfer to legal reserve		-	-	25,492	-25,492	-	-		-
Dividends paid	-365,638	-	-	-	-365,638	-	-	-365,638	
Dividends paid to minority interests	-31,964	-	-	-		-			-31,964
Treasury stock	24,012	-	-	-	7,313	-	16,699	24,012	-
Share capital increase - Enerpeixe	11,809	-	-	-	-	-	_	-	11,809
Share-based payments	5,805	-	-	-	-1,073	-	6,878	5,805	-
Minority interests resulting from acquisitions									
and consolidation method changes	18,469	-	-	-	-	-	-	-	18,469
Fair value reserve (cash flow hedge),									
net of deferred tax	1,433	-	-	-	1,433	-	-	1,433	-
Fair value reserve (available for sale investments),									
net of deferred tax	177,914	-	-	-	177,914	-	-	177,914	-
Actuarial gains/(losses), net of deferred tax	10,219	-	-	-	10,688	-	-	10,688	-469
Exchange differences arising on consolidation	-46,442	-	-	-	-	-29,312	-	-29,312	-17,130
Liabilities arising on put options									
over minority interests	-399,077	-	-	-	-	-	-	-	-399,077
Other reserves arising on consolidation	110	-	-	-	110	-	-	110	-
Profit for the year	1,017,083	<u> </u>		<u> </u>	940,823			940,823	76,260
Balances as at 31 December 2006	6,534,896	3,656,538	501,992	392,946	967,650	84,651	-14,542	5,589,235	945,661

The following notes form an integral part of these Financial Statements



EDP - Energias de Portugal, S.A. Statement of Changes in Company's Equity as at 31 December 2006 and 2005

(Thousand Euros)

	Total Equity	Share capital	Share premium	Legal reserve	Reserves and retained	Treasury stock
	Equily	capilai	premion	reserve	earnings	SIUCK
Balances as at 31 December 2004	6,244,834	3,656,538	472,955	345,446	1,801,557	-31,662
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	
Balances as at 31 December 2005	6,388,628	3,656,538	501,992	367,454	1,900,763	-38,119
Transfer to legal reserve	-	-	-	25,492	-25,492	-
Dividends paid	-365,638	-	-	-	-365,638	-
Treasury stock	24,012	-	-	-	7,313	16,699
Share-based payments	5,805	-	-	-	-1,073	6,878
Fair value reserve (cash flow hedge),						
net of deferred tax	1,433	-	-	-	1,433	-
Fair value reserve (available for sale investments),						
net of deferred tax	95,920	-	-	-	95,920	-
Reserve arising on the merger of EDP Internacional	-478,230	-	-	-	-478,230	-
Profit for the year	515,696	<u> </u>			515,696	
Balances as at 31 December 2006	6,187,626	3,656,538	501,992	392,946	1,650,692	-14,542

The following notes form an integral part of these Financial Statements

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EDP - Energias de Portugal, S.A.

Notes to the Financial Statements for the years ended 31 December 2006 and 2005

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, 6°. 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 energy 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 withfixed prices, under the law, by the Energy Services Regulatory Entity (ERSE). Binding Customers are entities and individuals that did not opt for a SENV supplier.

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 alsoowning generation companies that operate within the SEI both at the level of the SENV and at the level of the PREs.

On 27 January 2005 in accordance with Decree-law 240/2004 of 27 December, the EDP Group signed early termination contracts for power purchase agreements ("PPAs") related to the binding electricity production plants. The referred decree-law established that the owners of PPAs, which correspond to a significant portion of EDP's generation activity in Portugal, have the right to receive an amount for the early termination of those arrangements (CMEC). The effects of the termination agreements were suspended until a set of conditions was met, including the launch of the spot electricity market. The change in the legislation also envisaged the creation of an Iberian Electricity Market (MIBEL).

On 16 February 2007 the Portuguese Government confirmed its decision to early terminate the PPAs and to implement the CMEC's mechanism and defined the rules to calculate the compensations due to the power generators for such early termination, which essentially consisted in an adjustment in relation to the reference market price of sale of electricity, used to calculate the CMECs' initial amount.

With the publication of Decree-law 29/2006, reinforced by Decree-law 172/2006, a new legislative package for the electric system was approved, replacing the legislation issued in 1995 and transposing to the Portuguese regulatory environment the European directive 2003/54/CE. The concept of supplier of last resort established in the European Directive, was also transposed to the Portuguese regulation, and EDP Distribuição was appointed to create an autonomousentity that would ensure the provision of the universal service. On 15th December 2006, EDP Board of Directors decided to incorporate a new company, EDP Serviço Universal, S.A. to assume the supply activity previously operated by EDP Distribuição. Consequently, from 1st January 2007 onwards, EDP Distribuição focused its activity in operating the distribution system and EDP Serviço Universal assumed the supply activity.

In the distribution and commercialization activity for natural gas, EDP Group develops its activity in Portugal through its subsidiary Portgás. Additionally, EDP Group also has a shareholding in Setgás, S.A, an associated company of the Group.

The distribution and commercialization activity for natural gas in Portugal functions on the basis of a concessions regime, being the market tariffsdetermined under the terms of the concession agreements.

In Spain, Hidroeléctrica del Cantábrico (Hidrocantábrico) is the holding company of an industrial group that operates in the electricity and gas sectors. In the electricity sector, the activity is developed in the production, transportation and distribution and supply areas. The production infrastructurerelies on classic coal thermal power stations and, secondarily, on hydroelectric and nuclear power plants. The activities of transportation and distribution of electricity are regulated activities 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.

In 2003, Hidrocantábrico increased its position in the distribution and supply sector of gas through the acquisition of Naturcorp (currently Naturgás) and the subsequent integration in this company, of all gas related assets previously held by Hidrocantábrico. The natural gas distribution activity in Spain is a regulated activity.



Energy sector activity in Brazil

In Brazil, the EDP Group operates in the electric sector namely in generation, distribution and supply, through its subsidiary company Energias do Brasil, S.A.

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

During 2006, the construction works on Peixe Angical hydroelectric power station were concluded and this power station started its operating activity in the third quarter of the year.

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 the share capital of Energias do Brasil. Following the completion of the process, EDP Brasil now has full ownership of these companies and their minority shareholders became shareholders of Energias do Brasil.

In the supply business, in addition to the business carried on by the distribution companies, Energias do Brasil operates in the electricity trading market through its subsidiary Enertrade.

Activities in the Renewable energies sector

The EDP Group has been reinforcing its position in the renewable energy sector, namely in the generation, distribution and supply of energy through the use of wind, hydroelectric, biomass and waste resources.

In wind energy infrastructures, EDP Group develops its activity through its subsidiary "NEO Energia" which is the holding company of Enernova (the Portuguese holding for wind farms - 100% held by NEO), Genesa (renewable energy in Spain - 80% held by NEO and 20% by CajaMadrid), Desa (wind farms in Spain - renewable energy in Spain - 80% held by NEO and 20% by CajaMadrid) and Agrupación Eólica Subgroups (wind farms in Spain and France - 100% held by NEO) and GreenWind (Belgian partnership in which NEO has a 70% shareholding).

As at 31 December 2006 the total installed capacity for renewable energies was 4,222 MW divided by 2,557 MW in hydroelectric, 1,568 MW in wind energy facilities, 79 MW in waste and 7 MW in biomass operating in Portugal, Spain, Brazil, France and Belgium.

Activity in the Telecommunications Sector

In the telecommunications sector, as at 31 December 2006, EDP Group owned 100% over the share capital of ONI SGPS. ONI operates in fixed telecommunications, providing voice and data services in the Portuguese market (both corporate and residential customers). On 9 December 2006, EDP S.A. signed a sale and purchase agreement with Riverside Company to sell its 100% share holding in ONI SGPS. The transaction was authorized by the Portuguese Competition Authority in January 2007, and the operation was completed on 31 January 2007. As at 31 December 2006 ONI Group was fully consolidated on EDP S.A., and the corresponding assets and liabilities were disclosed under assets and liabilities held for sale (Note 38).

Price regime of Electric Energy

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

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 attributed 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 a 2 years previous notice. During the split process of EDP S.A. that took place in 1994, the revoking clauses were kept and still apply to thefour electricity distribution companies set-up at that time and merged subsequently in 2000 into EDP Distribuição S.A. In respect to these concessions, arent 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 who 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 can not be withdrawn, sold, assigned or mortgaged without the prior express consent of the Regulator.

2. Accounting policies

a) Basis of preparation

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 consolidated financial statements presented reflect EDP's andits subsidiaries results from operations (EDP Group or Group) and Group's interest in associated companies, for the years ended 31 December 2006 and 2005.

The Executive Board of Directors approved these consolidated financial statements on 8 March 2007. The financial statements are presented in thousand of Euros, rounded to the nearest thousand.



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, the Group's consolidated financial statements are required to be prepared, from 2005 onwards, in accordance with International Financial Reporting Standards (IFRS), as endorsed by the European Union (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 bodies.

These consolidated financial statements for the year ended 31 December 2006 were prepared in accordance with the IFRS effective and adopted for use in the EU until 31 December 2006.

The financial statements have been prepared under the historical cost convention, modified by the application of fair value basis for derivative financial instruments, financial assets and liabilities held for trading and available-for-sale, except those for which a reliable measure of fair value is not available. Recognised assets and liabilities that are hedged under hedge accounting are stated at fair value in respect of the risk that is being hedged. Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The accounting policies set out below have been applied consistently throughout the Group entities and for all periods presented in these consolidated financial statements, except for the referred in the next paragraph.

As a result of the adoption by the Group of IFRIC 4 - Determining whether an Arrangement contains a Lease, as stated on Note 2 j), an accounting policy modification has been made, which determined the restatement of the financial statements for the year ended 31 December 2005. The impact of this adoption is not significant for the Group financial statements.

The preparation of financial statements in conformity with IFRS require management to make judgments, estimates and assumptions that affect the application of the accounting policies and of the reported amounts of assets, liabilities, income and expenses. The estimates and related assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The issues involving a higher degree of judgment or complexity, or where assumptions and estimates are considered to be significant, are disclosed in Note 3 (Critical accounting estimates and judgments in applying accounting policies).

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 from its associated companies attributable to the Group. These accounting policies have been consistently applied by all Group companies and in all years presented in the consolidated financial statements.

Subsidiaries

Investments in subsidiaries where EDP Group has control are fully consolidated from the date EDP assumed control over the financial and operational activities until the moment that control ceases to exist. Control is presumed to exist when the Group owns more than 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, evenif its shareholding is less than 50%.

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 charged to the income statement when incurred. If the subsidiary subsequently reports profits, such profits are recognised as profits of the Group until the losses attributable to the minority interest previously recognised by the group have been recovered.

Associates

Investments in associates are accounted for by the equity method since the date on which significant influence is transferred to the Group until the date it ceases. Associates are entities over which the Group has significant influence, but not control, over its financial and operating policies. Generally when the Group holds more than 20% of the voting rights of the investor it is presumed that it has significant influence. If the Group holds, directly or indirectly, less than 20% of the voting rights of the investor it is presumed that the group does not have significant influence, except when such influence can be clearly demonstrated.

The significant influence by EDP Group is normally demonstrated by one or more of the following ways:

- Representation on the Board of Directors or equivalent management committee;
- Participation in the policy making processes, including participation in decisions over dividends and other distributions;
- Existence of material transactions between the Group and the investor;
- Interchange of managerial personnel;
- Provision of essential technical information.

The consolidated financial statements include the Group's attributable share of total reserves and results of associated companies accounted under the equity method. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued, except to the extent that the Group has a legal or constructive obligation of covering those losses or make payments on behalf of the associate.

Jointly controlled entities

Jointly controlled entities, consolidated under the proportionate consolidation method, are entities over whose activities the Group has jointly control along with other company, under a contractual agreement. The consolidated financial statements include the Group's proportionate share of the joint ventures' assets, liabilities, revenue and expenses, from the date the joint control begins until it ceases.



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 acquisition cost, and are subject to periodic impairment tests.

Consolidation differences - Goodwill

Following the transition to International financial reporting standards (IFRS) as of 1 of January 2004 and as permitted under IFRS 1 - First-Time Adoption of International Finance Reporting Standards, EDP Group opted to maintain the goodwill resulting from business combinations that occurred prior to transition date, calculated according to the previous accounting principles applied by the Group.

Business combinations that occurred after 1 January 2004 are accounted for using the purchase method of accounting. The acquisition cost corresponds to the fair value, determined at the acquisition date, of the assets given and liabilities incurred or assumed including the costs directly attributable to the acquisition.

Since the transition date to IFRS, 1 of January 2004, goodwill is recognised as an asset and carried at acquisition cost and it is not amortised.

Goodwill arising on the acquisition of subsidiaries and associates is defined as the difference between the cost of acquisition and the corresponding share of the fair value of the net assets acquired.

The value of goodwill recognised as an asset is assessed annually to identify any impairment regardless of the existence of any indication of impairment. Impairment losses are recognised in the income statement.

Negative goodwill arising on an acquisition is recognized directly in the income statement in the period when the business combination occurs.

Investments in foreign operations

The financial statements of the foreign subsidiaries and associates of the Group are prepared using their functional currency, defined as the currency of the primary economic environment in which they operate. In the consolidation process, the assets and liabilities of foreign subsidiaries are translated into Euros at the official exchange rate prevailing at the balance sheet date.

In relation to the foreign subsidiaries consolidated by EDP Group using the full consolidation, proportional or equity method, the exchange differences arising from the amount expressed in Euros of the opening balance of net assets at the beginning of the year and the translation to Euros of the opening balance of net assets using the year end exchange rate, is booked against consolidated reserves.

The income and expenses of foreign subsidiaries are translated to Euros, at the approximate exchange rates ruling at the dates of the transactions. Exchange differences arising from the translation of the result for the reporting period from the exchange rate used in the income statement to the exchange rate prevailing at the balance sheet date are recognised in reserves.

On disposal of a foreign operation, exchange differences related thereto and previously booked against reserves are accounted in the income statement.

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. Unrealised gains and losses arising from transactions with associates and jointly controlled entities are eliminated to the extend of the Group's interest in those entities.

c) Foreign currency translation

Foreign currency transactions are translated at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Euros at the foreign exchange rates ruling at the balance sheet date. Foreign exchange differences arising ontranslation 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 ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into Euros 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 recognised on the trade date at fair value. Subsequent, the fair value of derivative financial instruments is re-measured on a regular basis, being the gains or losses on re-measurement recognised directly in the income statement, except for derivatives designated as hedging instruments. The recognition of the resulting gains or losses on re-measurement 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 correspond to their quoted market prices, if available, or are determined by external entities through the use of valuation techniques, including discounted cash flow models and options pricing models, as appropriate.



Hedge accounting

The Group uses financial instruments to hedge interest and foreign exchange risks resulting from its operational and financing activities. The derivate financial instruments that do not qualify for hedge accounting are recorded as for trading.

The derivatives that are designated as hedging instruments are recorded at fair value, being the gains and losses recognised in accordance with the hedge accounting model adopted by the Group. Hedge accounting is used when:

- (i) At the inception of the hedge, the hedge relationship is identified and documented;
- (ii) The hedge is expected to be highly effective;
- (iii) The effectiveness of the hedge can be reliably measured;
- (iv) The hedge is revalued on a on-going basis and is considered to the highly effective over the reporting period;
- (v) The forecast transactions hedged are highly probable and represent a risk to changes in cash flows that could affect the income statement.

Fair value hedge

Changes in the fair value of the derivative financial instruments 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 accumulated gains or losses concerning the fair value of the risk being hedged is amortised over the period to maturity.

Cash flow hedge

The effective portion of the changes in the fair value of the derivative financial instruments that are designated as hedging instruments in a cash flow hedge model is recognised in equity. The gains or losses relating to the ineffective portion of the hedging relationship are recognised in the income statement in the moment they

The cumulative gains or losses recognised in equity are also reclassified to income statement over the periods in which the hedged item will affect the income statement. When the forecast transaction hedge results in the recognition of a non-financial asset or liability, the gains or losses recorded in equity are included in the acquisition cost of the asset or liability.

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 stays recognised in equity until the hedged transaction also affects the income statement. When the forecast transaction is no longer expected to occur, the cumulative gains or losses recognized in equity are recorded in the income statement.

Effectiveness

For a hedge relationship to be classified as such, in accordance with IAS 39, its effectiveness should be demonstrated. Therefore, the Group performs prospective tests at the inception dates as well as retrospectives tests on an on-going basis to demonstrate the effectiveness at each balance sheet date, showing that any adjustments to the fair value of the derivative financial instruments are hedged by adjustments to the hedge instrument attributable to the risk being hedge. Ineffectiveness is recognised in the income statement in the moment it occurs.

e) Other financial assets

The Group classifies its other financial assets at acquisition date 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, or (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 assets.

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 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, being the cumulative gains or losses previously recognised in equity 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 instruments are recognised in the income statement. Interest, calculated using the effective interest rate method, and dividends are recognised in the income statement.

The fair values on quoted investments in active markets are based on current bid prices. For unlisted securities the Group determines the fair value through (i) valuation techniques, including the use of recent arm's length transactions, discounted cash flow analysis and (ii) valuation assumptions based on market information.

Financial instruments whose fair value cannot be reliably measured are carried at cost.

Reclassifications between categories

The Group does not reclassify, after initial recognition, a financial instrument into or out of the fair value through profit or loss category.

Impairment

At each balance sheet date, an assessment is performed as to whether there is objective evidence that a financial asset or group of financial assets is impaired, namely when losses may occur in future estimated cash-flows of the financial asset or group of financial assets, and it can be reliably measured.

If there is objective evidence of impairment, the recoverable amount of the financial assets is determined, being the impairment losses 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 losses decrease, the previously recognised impairment losses are 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

g) Equity instruments

An instrument is classified as an equity instrument when there is no contractual obligation at settlement to deliver cash or another financial asset to another entity, independently from its legal form, and shows a residual interest in the assets of an entity after deducting all of its liabilities.

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

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

Preference shares issued by the Group are considered as an equity instrument when the Group has no contractual obligation to redeem the shares and if dividends are paid at the discretion of 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 acquisition cost less accumulated depreciation and impairment losses. At the transition date to IFRS, 1 January 2004, 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 comparable in general terms to depreciated cost measured under IFRS. The value includes expenses directly attributable to the acquisition of the items.

Subsequent costs are recognised as separate assets only when it is probable that future economic benefits associated with the item will flow to the Group. All repair and maintenance costs are charged to the income statement during the financial period in which they are incurred.

The Group assesses for impairment, whenever events or circumstances may indicate that the book value of the asset exceeds its recoverable amount, being the impairment, when existing, recognised in income statement.



The recoverable amount is determined by the highest value between the net selling price and its fair value in use, this being calculated by the actual value of estimated future cash-flows obtained from the asset and after its disposal at the end of its economic life period.

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
Wind generation	15 to 25
Electricity distribution	10 to 30
Other plant and machiner	5 to 10
Transport equipment	4 to 25
Office equipment and tool	4 to 10
Other equipmen	10 to 25

Following the Portuguese Government announcement of the early termination of PPA's, EDP Group reviewed the useful lives of the electric generation assets which, consequently, led to the change in the depreciation policy. The redefinition of useful lives of the thermoelectric and hydroelectric power plants under the PPA agreements, was based on technical and economic valuations of the associated equipments, considering their technologic capability and the legislation restrictions affecting them, namely the need to perform additional investments to comply with environmental restrictions. The revised useful live of the fixed hydraulic component of the hydroelectric generation plants was based on the expectation of extending the operation of these plants until the end of their useful lives.

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 (Decree-law 344-B/82 Regularisation Account), Note 36.

The Property, plant and equipment allocated to the concessions is stated at 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, plant and equipment, using the straight-line method over their estimated useful lives. The depreciation charge of the year is compensated in the depreciation caption (Note 11), by the reduction, of 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 concession period. Repair and maintenance costs are charged to the income statement during the financial period in which they are incurred, in accordance with the accrual principle.

i) Intangible assets

The intangible assets of the Group are booked at acquisition cost less accumulated amortisation and impairment losses.

The Group assesses for impairment, whenever events or circumstances may indicate that the book value of the asset exceeds its recoverable amount, being the impairment, when existing, recognised in income statement. The recoverable value is determined by the highest amount between its net selling price and its value in use, this being calculated by the actual value of the estimated future cash-flows obtained from the asset and sale price at the end of its economic useful life.

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 and are amortised using the straight-line method during their expected useful lives.

Maintenance costs of software are charged to the income statement when incurred.

Concession rights on gas and electricity distribution in Brazil

The concession rights related to the electricity distribution companies in Brazil, namely Bandeirante, Escelsa and Enersul and gas distribution concession rights, namely of Portaás and Setaás, are recorded as intanaible assets and amortised over the concession period, not exceeding 30 years.



Other intangible assets

The amortisation of other intangible assets is calculated using the straight-line method, according to the following estimated useful lives:

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

i) 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. 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

Lease payments under an operating lease are recognised as an expense on a straight line basis over the lease term. Payments made under operating leases are charged to the income statement in the period to which they relate.

Finance leases

In the financial statements of lessees, finance leases are recognised, at the commencement of the lease term, as assets and liabilities in their balance sheets at amounts equal to the fair value of the leased property which is equivalent to the present value of the future lease payments. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as toproduce a constant periodic rate of interest on the remaining balance of the liability.

Lease rents comprise an interest charge and an amortisation of principal. 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.

Lessors recognise assets held under a finance lease in their balance sheet and present them as a receivable at an amount equal to the net investment in the lease.

Lease payments comprise the financial income and the amortisation of principal.

The financial results are recognised as a constant periodic rate of interest on the remaining balance of liability for each period.

Determining whether an Arrangement contains a Lease

Following the release of the interpretation IFRIC 4 - Determining whether an arrangement contains a lease, by the International Financial Reporting Interpretations Committee (IFRIC), effective for annual periods beginning 1 January 2006, the EDP Group performed an assessment of the existing arrangements in order to identify if such arrangements contain a lease as defined in the referred interpretation.

The existing arrangements, that do not take the legal form of a lease but convey a right to use an asset in return for a payment, if meeting the conditions established by the referred interpretation, were accounted for in accordance with IAS 17 - Leases.

The Power Purchase Agreements, for which an early termination was signed in January 2005, following the issuance of Decree-law n° 240 / 2004 of 27 December 2004, and confirmed by the Portuguese Government in February 16, 2007, were not considered as lease arrangements.

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 added to the acquisition cost only when it is probable that it will give rise to future economic benefits in excess of the originally assessed standard performance of the asset.

I) Inventories

Inventories are stated at the lower of the acquisition cost and net realisable value. The cost of inventories comprises purchase, 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 selling costs.

The cost of inventories is assigned by using the weighted average method.

m) Accounts receivable

Accounts receivable are initially recognised at their fair value and subsequently are measured at 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 the income statement, 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 is 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

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 Portugal, Spain and Brazil, the companies EDP Estudos e Consultoria, Hidrocantábrico and Bandeirante 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 plan.

Other benefits

Medical care and other plans

In Portugal and in Brazil (Escelsa) some EDP companies provide medical care during the period of retirement and 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 meeting 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 a 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.

Dismantling and decommissioning provisions

The Group recognises dismantling and decommissioning provisions for the expected cost of restoring sites and land to its original condition. The provisions correspond to the present value of the expenditure expected to be required to settle the obligation and are recognised as part of the initial cost or an adjustment to the cost of the respective asset, being depreciated on a straight-line basis over the asset useful life.

Decommissioning and dismantling provisions are remeasured on an annual basis based on the best estimate of the settlement amount. The unwinding of the discount at each balance sheet date is charged to the income statement.



p) Recognition of costs and revenues

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

Revenue comprises the amounts invoiced on the sale of products or of services rendered, net of value added tax, rebates and discounts, after elimination of intraaroup sales.

The invoicing of electricity sales is performed 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. 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 performed 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 and 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. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established.

r) Income tax

Income tax for the year comprises current 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.

Deferred taxes arising from the revaluation of financial assets hedging derivatives are recognised in shareholders' equity and are recognised in the profit and loss in the period the results that originated the deferred taxes are recognized.

Current tax is the tax expected to be paid on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date and any adjustment to tax payable in respect of previous years.

Deferred taxes are calculated in accordance with the liability method based on the balance sheet, considering temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax basis, using the tax rates enacted or substantively enacted at the balance sheet date for each jurisdiction and that is expected to be applied when the temporary difference is reversed.

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 to absorb deductible temporary differences for taxation purposes.

s) Earnings per share

Basic earnings per share are 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. Therefore at that date no expense or liability is recognised in the company's financial statements.

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 (groups of assets 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 adjusted in accordance with the applicable IFRS. Subsequently, these assets or disposal groups are measured at the lower of their carrying amount, determined annually in accordance with the applicable IFRS, at 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 distinguishable component of an entity that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments.

A geographical segment is a distinguishable component of an entity that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components 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.

y) CO₂ licenses and greenhouse effect gas emission

The Group holds CO_2 licenses to face the gas emissions resulting from its operational activity and licenses acquired for trading. The CO_2 and greenhouse effect gas emission licenses for own use and attributed for free are booked as intangible assets against Deferred Income - Subsidies and valued at the quoted price on the grant date. Use of licenses is based on actual gas emissions occurred in the period, valued at the quoted price in the Powernext market at the beginning of the year.

Amortisation of subsidies is made in the year when the subsidy was granted and is based on the actual gas emissions. When the emissions exceed the CO_2 licenses attributed for free, a provision is booked to cover for the costs of acquiring the necessary additional licences at the balance sheet date.

The licenses held by the group for trading purposes are booked at acquisition cost, subsequently adjusted to the respective fair value, calculated on the basis of the Powernext market quote in the last day of each month. Gains and losses resulting from these adjustments to fair value are recognized in the profit and loss of the period.

3. Critical accounting estimates and judgments in applying accounting policies

IFRS set forth a range of accounting treatments and require the Board of Directors to apply judgment 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 judgment. In making this judgment, 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 curves and volatility factors. These pricing models may require assumptions or judgments in estimating fair values.

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

Power Purchase Agreement (PPA) extinguishment

On January 27 2005 in accordance with Decree-law 240/2004 of 27 December, the EDP Group signed early termination contracts for power purchase agreements ("PPAs") related to the binding electricity production plants. The referred decree-law established that the owners of PPAs, which correspond to a significant portion of EDP's generation activity in Portugal, have the right to receive an amount for the early termination of those arrangements (CMEC). The effects of the termination agreements effects were suspended until a set of conditions was met, including the launch of the spot market that assures the sales of generated electric energy and the attribution of non-binding production licenses, in order to create an Iberian Electricity Market (MIBEL).

On 16 February 2007 the Portuguese Government confirmed its decision to early terminate the PPAs and to implement the CMEC's mechanism and defined the rules to calculate the compensations due to the power generators for such early termination, which essentially consisted on an adjustment in relation to the reference market price of sale of electricity, used to calculate the CMECs' initial amount.

The Board of Directors considers that these adjustments are in line with the changes in the long term electricity market prices in the last two years. Economically, the Board of Directors does not foresee that this adjustment will change the neutral effect, for EDP Group, of the start of CMECs as a result of PPA's termination.

Review of the useful life of the production assets

Following the Portuguese Government announcement of the early termination of PPA's, EDP Group reviewed the useful lives of the electric generation assets which, consequently, led to the change in the depreciation policy. The redefinition of useful lives of the thermoelectric and hydroelectric power plants under the PPA agreements, was based on technical and economic valuations of the associated equipments, considering their technologic capability and the legislation restrictions affecting them, namely the need to perform additional investments to comply with environmental restrictions.

This analysis considered some assumptions that require judgment and estimates in the determination of the useful lives of the related assets. Namely, the revised useful live of the fixed hydraulic component of the hydroelectric generation plants was based on the expectation of extending the operation of these plants until the end of their useful lives.

Tariff adjustments

The Executive Board of Directors estimates the recovery of the regulatory assets and liabilities based on the future increase in tariffs annually determined by the regulator. According to IFRS, these amounts are recognised as losses or revenues, over the years in which the tariff adjustments are effectively supported by clients. Consequently, the changes in the estimates of the growth in tariff adjustments in the future will have an impact on future revenues and results of the Group.

Tariff Deficit

In Portugal, the Decree-law 237-B/2006, of 19 December 2006, recognised the irrevocable right of the operators of the binding sector to recover the tariff deficit, independently of the form of its future payment or in situations of insolvency and cease of operations. The decree-law also allows the transfer of the tariff deficit collecting right to third parts

In Spain, the Decreto Real 1634/2006, published in December 2006, established the electricity tariff for the year 2007 and also the mechanism of recuperation of the 2006 deficit.

Based on the published legislation, the Executive Board of Directors considers that all conditions exist to allow for the recognition of the tariff deficits as receivables against the income statement.

Impairment on long term assets

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

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 judgments, could change the impairment test results which could affects the Group's reported results.

Doubtful debts

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

In Portugal, 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 the risk of non-compliance by the counterparty in each operation. The unpredictability of the financial markets is analysed on an on-going basis in accordance with the Group's risk management policy. Financial instruments are used to minimise potential adverse effects resulting from the interest rates and foreign exchange rates risks on its financial performance.

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

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

Exchange-rate risk management

The Group operates internationally and is exposed to the exchange-rate risk resulting from different currencies, mainly US Dollars (USD) and Brazilian Reais (BRL). Currently, the exposure to the USD/EUR 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 GBP were hedged against exchange-rate risk and interest-rate risk at the date of issue.

The Financial Department of EDP Energias de Portugal, 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 this risk. Additionally, investments in brazilian subsidiaries, whose net assets are exposed to exchange-rate risks, are monitored through analysis of the evolution of the BRL/EUR exchange-rate. Given the long-term nature determined for investments in 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 financial instruments only for the purpose of hedging risks with characteristics similar to those of the hedged liability. The operations are revalued and monitored throughout their useful lives 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 through the settlement of derivative financial instruments (swaps and collars) to fix the debt interest rates.



In the floating-rate financing context, the Group contracts interest-rate derivative financial 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 derivative financial 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 hedged.

The EDP Group has a portfolio of interest-rate derivatives with maturities between approximately 1 and 11 years. The Group's Financial Department undertakes sensitivity analyses of the fair value of financial instruments to interest-rate fluctuations.

Counter-party credit-rate risk management in financial transactions

The EDP Group policy in terms of the counter-party risk of financial transactions is managed by an analysis of the technical capacity, competitiveness, credit notation and exposure to 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 financial instruments operations are engaged under the ISDA Master Agreements.

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, as well as by the large volume of residential customers.

Liquidity Risk

The EDP Group undertakes prudent management of liquidity risk, through the maintenance of credit lines and financing facilities with a firm underwriting commitment with national and international financial institutions of high credit rating notation, allowing immediate 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.

Energy market risks management

Under the development of its activity in the non-binding Iberian electricity market, EDP acquires fuel in order to produce electric energy, sells electricity resulting from the production of the generation centres, the organised market (OMEL and OMIP) as well as to third parties, and imports and exports energy. Consequently, EDP has a portfolio of exposures in electric energy, carbon emissions (CO2) and fuel (coal and gas) that, for economic purposes, justify the undertaking of forward transactions in the energetic markets. These operations aim to reduce the price and volume risk exposure of the operation portfolio (electricity, gas, coal and CO2) with the purpose of enhance the investments and, additionally, to take the arbitrage and positioning opportunities within the trading limits approval. The financial instruments traded are namely swaps (electricity, brent and coal), options purchased and forwards at fixed prices.

In order to ensure the permanent alignment with the strategy defined at the EDP Group level, the wholesale business management is centralized at the Energy Management Business unit, which is supervised directly by a member of the Executive Board of Directors of EDP Group.



5. Turnover

Turnover by sector of activity, is analysed as follows:

	Group		Company	
	Dec 2006 Euro'000	Dec 2005 Euro'000	Dec 2006 Euro'000	Dec 2005 Euro'000
Revenue by sector of activity/business:			. <u>.</u>	
Electricity	8,984,486	8,564,347	611,383	499,344
Gas	961,826	601,164	-	-
Steam and ashes	16,001	15,282	-	-
Telecommunications	15,686	4,588	-	-
Other	72,053	34,466		-
	10,050,052	9,219,847	611,383	499,344
Services rendered by sector of activity:				
Telecommunications	148,648	268,368	-	-
Gas	61,352	56,596	-	-
Associated with electricity sales	27,694	48,518	19,793	14,00
Information systems and technologies	3,435	531	2,717	1
Thermo/Hydro electricity engineering services	1,421	3,593	-	
Consultancy and services	5,773	4,989	-	
Other	51,451	45,725	48,368	47,022
	299,774	428,320	70,878	61,041
	10,349,826	9,648,167	682,261	560,385
Total turnover by business:				
Electricity	9,012,180	8,612,865	631,176	513,344
Gas	1,023,178	657,760	-	
Telecommunications	164,334	272,956	-	
Steam and ashes	16,001	15,282	-	
Consultancy and services	5,773	4,989	-	
Thermo/Hydro electricity engineering services	1,421	3,593	-	
Information systems and technologies	3,435	531	2,717	19
Other	123,504	80,191	48,368	47,022
	10,349,826	9,648,167	682,261	560,385

The breakdown of **Revenue**, for the **Group**, is as follows:

		Dec 2006			Dec 2005	
	Iberian	Brazilian		Iberian	Brazilian	
	<u>Market</u>	Market	Total	Market	Market	Total
Electricity:						
To the National Transport Network	1,246,446	-	1,246,446	1,404,506	-	1,404,506
To final customers:	, ,					
- Very high tension	64,222	387,726	451,948	57,222	621,524	678,746
- High tension	251,384		251,384	601,230		601,230
- Medium tension	1,009,639	975,300	1,984,939	521,079	605,708	1,126,787
- Low tension (>39,6 KVA)	455.673	-	455,673	319,609	-	319,609
- Low tension	3,513,647	90.046	3,603,693	3,047,666	119,360	3,167,026
Embedded generation	776,681	256,073	1,032,754	1,182,005	121,848	1,303,853
Discounts and tariff adjustments	-42,351		-42,351	-37,410		-37,410
	7,275,341	1,709,145	8,984,486	7,095,907	1,468,440	8,564,347
Other Revenue:						
- Gas	961,826	_	961,826	601,164	-	601,164
- Steam and ashes	16,001	_	16,001	15,282	-	15,282
- Telecommunications	15,686	_	15,686	4,588	_	4,588
- Other	72,053	<u> </u>	72,053	34,466	<u> </u>	34,466
	1,065,566		1,065,566	655,500	<u>-</u>	655,500
	8,340,907	1,709,145	10,050,052	7,751,407	1,468,440	9,219,847



The breakdown of **Turnover by geographic market**, for the **Group**, is as follows:

	Dec 2006			
	Portugal	Spain	Brazil	Group
Electricity	5,971,431	1,331,604	1,709,145	9,012,180
Gas	96,214	926,964	-	1,023,178
Telecommunications	164,334	-	-	164,334
Steam and ashes	16,001	-	-	16,001
Consultancy and services	5,773	-	-	5,773
Thermo/Hydro electricity engineering services	1,421	-	-	1,421
Information systems and technologies	3,435	-	-	3,435
Other	33,401	72,951	17,152	123,504
	6,292,010	2,331,519	1,726,297	10,349,826

	Dec 2005				
	Portugal	Spain	Brazil	Group	
Electricity	5,593,716	1,534,446	1,484,703	8,612,865	
Gas	48,992	608,768	-	657,760	
Telecommunications	272,956	-	-	272,956	
Steam and ashes	15,282	-	-	15,282	
Consultancy and services	4,989	-	-	4,989	
Thermo/Hydro electricity engineering services	3,593	-	-	3,593	
Information systems and technologies	531	-	-	531	
Other	31,856	29,384	18,951	80,191	
	5,971,915	2,172,598	1,503,654	9,648,167	

The captions Cost of consumed electricity and gas and Changes in inventories and cost of raw material and consumables used are analysed as follows:

	Group		Company	
	Dec 2006 Euro'000	Dec 2005 Euro'000	Dec 2006 Euro'000	Dec 2005 Euro'000
Cost of consumed electricity	4,380,703	4,222,003	329,289	278,006
Cost of consumed gas	744,350	458,233	-	-
Changes in inventories and cost of raw material and consumables used				
Fuel, steam and ashes	514,094	739,989	-	
Gas	422,619	343,536	241,105	190,162
Cost of consumables used	214,506	6,015	-	-
CO ₂ licences				
Consumption	250,970	115,827	-	-
Government grants	-251,070	-89,044	-	-
Other	163,368	110,948	2,736	-
Own work capitalised	-248,168	-114,679	<u> </u>	
	6,191,372	5,792,828	573,130	468,168

6. Other operating income

This balance is analysed as follows:

	Grou	Group		any
	Dec 2006	Dec 2005	Dec 2006	Dec 2005
	Euro'000	Euro'000	Euro'000	Euro'000
Supplementary income	10,836	10,763	385	1,315
Operating government grants	839	226	-	-
Gains on fixed assets	10,245	7,939	5,780	590
Debt recovery	368	810	· -	_
Reversal of impairment losses				
- For customer debt	17,216	35,661	1,822	545
- For debtors and other assets	10,223	8,040	1,027	-
- Other provisions	-	29,750	-	-
Own work capitalised	25,552	2,016	-	-
Excess values over customer's contributions	6,932	8,165	-	-
Income arising from tariff revisions (Brazil)	-	40,272	-	
Income arising from contractual penalty (TER Contract)	-	-	-	21,168
Energy availability contract of Energin	7,920	5,368	-	-
Other income	54,017	62,543	3,037	6,104
	144,148	211,553	12,051	29,722



7. Supplies and services

This balance is analysed as follows:

	Grou	Group		any
	Dec 2006 Euro'000	Dec 2005 Euro'000	Dec 2006 Euro'000	Dec 2005 Euro'000
Subcontracts:			, -	
Subcontracts (Telecommunications)	79,664	147,747	-	-
Other	6,186	9,280	-	-
Supplies and services:				
Water, electricity and fuel	12,126	11,559	883	900
Tools and office material	5,059	5,671	338	415
Leases and rents	82,238	86,965	5,674	4,122
Communications	30,302	30,011	1,449	1,615
Insurance	27,101	23,465	676	514
Transportation, travelling and representation	21,925	14,170	1,295	1,966
Commissions and fees	9,624	23,564	1,305	1,202
Maintenance and repairs	128,471	123,269	2,735	1,776
Advertising	33,914	28,819	7,252	4,495
Surveillance and security	10,186	7,874	487	539
Specialised work	263,863	266,553	50,174	50,558
Personnel transfers	-	-	27,708	23,745
Other supplies and services	30,739	37,834	3,186	5,341
	741,398	816,781	103,162	97,188

8. Personnel costs and employee benefits expense

Personnel costs caption is analysed as follows:

	Group		Company	
	Dec 2006 Euro'000	Dec 2005 Euro'000	Dec 2006 Euro'000	Dec 2005 Euro'000
Management remuneration	13,676	7,715	4,293	3,391
Employees' remuneration	454,237	437,198	542	153
Social charges on remuneration	107,035	98,059	284	155
Early retirement costs	3,516	7,080	-	201
Employees' bonus	52,315	37,357	1	960
Stock option plans	5,700	-	5,700	-
Other costs	37,426	50,236	2,452	1,469
Own work capitalised	-88,819	-91,658	<u> </u>	
	585,086	545,987	13,272	6,329

The breakdown by management positions and professional category of the permanent staff as at 31 December 2006 and 2005 is as follows:

	Group		Company	
	Dec 2006	Dec 2005	Dec 2006	Dec 2005
Board members and senior officers	476	475	13	15
Senior management	2,078	2,087	-	-
Middle management	682	759	-	-
Intermediate management	598	612	-	-
Highly-skilled and skilled workers	7,021	7,229	1	2
Semi-skilled workers	2,437	2,802	-	-
Unskilled workers	41	37		
	13,333	14,001	14	17

As at 31 December 2006, the number of employees in service, including those on temporary contract, is 13,443 (2005: 14,224). 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 80 and 13 elements in Group and EDP, S.A., respectively (2005: 83 and 15 in Group and EDP, S.A., respectively).



The caption **Employee benefits expense** is analysed as follows:

	Group		Company	
	Dec 2006 Euro'000	Dec 2005 Euro'000	Dec 2006 Euro'000	Dec 2005 Euro'000
Costs with pension plans	93,595	99,646	830	678
Costs with medical care plans and other benefits	46,488	47,349	567	133
Other	22,204	53,296	72	71
	162,287	200,291	1,469	882

The caption Cost with pension plans includes 79,193 thousand Euros (2005: 92,651 thousand Euros) corresponding to defined benefit plans and 14,402 thousand Euros (2005: 6,995 thousand Euros) corresponding to defined contribution plans.

9. Other operating expenses

This balance is analysed as follows:

	Group		Company	
	Dec 2006 Euro'000	Dec 2005 Euro'000	Dec 2006 Euro'000	Dec 2005 Euro'000
Concessions rents paid to local authorities	211,452	201,461	_	-
Electricity generating centres rents	8,901	7,587	-	-
Direct operating taxes	778	1,757	273	694
Indirect taxes	47,319	31,232	612	536
Impairment loss on trade debtors	55,489	24,863	726	223
Impairment loss on debtors and other assets	15,362	43,811	248,491	1,213
Uncollectible debts	5,687	33,606	3,500	-
Losses on fixed assets	8,866	10,382	492	5,346
Regulation costs	3,783	3,406	-	-
Return of CO ₂ licences (Real Decreto-Ley 03/06)	32,352	-	-	-
Difference in the acquisition price of energy (Real Decreto-Ley 03/06)	15,560	-	-	-
R&D and energetic efficiency (Brazil)	17,956	3,456	-	-
Operating indemnities	1,786	2,166	-	-
Donations	9,879	20,004	9,810	19,717
Local authorities agreements	-	10,575	-	-
Other costs related to energy management activities	-	-	22,299	87,703
Other costs and losses	73,211	59,360	7,918	16,511
	508,381	453,666	294,121	131,943

The amount related to the return of CO_2 licences reflects the estimate of the costs that the Group expects to incur with the return of CO_2 licences to the Spanish government, as a result of the publication of Real Decreto-Ley 03/06. Similarly, the difference in the acquisition price of energy (between the average unitary purchase cost of the Distribution daily market and the cost recognised by the market regulator related to purchases) represents an activity cost in accordance with Real Decreto-Ley 03/06.

R&D costs and energetic efficiency relate to subsidiaries Bandeirante, Escelsa and Enersul in Brazil and results from the application of Resolução Normativa n.º 219, 11 April 2006 that approved the "Manual do Programa de Pesquisa e Desenvolvimento Tecnológico do Sector da Energia Eléctrica".

Impairment losses on trade debtors, debtors and other assets are analysed in Notes 23 and 24, respectively.

On a company basis, impairment losses on debtors and other assets, of 248,491 thousand Euros include charges for the year related to credits over the ONI Group, of 278,312 thousand Euros (see Note 24), net of 29,821 thousand Euros corresponding to a discount from the acquisition of these credits below its nominal value.

10. Provisions

This balance is analysed as follows:

	Gro	Group		any
	Dec 2006 Euro'000	Dec 2005 Euro'000	Dec 2006 Euro'000	Dec 2005 Euro'000
Charge for the year	121,732	148,082	5,886	4,454
Write-back for the year	-27,168	-135,608	-3,462	-604
	94,564	12,474	2,424	3,850



11. Net depreciation and amortisation expense

This balance is analysed as follows:

	Group		Company	
	Dec 2006 Euro 000	Dec 2005 Euro'000	Dec 2006 Euro'000	Dec 2005 Euro'000
Property, plant and equipment:				
Property, plant and equipment under concession - DL 344-B/82	1,354	1,791	-	-
Buildings and other constructions	12,576	9,620	568	588
Plant and machinery:				
Hydroelectricity generation	131,328	128,659	8	8
Thermoelectric generation	208,150	175,470	-	-
Renewable generation	66,133	27,066	-	-
Electricity distribution	436,016	422,192	-	-
Other plant and machinery	71,410	78,092	15	15
Transport equipment	8,091	8,339	563	514
Office equipment	49,411	41,597	3,792	2,836
Other	2,117	3,233	1,424	1,405
	986,586	896,059	6,370	5,366
Intangible assets:				
Industrial property and other rights	20,928	29,722	8	8
Concession rights	41,052	31,087	-	-
Utilization rights on telecommunications business	3,289	6,545	-	-
Impairment losses on utilization rights	-	30,000	-	-
Losses on Goodwill impairment	7,011		<u> </u>	
	72,280	97,354	8	8
	1,058,866	993,413	6,378	5,374
Amortisation of deferred income on partially funded properties received under concessions				
Partially-funded fixed assets	-101,764	-97,626	_	-475
Other regularizations	748	26	-	-201
	-101,016	-97,600	-	-676
	957,850	895,813	6,378	4,698

During 2005, an impairment loss on utilization rights of optical-fibber on the telecommunications business was charged, in the amount of 30,000 thousand Euros. In 2006, an impairment loss on goodwill was booked related to Affinis - Serviços de Assistência e Manutenção Global, S.A. and to Edipombal, S.A., in the amount of 7,011 thousand 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 2006		Dec 2005	
	Sale %	Amount Euro'000	Sale %	Amount Euro'000
ВСР	-	-	2.0%	12,653
REE	-	-	3.0%	19,340
Galp	-	-	14.3%	397,484
Efacec	-	-	4.9%	3,123
EDP Produção Bioeléctrica	50.0%	-102	-	-
Electra	10.2%	-5,398	-	-
Sonaecom	7.9%	-14,010	-	-
Telecable	44.5%	35,451	-	-
Optep / Optimus	25.7%	-12,034	-	-
Other		911	-	8,130
		4,818		440,730

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The balance Gains / losses from the sale of financial assets, for the Company, is analysed as follows:

	Dec 2006		Dec	2005
	Sale	Amount	Sale	Amount
	%	Euro'000	%	Euro'000
Edinfor	-	-	60.0%	-21,956
EDP Energias do Brasil	-	-	2.2%	-61,625
EDP Produção Bioeléctrica	50.0%	-2,991	-	-
Electra	10.2%	-5,398	-	-
Optep / Optimus	25.7%	-12,034	-	-
Others	-	3,217	-	1,867
		-17,206		-81,714

On 24th July 2006, the Group EDP/Águas de Portugal, S.A. ("AdP") – held in 60% by EDP and 40% by AdP – that holds a 51% share of ELECTRA SARL (ELECTRA), a concessionary company of distribution and transport of electricity and water and collection and treatment of residual waters for reutilization in Cabo Verde, celebrated an agreement with the Cabo Verde Government related with the reorganization of the ELECTRA shareholding.

The ELECTRA shareholding reorganization agreement included a capital increase by EDP/AdP through incorporation of debt followed by an operation to cover losses and subsequent capital reduction. This operation resulted in a reduction of EDP's share in the capital of ELECTRA, from 30.6% to 20.4%.

13. Other financial income and other financial expenses

This balance is analysed as follows:

	Group		Company		
	Dec 2006	Dec 2005	Dec 2006	Dec 2005	
	Euro'000	Euro'000	Euro'000	Euro'000	
Financial income:					
Interest income	232,408	218,107	298,806	270,981	
Income from other equity investments	7,960	36,069	722,355	909,473	
Favourable foreign exchange differences	37,881	117,416	3,111	48,415	
Derivative financial instruments	385,300	88,663	358,120	210,202	
Financial operations with CO ₂ derivative instruments	41,785	-	41,785	-	
Other financial gains	65,027	67,639	15,275	117,589	
	770,361	527,894	1,439,452	1,556,660	
Financial expenses:					
Interest expense	579,797	534,677	362,341	332,853	
Banking services	25,210	8,138	4,189	2,390	
Unfavourable foreign exchange differences	36,951	48,695	18,706	27,007	
Derivative financial instruments	230,871	243,022	165,917	319,269	
Financial operations with CO ₂ derivative instruments	24,145	-	24,145	-	
Other financial losses	80,764	92,639	56,955	190,420	
	977,738	927,171	632,253	871,939	
Financial income/(expenses)	-207,377	-399,277	807,199	684,721	

The balance $\mbox{\it Income}$ from other equity investments is analysed as follows:

	Grou	JÞ	Company	
	Dec 2006 Euro'000	Dec 2005 Euro'000	Dec 2006 Euro'000	Dec 2005 Euro'000
Subsidiary companies	-	-	587,500	893,381
Associated companies				
DECA II	-	-	2,218	2,082
REN	-	-	132,614	14,010
Other companies				
BCP	6,250	7,510	-	-
GALP	-	23,664	-	-
Tejo Energia	1,111	3,222	-	-
Other	599	1,673	23	
	7,960	36,069	722,355	909,473



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 2002 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 (6 years in Portugal, 15 years in Spain and without expiration date in Brazil, but with a limit of 30% of the taxable income of each year). The breakdown of tax losses carried forward and the respective expiration date are presented in Note 21. 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 2006 and 2005, is analysed as follows:

	Grou	Group		any
	Dec 2006 Euro'000	Dec 2005 Euro'000	Dec 2006 Euro'000	Dec 2005 Euro'000
Current tax				
Current year	-252,330	-100,898	84,944	51,581
Change in estimate for prior years	-7,352	-10,163	-8,416	-8,301
Total current tax	-259,682	-111,061	76,528	43,280
Deferred tax	-6,233	- 41 128	-31,782	-13,501
	-265,915	-152,189	44,746	29,779

The reconciliation between the statutory income tax and the effective income tax (IRC) rate for the Group as at 31 December 2006 is shown in the following table:

	Dec 2006			
	Rate %	Tax Basis Euro '000	Tax Euro '000	
Income tax calculated based on the statutory tax rate	27.5%	1,295,806	356,347	
Non-deductible provisions for tax purposes	1.4%	66,037	18,160	
Unrecognised deferred tax assets related to tax losses generated in the year	2.9%	130,474	35,880	
Tax-exempt dividends	-0.6%	-26,545	-7,300	
Tax benefits	-1.0%	-42,266	-11,623	
Fair value of financial instruments	-0.1%	-6,404	-1,761	
Difference between tax and accounting gains/losses	1.4%	65,520	18,018	
Equity on associates and subsidiaries	-4.6%	-215,948	-59,386	
Autonomous taxation and tax benefits	0.3%	12,816	3,524	
Changes in estimates	-5.9%	-261,509	-71,915	
Tax rate change	-1.2%	-53,165	-14,620	
Difference on the subsidiaries statutory tax rates and other adjustments	0.0%	2,147	591	
Effective tax rate and total income tax	20.2%	966,963	265,915	

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

	Dec 2005			
	Rate %	Tax Basis Euro '000	Tax Euro '000	
Income tax calculated based on the statutory tax rate	27.5%	1,218,628	335,123	
Non-deductible provisions for tax purposes	1.4%	63,873	17,565	
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 and subsidiaries	-0.6%	-27,330	-7,516	
Autonomous taxation and tax benefits	-0.6%	-26,160	-7,194	
Tax rate change	7.3%	323,471	88,955	
Differences on the subsidiaries statutory tax rates and other adjustments	-0.6%	-28,433	-7,819	
Effective tax rate and total income tax	12.5%	553,414	152,189	



The reconciliation between the nominal and the effective income tax (IRC) rate for the Company as at 31 December 2006 is shown in the following table:

	Dec 2006			
	Rate %	Tax Basis Euro '000	Tax Euro '000	
Income tax calculated based on the statutory tax rate	27.5%	470,951	129,512	
Non-deductible provisions for tax purposes	18.0%	307,708	84,620	
Fair value of financial instruments	-1.0%	-17,829	-4,903	
Difference between tax and accounting gains/losses	-0.3%	-5,210	-1,433	
Tax exempt dividends	-40.0%	-685,702	-188,568	
Tax rate change	0.2%	3,892	1,070	
Changes in estimates	-13.7%	-234,604	-64,516	
Other adjustments	-0.1%	-1,919	-528	
Effective tax rate and total income tax	-9.5%	-162,713	-44,746	

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:

	Dec 2005			
	Rate %	Tax Basis Euro '000	Tax Euro '000	
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	-6.1%	-108,287	-29,779	

15. Property, plant and equipment

This balance is analysed as follows:

	Grou	JP	Comp	any
	Dec 2006 Euro'000	Dec 2005 Euro'000	Dec 2006 Euro'000	Dec 2005 Euro'000
Cost:		2010 000	E010 000	E010 000
	202 400	000 400		
Property, plant and equipment held under the DL 344-B/82 regime	223,420	223,420	47.705	47/54
Land and natural resources	125,166	134,145	46,735	47,654
Buildings and other constructions	521,316	411,234	25,797	27,420
Plant and machinery:				
Hydroelectric generation	7,475,125	7,211,603	254	254
Thermoelectric generation	5,666,532	5,474,275	-	-
Renewables generation	1,314,300	747,563	-	-
Electricity distribution	13,723,640	12,981,777	-	-
Gas distribution	837,332	782,548	-	-
Other plant and machinery	336,342	510,015	148	148
Transport equipment	83,400	80,037	3,153	2,986
Office equipment and tools	461,626	394,370	72,872	70,576
Other	97,347	31,981	14,246	14,142
Assets under construction	1,706,086	1,555,744	6,203	12,087
	32,571,632	30,538,712	169,408	175,267
Accumulated depreciation and impairment losses				
Depreciation charge for the year	-986,586	-896,059	-6,370	-5,366
Accumulated depreciation in previous years	-16,503,318	-15,771,902	-78,139	-74,365
Impairment losses		-6,605	<u> </u>	
	-17,489,904	-16,674,566	-84,509	-79,731
Carrying amount	15,081,728	13,864,146	84,899	95,536
Currying unicom	13,061,728	13,004,140	04,099	93,330



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 ("Municipalities") 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:

	Grou	J p	
	Dec 2006 Euro'000	Dec 2005 Euro'000	
Property, plant and equipment held under the DL 344-B/82 regime	223,420	223,420	
Accumulated depreciation	-221,185	-219,831	
Net amount	2,235	3,589	

Part of these assets may be transferred to EDP Group for settlement, by offsetting of accounts, of outstanding debts of the respective Municipalities(see Note 23), which have not yet been regularised.

The movement in **Property, plant and equipment,** for the **Group**, and for the year 2006 is analysed as follows:

1 January Acquisitions Disposals Transfers Differences Euro'000 Euro'000 Euro'000 Euro'000 Cost:	Regularisations Euro'000	31 December Euro'000
Property, plant and equipment held		
under the DL 344-B/82 regime 223,420	-	223,420
Land and natural resources 134,145 1,608 -942 4,834 -1,042	-13,437	125,166
Buildings and other constructions 411,234 406 -5,130 114,532 -7,339	7,613	521,316
Plant and machinery 27,707,781 63,805 -25,620 1,758,203 -79,540	-71,358	29,353,271
Transport equipment 80,037 11,408 -9,105 2,095 -619	-416	83,400
Office equipment and tools 394,370 16,940 -15,005 18,742 -544	47,123	461,626
Other 31,981 33,229 -13,696 -8,532 -	54,365	97,347
Assets under construction 1,555,744 1,429,245 -10,205 -1,324,215 -3,797	59,314	1,706,086
30,538,712 1,556,641 -79,703 565,659 -92,881	83,204	32,571,632

"Transfers" includes the transfer of "licenses for wind generation of electricity" of Nuon to Property, plant and equipment. This is the result of the conclusion of the valuation of Nuon's assets, acquired in December 2005, and the consequent purchase price allocation to the assets acquired.

	Balance 1 January 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 31 December Euro'000
Accumulated depreciation and impairment losses:							
Property, plant and equipment held under the DL 344-B/82 regime	219,831	1,354	-	-	-	-	221,185
Buildings and other constructions	191,973	12,576	-	-3,455	-2,196	2,491	201,389
Plant and machinery	15,934,636	913,037	-	-13,102	-33,561	-142,928	16,658,082
Transport equipment	61,410	8,091	-	-8,432	-549	-280	60,240
Office equipment and tools	248,706	49,411	-	-2,117	-519	22,244	317,725
Other	18,010	2,117		-471		11,627	31,283
	16,674,566	986,586	-	-27,577	-36,825	-106,846	17,489,904



The movement in **Property, plant and equipment,** for the **Group**, and for the year 2005 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
Cost:							
Property, plant and equipment held	240.607					-17,187	002.400
under the DL 344-B/82 regime Land and natural resources		- 0.570	-	475	10.000	•	223,420
	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	520,512	27,707,781
Transport equipment	75,158	6,030	-8,279	1,827	6,112	-811	80,037
Office equipment and tools	385,305	6,079	-3,185	17,970	5,220	-17,019	394,370
Other	17,148	12,904	-533	7,839	-	-5,377	31,981
Assets under construction	1,193,642	1,377,122	-11,575	-1,001,399	134,457	-136,503	1,555,744
	28,006,465	1,505,245	-114,633		784,163	357,472	30,538,712
	Balance 1 January	Charge for the year	Impairment Losses / Reverses	Disposals	Exchange Differences	Perimeter Variations/ Regularisations	Balance 31 December
	Euro'000	Euro'000	Euro'000	Euro'000	Euro'000	Euro'000	Euro'000
Accumulated depreciation and impairment losses:							
Property, plant and equipment held							
under the DL 344-B/82 regime	234,132	1,791	_	_	_	-16,092	219,831
Buildings and other constructions	171,188	9,620	_	-13,094	18,982	5,277	191,973
Plant and machinery	14,751,502	831,479	_	-11,291	289,874	73,071	15,934,635
Transport equipment	55,422	8,339	-	-8,170	5,394	425	61,410
Office equipment and tools	223,153	41,597	_	-2,609	4,553	-17,987	248,707
Other	13,967	3,233	4,352	-468	-	-3,074	18,010
	15,449,364	896,059	4,352	-35,632	318,803	41,620	16,674,566

Following the Portuguese Government announcement of the early termination of PPA's, EDP Group reviewed the useful lives of the electric generation assets which, consequently, led to the change in the depreciation policy. The redefinition of useful lives of the thermoelectric and hydroelectric power plants under the PPA agreements, was based on technical and economic valuations of the associated equipments, considering their technologic capability and the legislation restrictions affecting them, namely the need to perform additional investments to comply with environmental restrictions. The revised useful live of the fixed hydraulic component of the hydroelectric generation plants was based on the expectation of extending the operation of these plants until the end of their useful lives. The impact of this change in the Group financial statements corresponds to an increase in the depreciation charge of the year of 12,987 thousand Euros in 2006.

As at 31 December 2006, for the Group, the Property, plant and equipment financed through leasings amounts to 15,008 thousand Euros (2005: 7,882 thousand Euros), with an accumulated depreciation of 4,124 thousand Euros (2005: 1,717 thousand Euros) and the respective lease instalments payable amount to 10,203 thousand Euros (2005: 5,598 thousand Euros).

		Dec 2006		Dec 2005			
	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	2,165	197	2,362	67	-	67	
Between 1 and 5 years	7,400	441	7,841	5,220	311	5,531	
	9,565	638	10,203	5,287	311	5,598	

During 2006, the costs incurred related to these assets amounted to 575 thousand Euros (2005: 90 thousand Euros) and are booked under maintenance and repairs in the Income statement (Note 7).



The movement in **Property, plant and equipment,** for the **Company**, and for the year 2006 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
Cost:	-						
Land and natural resources		47,654	-	-919	-	-	46,735
Buildings and other constructions		27,420	-	-1,623	-	-	25,797
Plant and machinery		402					
Transport equipment		2,986	819	-709	-	57	3,153
Office equipment and tools		70,576	1,036	-	1,007	253	72,872
Other		14,142	-	-	-	104	14,246
Assets under construction	-	12,087	4,423	-9,300	-1,007		6,203
		175,267	6,278	-12,551		414	169,408
	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
Accumulated depreciation and impairment losses:							
Buildings and other constructions	17,625	568	-	-1,506	-	-	16,687
Plant and machinery	30	23					
Transport equipment	1,118	563	-	-441	-	34	1,274
Office equipment and tools	58,015	3,792	-	-	-	245	62,052
Other	2,943	1,424	<u> </u>	<u> </u>		76	4,443

The movement in Property, plant and equipm	nent, for the Com	pany , and for the	year 2005 is anal	ysed as follows:			
	-	Balance 1 January Euro'000	Acquisitions Euro'000	Disposals Euro'000	Transfers Euro'000	Regularisations Euro'000	Balance 31 December Euro'000
Cost:							
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 tools		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
	=	204,560	17,675	-53,203		6,235	175,267
_	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
Accumulated depreciation and impairment losses:							
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 tools	55,324	2 836	-	-215	-	70	58,015
Other _	1,517	1 405	<u> </u>	<u> </u>		21	2,943
=	85,702	5,366		-11,902		565	79,731



As at 31 December 2005, on a company basis, the property, plant and equipment financed by leasing amounts to 2,598 thousand Euros (2005: 2,267 thousand Euros) with an accumulated depreciation of 871 thousand Euros (2005: 584 thousand Euros) and the respective lease instalments payable amount to 1,606 thousand Euros (2005: 1,606 thousand Euros).

		Dec 2006		Dec 2005			
	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	611	48	659	-	-	-	
Between 1 and 5 years	910	37	947	1,377	69	1,446	
	1,521	85	1,606	1,377	69	1,446	

During 2005,the costs incurred related to these assets amounted to 29 thousand Euros (2005: 90 thousand Euros), and are booked under maintenance and repairs in the Income statement (Note 7).

16. Intangible assets

This balance is analysed as follows:

	Grou	JD QI	Comp	any
	Dec 2006 Euro'000	Dec 2005 Euro'000	Dec 2006 Euro'000	Dec 2005 Euro'000
Cost:				
Industrial property and other rights	87,792	269,323	50	349
CO ₂ licences	266,063	99,381	1,748	-
Intangible assets under development	20,313	7,281	-	-
Utilization rights on telecommunications business	-	32,890	-	-
Concession rights	1,080,870	930,925	-	-
Licences for wind generation of electricity		482,438	<u>-</u> .	
	1,455,038	1,822,238	1,798	349
Accumulated amortisation and impairment losses:				
Amortisation of concession and utilisation rights during the year	-44,341	-37,632	-	-
Amortisation of intangible assets during the year	-20,928	-29,722	-8	-8
Accumulated amortisation in previous years	-221,633	-262,881	-27	-19
Impairment losses		-30,000		
	-286,902	-360,235	-35	-27
Carrying amount	1,168,136	1,462,003	1,763	322

The balance of CO₂ licences includes 264,315 thousand Euros referring to the licences granted for 2006, with exception of licenses attributable to the SEP facilities, and 1,748 thousand Euros of carbon funds. In Portugal, the CO₂ licences market is controlled by "Plano Nacional de Atribuição de Licenças de Emissão" (PNALE) which covers the period 2005-2007. PNALE policies for the attribution of licences for the facilities located in Portuguese territory are based on the estimated necessary licences until the end of that period, considering historical data on emissions or forecasting of such emissions. PNALE foresees that the licences for the existing production facilities, for the 2005-2007 period, will be attributed for free, however restricting their use until the end of that period, after which they will be cancelled and will not be transferable for use in the European licences market.

The concession rights over the electricity distribution network, namely from São Paulo, Espírito Santo and Mato Grosso do Sul States, in Brazil, are amortized using the straight-line method over the total period of the concession, until 2025, 2030 and 2030 respectively.

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, that increased with the acquisition process costs, totaled to 485,000 thousand Euros.

Nuon España operates exclusively in the renewable energies sector in the Spanish market and owns a portfolio of wind 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 the Canary Islands.

The difference between the acquisition cost and the respective value of the wind energy facilities acquired amounted to 482,438 thousand Euros, which was booked as "Licences for wind generation of electricity", on acquisition date. During 2006, in accordance with IFRS 3, the EDP Group revalued their acquired assets and liabilities with the objective to perform a purchase price allocation. Based on this revaluation, performed by an independent entity, the referred amount has been integrated in the group of assets and liabilities acquired under this business combination.



The movement in Intangible assets, during 2006, 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
Cost:							
Industrial property and other rights CO_2 licences	269,323 99,381	776 299,741	-263 -105,790	13,903 -27,989	- 1 910 -	-194,037 720	87,792 266,063
Intangible assets under development Utilization rights on	7,281	20,569	-2,339	-13,903	-456	9,161	20,313
telecommunications business Concession rights	32,890	-	-	-	-	-32,890	-
Concessions rights - Brazil	930,925	-	-	-	-2,287	-	928,638
Concessions rights - Portugal	400 400	45,218	-	107,014	-	-	152,232
Licences for wind generation of electricity	482,438		<u> </u>	-482,438			
=	1,822,238	366,304	-108,392	-403,413	-4,653	-217,046	1,455,038
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
Accumulated amortisation and impairment losses:							
Industrial property and other rights 144,526 Utilization rights on telecommunications	20,928	-201	-	-	-1,053	-118,528	45,672
business 16,254	3,289	-	-	-	-	-19,543	-
Concession rights 199,455	41,052	<u> </u>			-151	874	241,230
360,235	65,269	-201	-	_	-1,204	-137,197	286,902

The concession rights in Portugal are related to the natural gas distribution network in the north of the country, which are amortized using the straight-line method over the concession period, which ends in 2028.

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
Cost:							
Industrial property and other rights	264,676	153	-920	-	8,387	-141,010	131,286
CO ₂ licences	-	99,381	-	-	-	-	99,381
Intangible assets under development Utilization rights on	5,982	21,873	-2,741	-	7,896	112,308	145,318
telecommunications business	73,169	-	-	-	-	-40,279	32,890
Concession rights in Brazil	846,633	72,187	-	-	10,844	1,261	930,925
Licences for wind generation of electricity _		482,438			<u>-</u>		482,438
_	1,190,460	676,032	-3,661	-	27,127	-67,720	1,822,238



	Balance 1 January Euro'000	Charge for the year Euro'000	Impairment Losses / Reverses Euro'000	Disposals Euro'000	Transfers Euro'000	Exchange Differences Euro'000	Perimeter Variations/ Regularisations Euro'000	Balance 31 December Euro'000
Accumulated amortisation impairment losses:	and							
Industrial property and other rights Utilization rights on telecommunications	95,400	29,722	30,000	1,973	-	2,783	-15,352	144,526
business	33,721	6,545	-	-	-	-	-24,012	16,254
Concession rights in Brazil	167,944	31,087	<u> </u>	<u>-</u>	-	367	57	199,455
	297,065	67,354	30,000	1,973		3,150	-39,307	360,235
The movement in Intangibl Cost:	e assets during 20	006, for the Comp	Balance 1 January Euro'000	as follows: Acquisitions Euro'000	Disposals Euro'000	Transfers Euro'000	Regularisations Euro'000	Balance 31 December Euro'000
Industrial property and oth CO ₂ licences	her rights		349	- 1,449	-	-	-299 299	50 1,748
CO ₂ RESTREES		-	349	1,449	-			1,798
	_	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
Accumulated amortisation impairment losses:	and							
Industrial property and of	her rights	27	8					35
	=	27	8					35
The movement in intangibl	e assets during 20	005, for the Comp	pany is analysed Balance 1 January	as follows: Acquisitions	Disposals	Transfers	Regularisations	Balance 31 December
Cost:		-	Euro'000	Euro'000	Euro'000	Euro'000	Euro'000	Euro'000
Industrial property and otl	her rights		50	2	-	-	297	349
	· ·	- -	50	2	-	-	297	349
	_	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
Accumulated amortisation impairment losses:	and							
Industrial property and ot	her rights	19	8	<u> </u>				27
	=	19	8		<u>-</u>			27



17. 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 2006 Euro'000	Dec 2005 Euro'000
Electricity business:		
Hidrocantábrico Group	1,009,891	1,191,889
NEO Energy Group	666,723	-
EDP Brasil - Energy generation	64,511	64,511
	1,741,125	1,256,400
Gas distribution business:		
Naturgás Group	737,547	591,993
Portgás, S.A.	<u>-</u>	107,014
	737,547	699,007
Other businesses:		
Affinis, S.A.	-	5,736
Turbogás, S.A.	61,336	61,336
Portugen, S.A.	4,585	4,585
Dómus, Lda.	-	2,728
Safra, S.A.	-	4,147
Ortiga, S.A.	-	1,347
Companhia Electricidade Macau	9,238	10,264
Other		1,274
	75,159	91,417
	2,553,831	2,046,824

During 2006, the movements in goodwill, by business segment, are analysed as follows:

oring 2006, the movements in goodwill, b	Balance 1 January Euro'000	Acquisitions Euro'000	Disposals Euro'000	Impairment Euro'000	Exchange Differences Euro'000	Perimeter Variations/ Regularisations Euro'000	Balance 31 December Euro'000
Floratricita Duning and							
Electricity Business Hidrocantábrico Group	1,191,889					-181,998	1,009,891
NEO Energy Group	1,191,009	336,318	-	-	-	330,405	666,723
EDP Brasil - Energy generation	64,511	330,310	<u> </u>	<u> </u>	<u>-</u>	330,403	64,511
	1,256,400	336,318			_	148,407	1,741,125
Gas Distribuition Business	.,200,100						.,,,.20
Naturgás Group	591,993	125,142	_	_	_	20,412	737,547
Portgás, S.A.	107,014	<u> </u>	-		-	-107,014	-
	699,007	125,142	-	-	-	-86,602	737,547
Other Business							
Affinis, S.A.	5,736	-	-	-5,736	-	-	-
Turbogás, S.A.	61,336	-	-	-	-	-	61,336
Portugen, S.A.	4,585	-	-	-	-	-	4,585
Dómus, Lda.	2,728	-	-	-	-	-2,728	-
Safra, S.A.	4,147	-	-	-	-	-4,147	-
Ortiga, S.A.	1,347	-	-	-	-	-1,347	-
Companhia Electricidade Macau	10,264	-	-	-	-1,026	-	9,238
Other	1,274			-1,274			
	91,417			-7,010	-1,026	-8,222	75,159
	2,046,824	461,460	_	-7,010	-1,026	53,583	2,553,831

	Balance 1 January Euro'000	Acquisitions Euro'000	Disposals Euro'000	Exchange differences Euro'000	Perimeter Variations/ Regularisations Euro'000	Balance 31 December Euro'000
Electricity Business	1,256,875	3,241	-	-	-3,716	1,256,400
Gas Distribution Business	699,073	-	-	-	-66	699,007
Telecommunications Business	78,898	-	-	-	-78,898	-
Other Businesses	36,063	54,150		1,005	199	91,417
	2,070,909	57,391		1,005	-82,481	2,046,824



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

During 2006, as a result of an increase of equity through exchange of shares, NEO – Nuevas Energias de Occidente became the holder of 80% of the share capital of Genesa, S.L. previously held by the Hidrocantábrico Group. Following this capital increase, NEO became the holder of 90% of the share capital of Enernova, previously held by EDP, S.A, in 100%.

During this period, NEO recorded an increase in Goodwill due to the acquisition of 100% of the share capital of Tarcan, Ceasa, Agrupación Eólica, 70% of Greenwind, 80% of Veinco and 50% of Marquesado Solar in the amount of 307,000 thousand Euros. During 2006, Enernova, NEO's subsidiary, acquired Eneraltius-Produção de Energia Eléctrica, S.A., Bolores-Energia Eólica S.A. e Serra del Rei, S.A. recording a total goodwill increase of 22,000 thousand Euros.

As at 31 December 2006, the assets and liabilities included in the referred business combinations were not subject to an evaluation and, therefore, not allocated to the acquired assets. During 2007, EDP Group will conclude the referred purchase price allocation which can result in a correction of the recorded goodwill.

The increase in the goodwill of Naturgás Group includes 61,000 thousand Euros as the result of the acquisition of the remaining 50% share capital of Bilbogás, S.A. and Gás Natural de Álava, S.A. and 45% of Gas Pasaia, S.A. and Gas Hernani, S.A. by Naturgás Energía Grupo, S.A. The companies Bilbogás, S.A, Gas Pasaia, S.A. and Gas Hernani, S.A. were merged into Naturgas Energia Distribuicion, S.A. during 2006.

In addition, Hidrocantábrico recorded 63,357 thousand Euros of Goodwill related to Naturgás. This goodwill arised from the existing put option overthe share capital of Naturgás which resulted in the anticipated accounting of minority interests acquisitions.

18. Investments in subsidiaries (company basis)

This balance is analysed as follows:

	Comp	any
	Dec 2006 Euro'000	Dec 2005 Euro'000
Investments in subsidiary companies	8,312,773	9,197,717
Impairment losses on investments in subsidiary companies	-1,639,093	-1,846,128
	6,673,680	7,351,589

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

	Dec 2006	Dec 2005
	Net amount	Net amount
	Euro'000	Euro'000
Investments in subsidiary companies		
EDP Distribuição de Energia, S.A.	1,591,145	1,591,145
EDP Comercial, S.A.	99,702	39,702
EDP Gestão de Produção de Energia, S.A.	2,067,565	2,067,565
EDP Gás, SGPS, S.A. (ex-EDP-Participações, SGPS, S.A.)	342,795	342,795
Enernova, S.A.	882	31,258
EDP Produção Bioeléctrica, S.A.	6,600	13,200
EDP Internacional, SGPS, S.A.	-	984,333
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 Energias do Brasil, S.A.	432,238	211,408
Hidroeléctrica del Cantábrico, S.A.	1,981,798	1,981,798
EDP Finance Company, Ltd.	2,001	1,000
ONI, SGPS, S.A.	-	-
NEO-Nuevas Energías de Occidente S.A.	60,095	-
Sãvida, S.A.	2,552	2,552
NQF, SGPS, S.A.	62,761	62,761
EDP Imobiliária e Participações, S.A.	4,458	4,458
Balwerk, S.A.	1,686	1,686
Patrimonial de la Ribera del Ebro, S.L.	4,000	4,000
Other	2,639	1,165
	6,673,680	7,351,589

In 2006, EDP Internacional SGPS, S.A. was merged into EDP, S.A. and, consequently, the net value of the investment was written-off. As a result of this merger, EDP S.A. has increased its investment in EDP Energias do Brasil from 12,20% to 24,09%, due to the incorporation of the investment of 11,89% that EDP International SGPS, S.A. held in EDP Energias do Brasil at the date of the merger.

Company



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

	Euro'000
Balance as at 1 January 2005	-1,758,798
Charge for the year	-150,458
Utilisations	49,535
Transfers	13,593
Balance as at 31 December 2005	-1,846,128
Charge for the year	-20,357
Utilisations	600
Transfers	226,792
Balance as at 31 December 2006	-1,639,093

The Charge for the year of 2006 and 2005, includes provisions for the ONI Group in the amounts of 20,307 and 150,458 thousand Euros, respectively.

The Transfers for 2006 results from the merger of EDP Internacional SGPS, S.A. into EDP, S.A.

The subsidiary companies consolidated under the full consolidated method, as at 31 December 2006, are as follows:

Subsidiary Companies	Head Office	Share capital / Currency	Assets 31-Dec-06 Euro'000	Liabilities 31-Dec-06 Euro'000	Total Equity 31-Dec-06 Euro'000	Total Revenues 31-Dec-06 Euro'000	Net Profit 31-Dec-06 Euro'000	% Group	% Company
Portugal Group's parent holding company and related activities	:								
EDP - Energias de Portugal, S.A.	Lisbon	3,656,537,715 EUR	12,613,329	6,425,703	6,187,626	2,142,052	515,696	100.00%	-
Balwerk - Consultadoria Económica e Participações, Sociedade Unipessoal, Lda.	Lisbon	5,000 EUR	288,901	279,588	9,313	11,801	7,282	100.00%	100.00%
Edalpro - Imobiliária, Lda.	Lisbon	748,197 EUR	403	261	142	15	-576	100.00%	100.00%
EDP Estudos e Consultoria, S.A.	Lisbon	50,000 EUR	6,420	5,805	615	17,823	1,058	100.00%	100.00%
EDP Imobiliária e Participações, S.A.	Lisbon	10,000,000 EUR	586,717	330,975	255,742	90,409	-22,649	100.00%	100.00%
EDP Investments and Services, S.L.	Madrid	3,006 EUR	286,038	266,599	19,439	14,894	11,933	100.00%	-
EDP Gás - S.G.P.S., S.A.	Lisbon	120,000,000 EUR	743,362	191,269	552,093	134,258	123,498	100.00%	-
EDP Trader Internacional - Comércio, Consultoria e Serviços, Sociedade Unipessoal, Lda	Funchal	5,000 EUR	8	27	-19	-	-24	100.00%	100.00%
EDP Valor - Gestão Integrada de Serviços, S.A.	Lisbon	4,550,000 EUR	35,630	51,018	-15,388	60,176	2,343	100.00%	100.00%
Internel - Serviços de Consultoria Internacional, S.A. MRH - Mudança e Recursos Humanos, S.A.	Lisbon Lisbon	50,000 EUR 750,000 EUR	3,428 1,051	2,853 603	575 448	1,941 133	409 -139	100.00% 100.00%	100.00%
Sāvida - Medicina Apoiada, S.A.	Lisbon	450,000 EUR	16,450	24,481	-8,031	37,018	-3,507	100.00%	100.00%
SCS - Serviços Complementares de Saúde, S.A.	Lisbon	50,000 EUR	189	134	55	95	-86	100.00%	-
Labelec - Estudos, Desenvolvimento e Actividades Laboratoriais, S.A.	Sacavém	2,200,000 EUR	11,958	11,529	429	12,269	-229	100.00%	100.00%
Electricity business - Portugal: Electricity generation:									
Liethicity generation.									
EDP - Gestão da Produção de Energia, S.A.	Lisbon	1,234,000,000 EUR	4,587,849	2,642,051	1,945,798	1,457,186	405,160	100.00%	100.00%
EDP Produção EM - Engenharia e Manutenção, S.A.	Oporto	2,250,000 EUR	12,553	28,830	-16,277	1,890	890	100.00%	-
Enerfin - Sociedade de Eficiência Energética, S.A.	Oporto	50,000 EUR	116	-	116	65	56	74.88%	1
Energin, S.A. Hidrobasto, Lda.	Lisbon Cabeceiras	50,000 EUR 100,000 EUR	52,856 106	51,813 2	1,043 104	12,537	2,362	65.00% 60.00%	-
O&M Serviços - Operação e Manutenção Industrial,						•	-		-
S.A.	Mortágua Lisbon	500,000 EUR 50,000 EUR	4,114 43,916	3,993 38,276	121 5,640	9,566	28 3,946	60.00% 82.00%	-
Soporgen, S.A. Tergen - Operação e Manutenção de Centrais						49,660			-
Termoeléctricas, S.A.	Carregado	250,000 EUR	969	618	351	1,488	90	80.00%	-
Renewable energy:									
Bolores-Energia Eólica, S.A.	Lisbon	200,000 EUR	19,360	19,565	-205	2,943	69	98.81%	-
Domus Eólia - Produção de Energia Renováveis, Lda.	Vila Real	5,000 EUR	1,455	1,460	-5	-	-8	98.81%	0.00%
Eneraltius-Produção de Energia Electrica, S.A.	Lisbon	1,505,000 EUR	52,111	48,498	3,613	6,977	192	98.81%	-
Enernova - Novas Energias, S.A.	Lisbon	7,500,000 EUR	395,424	372,656 17	22,768	38,444	7,530	98.81%	10.00%
Parque Eólico do Candedo, Lda. Eólica da Serra das Alturas, S.A.	Vila Real Oporto	5,000 EUR 50,000 EUR	6 52	10	-11 42	-	-13 -8	98.81% 69.17%	-
Ortiga - Energia Eólica, S.A.	Leiria	200,000 EUR	13,804	13,426	378	1,648	404	98.81%	-
Safra - Energia Eólica, S.A.	Leiria	50,000 EUR	42,021	43,838	-1,817	567	-249	98.81%	_
P.E Serra D'EL Rei-ER, SA	Coimbra	50,000 EUR	66	24	42	-	-7	98.81%	-
Electricity distribution:									
EDP Distribuição de Energia, S.A.	Lisbon	1,024,500,000 EUR	6,131,211	5,983,940	147,271	4,573,503	129,186	100.00%	100.00%
EDP Powerline, Infraestruturas de Comunicação, S.A.	Lisbon	50,000 EUR	2,097	4,720	-2,623	493	-2,716	100.00%	100.00%
EDP Soluções Comerciais, S.A. EDP Serviço Universal, S.A.	Lisbon Lisbon	50,000 EUR 100,000 EUR	70,315 100	61,247	9,068 100	135,372	8,414 -	100.00% 100.00%	100.00%
Gas distribution:									
NQF-Energia, S.G.P.S., S.A.	Lisbon	5,500,000 EUR	68,698	38,372	30,326	284	-1,538	100.00%	-
NQF-Gás, S.G.P.S., SA	Lisbon	5,000,000 EUR	53,974	19,229	34,745	956	-1,226	100.00%	-
NQF- Projectos de Telecomunicações e Energia,	Lisbon	5,489,000 EUR	64,151	19,262	44,889	32,040	32,020	100.00%	100.00%
S.G.P.S., S.A. PORTGÁS - Soc. de Produção e Distribuição de Gás,	Oporto	7,909,150 EUR	296,020	248,991	47,029	100,985	13,842	71.97%	.00.00%
S.A. ENAGÁS - S.G.P.S., S.A.	Lisbon	299,400 EUR	12,639	12,193	47,029	405	13,642	60.00%	-
Electricity Supply:									
EDP Comercial - Comercialização de Energia, S.A.	Lisbon	50,100,200 EUR	197,690	173,617	24,073	355,597	-78,901 277	100.00%	60.00%
EDP Serviner - Serviços de Energia, S.A.	Lisbon	50,000 EUR	3,408	3,884	-476	6,434	277	100.00%	100.00%



Subsidiary Companies	Head Office	Share capital / Currency	Assets 31-Dec-06 Euro'000	Liabilities 31-Dec-06 Euro'000	Total Equity 31-Dec-06 Euro'000	Total Revenues 31-Dec-06 Euro'000	Net Profit 31-Dec-06 Euro'000	% Group	% Company
Telecommunications Business:				,					
093X - Telecomunicações Celulares, S.A.	Lisbon	1,996,000 EUR	288,433	111,030	177,403	172,593	153,135	100.00%	-
Operadora Nacional de Interactivos S.G.P.S., S.A. OPTEP SGPS, S.A.	Lisbon	100,000,000 EUR 5,500,000 EUR	223,765	338,766	-115,001	88,901	-319,672	100.00%	100.00%
FCTE - Forum do Comércio, Transacções Electrônicas	Lisbon		122,110	555	121,555	-	-42	100.00%	-
e Serviços Empresariais On-Line, S.A.	Lisbon	500,000 EUR	11	511	-500		-57	80.00%	-
Oni Açores, S.A. Oni Madeira, S.A.	P.Delgada Funchal	250,000 EUR 50,000 EUR	1,483 624	952 257	531 367	2,038 884	24 220	60.00% 70.00%	-
Oni Multimédia - Serviços Interactivos, S.A.	Lisbon	50,000 EUR	1,151	65,310	-64,159	643	-291	100.00%	-
Oni Telecom, S.A. U Call - Atendimento a Clientes e Telemarketing, S.A.	Lisbon Lisbon	4,630,000 EUR 50,000 EUR	275,296 153	243,702 779	31,594 -626	177,159 1,988	-35,558 -463	100.00% 60.00%	-
Information and Technology Business:	LISBOTT	30,000 EUR	133	***	-020	1,700	-400	00.00%	
Central E - Informação e Comércio Electrónico, SA	Lisbon	500,000 EUR	908	1,334	-426	1,214	-301	52.80%	-
Spain Group's parent holding company and related activities									
Hidroeléctrica del Cantábrico, S.A.	Cviedo	421,739,790 EUR	3,920,066	2,161,215	1,758,851	1,003,091	111,685	96.86%	96.86%
Hidrocantábrico Gestión de la Energía S.A. Hidrocantábrico Servicios S.A.	Oviedo Oviedo	300,500 EUR 60,150 EUR	3,692 7,938	1,033 3,992	2,659 3,946	3,109 21,128	864 2,153	96.86% 96.86%	-
Nuevas Energías de Occidente	Madrid	28,503,630 EUR	1,656,001	1,427,332	228,669	245,363	-29,134	98.68%	57.90%
Naturgas Energía Servicios, S.A.	Bilbao	60,200 EUR	18,510	18,365	145	15,857	84	54.42%	-
Electricity business - Spain: Electricity generation:									
Ambitec Laboratorio Medioambiental (ITSEMAP), S.A.	Madrid	1,021,700 EUR	1,122	611	511	876	-356	78.93%	-
Ceprastur AIE	Oviedo	360,607 EUR	415	7	408	6	-1	44.81%	-
Cerâmica Técnica de Illescas Cogeneración, S.A. Cogeneración del Esla, S.A.	Madrid Madrid	62,247 EUR 1,081,800 EUR	1,567 2,744	1,841 1,687	-274 1,057	1,383 2.125	-250 -475	71.05% 71.04%	-
Electrica de la Ribera del Ebro S.A.	Pamplona	5,000,000 EUR	401,872	336,622	65,250	132,047	14,011	87.56%	-
Energia e Industria de Toledo, S.A. HDC Explotacion Centrales, S.A.	Madrid Oviedo	2,139,603 EUR 60.150 EUR	7,454 790	6,683 556	771 234	3,751 2,818	-1,530 145	71.05% 96.86%	-
Mazarrón Cogeneración, S.A.	Madrid	70,000 EUR	3,848	4,949	-1,101	2,764	-579	71.05%	-
Patrimonial de la Ribera del Ebro, S.L.	Pamplona	3,264,000 EUR	3,246	2	3,244	-	-	97.80%	30.00%
Rasacal Cogeneración S.A. Renovamed S.A.	Madrid Madrid	60,200 EUR 60,200 EUR	13 1,112	423 1,460	-410 -348	606	-230	47.37% 59.21%	-
Sevares Cogeneración, S.A.	Madrid	475,002 EUR	5,049	3,989	1,060	1,994	579	78.94%	
Renewable energy:									
Biogas y Energia, S.A.	Madrid	3,125,200 EUR	14,853	12,589	2,264	1,382	-1,311	78.94%	_
Eólica Don Quijote, S.L.	Albacete	3,006 EUR	49,160	49,157	3	386	-	78.94%	-
Dulcinea Eólica Arlanzón, S.A.	Albacete Madrid	10,000 EUR 4,508,980 EUR	9,895 34,225	9,885 26,946	10 7,279	4 7,187	1,860	78.94% 61.18%	-
Eolica Campollano S.A.	Madrid	6,559,994 EUR	117,476	102,831	14,645	23,497	4,038	59.21%	-
Eólica Mare Nostrum, S.A.	Valencia	60,120 EUR	69	57	12		-1	47.37%	-
Eólica Sierra de la Peña S.A. Eólica Sierra de la Peña S.L.	Madrid Albacete	3,294,000 EUR 1,141,900 EUR	80,099 29,024	75,094 26,579	5,005 2,445	8,425 4,339	1,026 1,075	67.02% 78.94%	-
Eneroliva S.A.	Sevilla	300,500 EUR	304	8	296	-	-3	78.94%	-
Genesa I S.L.	Madrid Oviedo	10,000,000 EUR	307,590 377	254,004 158	53,586	161,550	-18,732	78.94% 71.01%	-
Hidroeléctrica Fuentermosa, S.L. Hidroeléctrica Gormaz S.A.	Salamanca	77,036 EUR 60,701 EUR	487	470	219 17	110 52	58 -14	59.21%	-
Investigación y Desarrollo de Energías Renovables,	León	8,686,145 EUR	14,475	6,175	8,300	246	-2	62.83%	_
S.L. Industrias Medioambientales Río Carrión, S.A.	Madrid	60,200 EUR	58	602	-544	1	1	71.05%	_
Iniciativas Tecnológicas de Valorización Energética	Madrid	2,996,022 EUR	12,377	12,027	350	3,497	-1,683	78.55%	
de Residuos S.A.									-
Neo-Desa, S.A. Parque Eólico Belchite S.L.	Sevilla Zaragoza	30,003,006 EUR 3,600,000 EUR	103,368 55,852	78,774 49,942	24,594 5,910	1,621 8,337	-566 1,616	98.68% 78.94%	-
Parques Eólicos del Cantábrico S.A.	Oviedo	9,079,680 EUR	64,860	47,000	17,860	13,372	1,839	78.94%	-
Parque Eólico la Sotonera, S.L. Siesa Renovables Canarias, S.L.	Zaragoza Gran Canaria	2,000,000 EUR 3,006 EUR	25,268 3	21,062	4,206 2	4,976	1,396 0	51.19% 78.94%	-
Renovables Castilla la Mancha, S.A.	Albacete	60,102 EUR	11,595	11,534	61	3	1	71.05%	-
Hidroeléctrica del Rumblar, S.L.	Madrid	276,460 EUR	899	672	227	-	-105	63.15%	-
Sidergas Energía S.A.U. Singe Inversiones Eólicas S.A.	Oviedo Madrid	2,606,000 EUR 6,010,000 EUR	27,509 79,673	21,672 71,265	5,837 8,408	15,807 3,619	1,197 1,196	78.94% 78.94%	-
Sinova Medoambiental, S.A.	Soria	2,687,364 EUR	16,743	14,990	1,753	4,868	-1,484	66.31%	-
Sotromal, S.A.	Soria	450,800 EUR	367	196	171	-	-	71.05%	-
Tratamientos Medioambientales del Norte, S.A. Tratamientos Aambientales Sierra de la Tercia, S.A.	Madrid Madrid	60,200 EUR 3,731,202 EUR	64 19,403	1 12,470	63 6,933	2 13,234	1 943	63.15% 69.07%	-
Tratamientos Medioambientales Río Sotón, S.A.	Madrid	60,200 EUR	71,496	71,434	62	868	743	78.94%	-
Uniener S.A.	Madrid	940,500 EUR	6,961	7,580	-619	437	-1,101	78.94%	-
Desarrollo Eólico Almarchal, SAU Desarrollo Eólico Buenavistaa, SAU	Cádiz Cádiz	2,061,190 EUR 1,712,369 EUR	18,292 13,466	16,169 9,861	2,123 3,605	609 2,863	62 563	98.68% 98.68%	-
Desarrollo Eólico de Corme, S.A.	La Coruña	3,666,100 EUR	13,162	6,610	6,552	4,340	1,065	93.74%	-
Desarrollo Eólico Dumbria, SAU	La Coruña	61,000 EUR	57,704	57,185	519	2,424	459	98.68%	-
Desarrollos Eolicos de Galicia, S.A. Desarrollo Eólico de Lugo, SAU	La Coruña Lugo	6,130,200 EUR 7.761.000 EUR	15,010 83,647	6,898 67,635	8,112 16,012	5,032 20,141	1,302 6,475	95.39% 98.68%	-
Depsa, S.A.	Sevilla	8,061,000 EUR	50,360	34,816	15,544	10,068	8,246	98.68%	-
Desarrollo Eólico REBOSERA, S.A.	Huesca	7,560,950 EUR	40,600	29,999	10,601	8,038	2,101	93.74%	-
Desarrollos Eolicos, S.A. Desarrollo Eólico de Tarifa, SAU	Sevilla Cádiz	1,056,225 EUR 5,799,650 EUR	45,951 19,101	26,825 10,121	19,126 8,980	70,486 6,617	2,419 1,726	98.68% 98.68%	_
Agrupación Eólica, SLU	Zaragoza	772,404 EUR	130,943	85,516	45,427	-	-3	98.68%	-
Ceasa Promociones Eólicas, SLU	Zaragoza	1,205,029 EUR 3,005 EUR	2,995	1,874 32	1,121	-	-	98.68% 78.94%	-
Valle del Ebro Ingenieria y Consultoria, S.L. Desarrollo Eólico Santa Quiteria, S.L.	Zaragoza Huesca	63,005 EUR 63,006 EUR	4,645 30,189	21,883	4,613 8,306	7,248	2,030	78.94% 57.56%	-
Electricity distribution:									
Hidrocantábrico Distribucion Eléctrica, S.A.U.	Oviedo	44,002,000 EUR	695,759	480,086	215,673	227,770	982	96.86%	-
Hidrocantabrico Explotación Redes, S.A.	Oviedo	70,000 EUR	1,179	919	260	1,923	179	96.86%	-



Subsidiary Companies	Head Office	Share capital / Currency	Assets 31-Dec-06 Euro'000	Liabilities 31-Dec-06 Euro'000	Total Equity 31-Dec-06 Euro'000	Total Revenues 31-Dec-06 Euro'000	Net Profit 31-Dec-06 Euro'000	% Group	% Company
Gas:									
Gas de Euskadi Transporte de Gas, S.A.U. Naturgas Comercializadora, S.A. Naturgas Energia Distribución, S.A.U. Naturgás Energia Grupo, S.A. Naturgas Participaciones, S.A.U. Septentrional de Gas, S.A. Gas Natura de Álava, S.A.	Bilbao Bilbao Bilbao Bilbao Bilbao León Vitoria	12,880,200 EUR 3,185,300 EUR 100,000,000 EUR 316,516,400 EUR 300,500 EUR 5,105,000 EUR 10,348,780 EUR	82,813 116,806 1,185,502 1,303,954 3,587 33,157 38,661	31,487 113,522 164,339 301,611 3,277 25,858 13,582	51,326 3,284 1,021,163 1,002,343 310 7,299 25,079	65,624 608,267 251,791 419,555 253 5,077 31,582	2,078 -364 64,993 21,802 -15 2,094 4,529	54.42% 54.42% 54.42% 54.42% 54.42% 38.09% 54.42%	- - - - -
Electricity supply:									
EDP Energia Ibérica, S.A. Hidrocantabrico Energia Verde, S.A.U. Hidrocantabrico Energia, S.A.U.	Madrid Oviedo Oviedo	60,200 EUR 60,300 EUR 500,000 EUR	8,342 11,092 186,979	21,827 8,967 385,960	-13,485 2,125 -198,981	7,825 16,266 547,038	-926 2,069 -39,188	100.00% 96.86% 96.86%	- - -
Brazil Group's parent holding company and related activities	3:								
EDP Energias do Brasil, S.A.	São Paulo	3,182,715,954 BRL	1,434,747	116,108	1,318,639	229,676	147,130	62.36%	24.09%
Energest, S.A. Escelsapar	São Paulo Espirito Santo	120,480,870 BRL 2,800,000 BRL	84,735 1,896	38,816 2,015	45,919 -119	36,116 1,201	18,511 -260	62.36% 62.36%	
Electricity business - Brazil: Electricity generation									
CESA - Castelo Energética, S.A. Costa Rica Energética, Lda. EDP Lejaedo Energia, S.A. Enercouto, S.A. Enerpeixe, S.A. Pantanal	São Paulo Mato Grosso Sul São Paulo São Paulo São Paulo São Paulo	44,500,622 BRL 14,318,185 BRL 243,055,841 BRL 1,000 BRL 807,322,038 BRL 602,100 BRL	78,659 8,062 169,217 460 677,259 14,887	51,662 1,451 13,274 589 352,734 10,424	26,998 6,611 155,943 -129 324,525 4,463	14,257 3,919 40,451 - 87,017 5,985	7,905 2,676 7,706 -1 18,401 2,851	62.36% 31.80% 37.37% 62.36% 37.42% 62.36%	-
Electricity distribution:									
Bandeirante Energia, S.A. Enersul - Empresa Energética de Mato Grosso do Sul, S.A. Escelsa - Espírito Santo Centrais Eléctricas, S.A.	São Paulo Mato Grosso Sul EspiritoSanto	254,628,684 BRL 463,412,296 BRL 376,021,630 BRL	823,736 619,337 710,959	609,526 389,513 475,576	214,210 229,823 235,383	803,565 352,484 503,835	45,623 45,056 39,264	62.36% 62.36% 62.36%	- - -
Electricity supply:									
Enertrade - Comercializadora de Energia, S.A.	São Paulo	26,284,758 BRL	55,244	44,496	10,748	185,062	3,439	62.36%	-
Other countries Related activities:									
Energia RE - Sociedade Cativa de Resseguro EDP Finance BV EDP Finance Company Ltd.	Luxemburg Amsterdam Dublin	1,239,468 EUR 2,000,000 EUR 1,000,001 EUR	30,583 4,930,651 893	19,663 4,908,485 357	10,920 22,166 536	6,323 200,543 1	-679 -5,468 -70	100.00% 100.00% 100.00%	100.00% 100.00% 100.00%
EDP Investimento, Gestão de Participações e Assistência Técnica, Lda. Heralds Securities Inc.	Macau Bahamas	200,000 MOP 1 USD	71,254 17,660	7,699 22	63,555 17,638	9,757 4,882	9,079 4,699	100.00% 100.00%	100.00%
Electricity activity - Other countries: Renewable energies:	Saramas	, 655	17,000	22	17,000	.,552	1,077	100.00%	
Tarcan, BV Greenwind, S.A. Plouvien Breiz, S.A.S. Keranfouler, S.A.S. Le Gollot, S.A.S.	Amsterdam Louvain-la-Neuw Carhaix Plouger Carhaix Carhaix	20,000 EUR 402,000 EUR 40,000 EUR 37,000 EUR 37,000 EUR	84,507 108 4,414 9,175 10,993	69,095 165 4,549 9,359 11,160	15,412 -57 -135 -184 -167	- - - - 1	- -94 -198 -181	98.68% 69.07% 98.68% 98.68% 98.68%	-

The Associated Companies included in the consolidation under the proportional consolidation method as at 31 December 2006, are as follows:

Jointly controled companies	Head Office	Share Capital / Currency	% Group	% Company
EDP Produção Bioeléctrica, S.A.	Lisbon	50,000 EUR	50.00%	50.00%
Biogstur, AIE	Gijón	60.101 EUR	48 43%	_
Cogeneracion la Espina, S.L.	Salas	228.380 EUR	39.47%	
Cogneracion y Matenimiento AIE	Oviedo	1.208.010 EUR	39.47%	-
Desarrollos Energeticos Canarios, S.A.	Las Palmas	60,101 EUR	39.39%	-
Evolución 2000, S.L.	Albacete	117,994 EUR	38.80%	-
Horta Medioambiental S.A.	Madrid	60,200 EUR	39.47%	-
Ibersol	Almería	65,000 EUR	39.47%	-
Infrastructuras Gasistas de Navarra, S.L.	Pamplona	1,003,006 EUR	27.21%	-
Marquesado Solar	Almería	65,000 EUR	39.47%	-
Millenium Energy, S.A.	Bilbao	6,500,000 EUR	27.21%	-
Murciasol 1	Almería	3,340 EUR	39.47%	-
Proenercam, S.L.	Ruiloba	240,400 EUR	39.47%	-
Tébar Eólica, S.A.	Cuenca	4,720,400 EUR	39.47%	-
Investco, S.A.	São Paulo	756,206,125 BRL	10.33%	-



The main financial indicators of the associated companies included in the consolidation under the proportionate consolidation method as at 31 December 2006, are as follows:

Jointly controled companies	Head Office	Non current Assets 31-Dec-06 Euro'000	Current Assets 31-Dec-06 Euro'000	Non current Liabilities 31-Dec-06 Euro'000	Current Liabilities 31-Dec-06 Euro'000	Share Capital 31-Dec-06 Euro'000	Total Revenues 31-Dec-06 Euro'000	Total Costs 31-Dec-06 Euro'000	Net Profit 31-Dec-06 Euro'000
EDP Produção Bioeléctrica, S.A.	Lisbon	29,634	3,605	20,041	5,177	8,021	8,261	-7,662	599
Bioastur, AIE	Gijón	29	1.990	506	1.103	410	3,173	-2,778	395
Cogeneracion la Espina, S.L.	Salas	919	286	158	798	249	777	-763	14
Cogneracion y Matenimiento AIE	Oviedo	1,414	3,754	41	1,875	3,252	5,498	-5,073	425
Desarrollos Energeticos Canarios, S.A.	Las Palmas	45	8	18	-	35	· -	· -	-
Evolución 2000, S.L.	Albacete	44,635	7,646	22,400	20,983	8,898	215	-248	-33
Horta Medioambiental S.A.	Madrid	3	131	-	242	-108	-	-14	-14
Ibersol	Almería	150	91	-	176	65	93	-93	-
Infrastructuras Gasistas de Navarra, S.L.	Pamplona	3,346	3,791	160	3,551	3,426	756	-486	270
Marquesado Solar	Almería	2,324	323	-	2,610	37	337	-337	-
Millenium Energy, S.A.	Bilbao	21,471	3,355	14,858	3,785	6,183	6,620	-6,945	-325
Murciasol 1	Almería	83	118	-	198	3	65	-65	-
Proenercam, S.L.	Ruiloba	562	544	241	307	558	425	-385	40
Tébar Eólica, S.A.	Cuenca	43,552	7,540	39,942	5,057	6,093	8,858	-7,022	1,836
Investco, S.A.	São Paulo	508,313	9,384	204,852	38,473	274,372	67,180	-55,826	11,353

The main financial indicators of the associated companies included in the consolidation under the proportional consolidation method as at 31 December 2005, are as follows:

Jointly controled companies	Head Office	Non current Assets 31-Dec-05 Euro'000	Current Assets 31-Dec-05 Euro'000	Non current Liabilities 31-Dec-05 Euro'000	Current Liabilities 31-Dec-05 Euro'000	S hare Capital 31 -Dec-05 Euro'000	Total Revenues 31-Dec-05 Euro'000	Total Costs 31-Dec-05 Euro'000	Net Profit 31-Dec-05 Euro'000
Portgás - Soc. De Produção e Distribuição de	Oporto	254,307	36,165	153,688	103,171	33,613	88,300	-73,559	14,741
Gás, S.A.	Bilbao	00.007	7.50/	471	0.501	10.500	01 470	10./10	0.040
Bilbogas, S.A.		20,026	7,536		8,591	18,500	21,472	-18,610	2,862
Gas Natural de Álava	Vitoria	25,989	10,128	1,919	12,301	21,897	27,580	-23,755	3,825
Bioastur, AIE	Gijón	43	2,185	440	1,273	51 5	3,195	-2,809	386
Cogeneracion la Espina, S.L.	S alas	1,019	-122	18	644	235	887	-866	21
Cogneracion y Matenimiento AIE	Oviedo	2,032	3,330	43	2,492	2,827	6,194	-5,396	798
Desarrollos E nergeticos Canarios, S.A.	Las Palmas	45	8	18	-	35	-	0	-
Evolución 2000, S.L.	Albacete	2,654	6,680	4	399	8,931	18	-12	6
Horta Medioambiental S.A.	Madrid	14	133	38	203	-94	_	-1 55	-155
Infrastructuras Gasistas de Navarra, S.L.	Pamplona	3,593	5,585	-	6,023	3,155	776	-735	41
Millenium E nergy, S.A.	Bilbao	23,177	4,384	16,844	4,209	6,508	5,825	-5,117	708
Proenercam, S.L.	R uiloba	624	521	372	255	518	390	-365	25
Tébar Eólica, S.A.	Cuenca	46,827	12,663	43,440	10,093	5,957	4,756	-3,519	1,237
Investco, S.A.	S ão Paulo	531,012	10,707	219,165	52,701	269.853	66.414	-59,891	6,523

The Associated Companies included in the consolidation under the equity method as at 31 December 2006, are as follows:

Associated companies	Head Office	Share capital / Currency	Assets 31-Dec-06 Euro'000	Liabilities 31-Dec-06 Euro'000	Total Equity 31-Dez-06 Euro'000	Total Revenues 31-Dec-06 Euro'000	Net Profit 31-Dec-06 Euro'000	% Group	% Company
Affinis - Serviços de Assistência e Manutenção Global, S.A.	Lisbon	1,361,100 EUR	4,090	2,858	1,233	4,567	-38	45.00%	-
Carriço Cogeração, S.A.	Vila Rei	50.000 EUR	25,432	22,998	2.434	23,019	1.436	35.00%	_
Inverasturias - Fondo Capital Riesgo	Coruño	5.384.132 EUR	5.392	49	5.343	159	-121	19.37%	-
CEM, S.A.	Macau	580,000,000 MOP	363,334	132,359	230,975	327,987	39,390	21.19%	_
DECA - Distribuicion Eléctrica Centroamericana Dos (II), S.A.	Guatemala	2,077,092,000 GTQ	695,256	419,654	275,602	594,101	54,134	21.00%	21.00%
D.E. de Canárias, S.A.	Gran Canaria	4,291,140 EUR	N/D	N/D	8,703	1,790	1,790	44.16%	-
Ecogen - Serviços de Energia Descentralizada, S.A.	Loures	100,000 EUR	771	39	732	66	-244	34.99%	0
EDEL - Empresa Editorial Electrotécnica, Lda.	Portugal	1,798 EUR	19	32	-13	-	-	47.77%	47.77%
Edinfor - Sistemas Informáticos, SA	Portugal	17,000,000 EUR	217,501	109,815	107,686	191,738	4,951	40.00%	40.00%
Eólica da Alagoa, S.A.	Arcos Valdevez	50,000 EUR	16,789	14,618	2,171	3,011	349	39.52%	-
Geoterceira - S. Geo. Terceira, S.A.	Açores	1,000,000 EUR	10,488	9,493	995	707	-1	49.90%	-
LBC Tanquipor - Movimentação e Armazenagem de Líquidos, S.A.	Barreiro	1,350,000 EUR	8,620	4,991	3,629	4,212	344	28.89%	-
Portsines - Terminal Multipurpose de Sines, S.A.	Sines	10,000,000 EUR	27,541	8,218	19,323	15,792	2,318	39.60%	-
Portugen	Oporto	250,000 EUR	3,688	837	2,831	6,277	2,531	26.67%	-
REN - Rede Eléctrica Nacional, S.A.	Lisbon	534,000,000 EUR	3,969,202	2,929,612	1,039,590	3,772,119	550,555	30.00%	30.00%
SETGAS - Sociedade de Produção e Distribuição de	Charneca da	9,000,000 EUR	107,942	90,364	17,578	38,213	6,008	19.83%	-
Turbogás - Produtos Energéticos, S.A.	Oporto	13,308,330 EUR	500,516	456,033	44,483	314,434	28,500	40.00%	-
Biomasas del Pirineo, S.A.	Huesca	454,896 EUR	105	55	50	-	-	23.68%	23.26%
Cultivos Energéticos de Castilla, S.A.	Burgos	300,000 EUR	457	180	277	-	-	23.68%	-
Enercem, S.L.	Oviedo	210,350 EUR	762	124	638	-	-23	15.79%	-
Giroaga, A.I.E.	S. Sebastián	300,510 EUR	477	66	411	288	49	5.44%	-
Hidráulica Rio Lena, S.A.	Oviedo	901,518 EUR	5,389	2,880	2,509	-	-	6.82%	-
Hidroastur, S.A.	Oviedo	4,808,000 EUR	9,470	958	8,512	479	479	19.74%	-
Inkolan, A.I.E.	Bilbao	84,142 EUR	202	63	139	285	-	23.32%	-
Kosorkuntza, A.I.E.	Bilbao	1,502,500 EUR	10,931	8,170	2,761	742	742	13.60%	-
Parque Eólico Altos del Voltaya, S.A.	Madrid	7,813,157 EUR	56,181	44,166	12,015	3,397	3,397	24.47%	-
Parque Eólico de Belmonte, S.A.	Asturias	120,400 EUR	-	-	-	-	-	23.60%	-
Parque Eólico Sierra del Madero, S.A.	Soria	7,194,021 EUR	35,901	23,909	11,992	3,927	3,927	33.16%	-
Sodecoan, S.L.	Sevilla	6,010 EUR	-	-	-	-	-	39.47%	-
Solar Siglo XXI, S.A.	Ciudad Real	80,000 EUR	65	-	65	-	-	19.74%	-
Tolosa Gasa, S.A.	Tolosa	1,021,700 EUR	2,718	667	2,051	2,105	454	21.77%	-
Yedesa Cogeneración, S.A.	Sevilla	234,390 EUR	-	-	-	-	-	7.89%	-



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

Associated companies	Head Office	Share capital /Currency	Assets 31-Dec-05 Euro'000	Liabilities 31-Dec-05 Euro'000	Total E quity 31 -Dec-05 E uro'000	Total Revenues 31-Dec-05 Euro'000	Net Profit 31 -Dec-05 E uro'000	% Group	% Company
Affinis - Serviços de Assistência e Manutenção Global, S.A.	Lisbon	1,361,100 EUR	4,685	3,405	1,280	5,056	-91	45.00%	-
Carriço Cogeração, S.A.	Vila Rei	50.000 E UR	25,531	24,533	998	18,944	1.146	35.00%	_
Inverasturias - Fondo Capital Riesgo	Coruño	5,384,132 E UR	5,392	49	5,343	159	-121	19.37%	-
CEM, S.A.	Macau	580,000,000 MOP	372,010	106,899	265,111	281,982	42,477	21.19%	-
DECA - Distribuicion E léctrica Centroamericana Dos (II), S.A.	Guatemala	2,077,097,000 GTQ	833,994	370,135	463,859	616,600	54,289	21.00%	0
E cogen - S erviços de E nergia Descentralizada,	Loures	100,000 E UR	378	1,181	-803	18	-237	34.99%	34.99%
E DE L - Empresa E ditorial E lectrotécnica, L da.	Portugal	1,798 E UR	19	32	-13	71	65	47.77%	47.77%
E dinfor - S istemas Informáticos, S A	Portugal	17,000,000 EUR	226,883	129,703	97,180	182,506	-16,478	40.00%	40.00%
E ólica da Alagoa, S.A.	Arcos	50,000 E UR	16,184	14,362	1,822	2,803	332	40.00%	-
Geoterceira - S. Geo. Terceira, S.A.	Açores	1,000,000 EUR	6,225	5,229	996	382	-2	49.90%	-
LBC Tanquipor - Movimentação e Armazenagem de Líquidos, S.A.	Barreiro	1,350,000 EUR	8,398	4,744	3,654	4,665	600	28.89%	-
Portsines - Terminal Multipurpose de Sines, S.A.	Sines	10,000,000 E UR	29,183	9,789	19,394	13,285	522	39.60%	-
Portugen	Oporto	250,000 E UR	4,339	1,171	3,168	7,011	2,868	26.67%	-
REN - Rede Eléctrica Nacional, S.A.	Lisbon	534,000,000 EUR	2,977,717	2,052,539	925,178	3,152,155	110,672	30.00%	30.00%
SETGAS - Sociedade de Produção e Distribuição de Gás, S.A.	Charneca da Caparica	9,000,000 E UR	106,038	94,468	11,570	31,994	4,720	10.11%	-
Turbogás - Produtos Energéticos, S.A.	Oporto	13,308,330 EUR	528,254	491,005	37,249	365,254	30,432	40.00%	-
Biomasas del Pirineo, S.A.	Huesca	454,896 EUR	105	55	50		· -	28.79%	-
Cultivos E nergéticos de Castilla, S.A.	Burgos	300,000 E UR	457	180	277	_	-10	28.79%	-
E nercem, S.L.	Oviedo	21 0,350 E UR	762	124	638	691	75	19.19%	-
Giroaga, A.I.E.	S. Sebastián	300,510 E UR	467	118	349	296	49	5.39%	-
Hidráulica Rio Lena, S.A.	Oviedo	901,518 EUR	5,389	2,880	2,509	1,242	348	8.29%	-
Hidroastur, S.A.	Oviedo	4,808,000 E UR	9,470	958	8,512	2,543	91 2	23.99%	-
Inkolan, A.I.E.	Bilbao	84,142 E UR	179	16	163	303	-	45.56%	-
Kosorkuntza, A.I.E.	Bilbao	1,502,500 E UR	7,811	4,792	3,019	7,271	1,152	23.99%	-
Parque E ólico Altos del Voltoya, S.A.	Madrid	7,813,157 EUR	56,181	44,166	12,015	11,775	2,745	29.75%	-
Parque E ólico de Belmonte, S.A.	Asturias	120,400 E UR	9,684	6,850	2,834	10	-12	28.69%	-
Parque E ólico Sierra del Madero, S.A.	S oria	7,194,021 EUR	35,901	23,909	11,992	9,817	3,462	40.30%	-
S odecoan, S.L.	S evilla	6,010 E UR	-	3	-3	-	-	47.98%	-
S olar S iglo XXI, S .A.	Ciudad Real	80,000 E UR	65	-	65	-	-	23.99%	-
T olosa Gasa, S.A.	Tolosa	1,021,700 EUR	2,612	602	2,010	1,840	413	38.38%	-
Y edesa Cogeneración, S.A.	S evilla	234,390 EUR	44	-	44	-	-	9.60%	-

Other Companies in which there are holdings equal to or greater than 10% as at 31 December, 2006, are as follows:

Other companies	Head Office	% Group	% Company
ENEOP - Eólicas de Portugal, S.A.	Lisbon - Portugal	19.37%	19.60%
CBE - Centro Biomassa para a Energia, S.A.	Miranda do Corvo - Portugal	9.20%	18.40%
Valorsul, S.A.	Lisbon - Portugal	11.00%	-
Tejo Energia, S.A.	Abrantes - Portugal	11.11%	-
EDA, S.A.	Azores - Portugal	10.00%	-
Ship ec-South China Inter.P.Eng.	China	24.00%	24.00%
Electra SARL	Cabo Verde	20.40%	20.40%

During 2006, the following changes took place in the consolidation perimeter of EDP Group :

- •• In January 2006, EDP, S.A. sold 50% of the share capital of EDP Produção-Bioelectrica, S.A. to Celulose do Caima, SGPS;
- •• In February 2006, NEO-Nuevas Energías de Occidente increased its share capital. As a result of this operation, EDP, S.A. became the holder of 58% of NEO's share capital and Hidroeléctrica del Cantábrico, S.A. the holder of the remaining 42%. Through this operation, NEO-Nuevas Energías del Occidente became the holder of 80% and 90% of the share capital of Genesa,S.L. and Enernova,S.A., respectively;
- •• During February 2006, Enernova-Novas Energias, S.A. acquired the total share capital of Eneraltius-Produção de Energia Eléctrica, S.A., Bolores-Energia Eólica S.A. and Serra del Rei to Tecneira-Tecnologias Energéticas, S.A.;
- •• In March 2006, Naturgás Energía Grupo, S.A. acquired the remaining 45% of the share capital of Gas Hernani, S.A.;
- •• In May 2006, Naturgás Energía Grupo, S.A. signed an agreement with the Municipality of Bilbao, regarding the acquisition of the remaining 50% of Bilbaqás's share capital;
- •• In May 2006, Naturgás Energía Grupo, S.A. acquired the remaining 45% of Gas Pasaia, S.A. share capital;
- •• In May 2006, EDP acquired 49% of the share capital of NQF Gás, SGPS, S.A., previously owned by Endesa Gás. With the completion of this transaction, EDP became the sole shareholder of NQF gás, increasing its direct and indirect shareholdings in Portgás Sociedade de Produção e Distribuição de Gás, S.A. (Portgás) and Setgás Sociedade de Produção e Distribuição de Gás, S.A. (Setgás) to 72% and 19,8%, respectively;
- •• In June 2006, Genesa, S.L. acquired 50% of the share capital of Marquesado Solar and liquidated Asociación Central Producción Térmica, S.A. and Provincial de Energia. S.A.:
- •• In July, Naturcorp Participaciones was merged into Naturgás Energia Grupo, and Naturcorp Transporte de Gás was merged into Gas Euskadi Transporte;
- •• In October the share capital held in Gas Capital S.A.U. was sold;
- •• In November, EDP, S.A. decided to exercise the call option to acquire the entire share capital and accessory capital of OPTEP, S.G.P.S, becoming the sole owner of 100% of the 093X share capital. The company 093x is controlled by OPTEP:
- •• In December, EDP International SGPS, S.A. was merged into EDP, S.A., with reference date of 1 January 2006;
- •• In December, NEO acquired 100% of the share capital of Tarcan B.V., CEASA Promociones S.A. and Agrupacion Eólica S.A., 80% of the share capital of Eólica Veinco and 70% of the share capital of Eólica Greenwind.



Other changes occurring in the consolidation perimeter of EDP Group:

- •• In December, EDP Serviço Universal S.A. was incorporated, being 100% held by EDP Distribuição S.A.;
- •• In December, EDP, S.A. acquired the remaining 43.4% of the share capital of ONI S.G.P.S, pursuing its future sale;
- •• Merger of Bilbogás S.A., Gaspasaia, S.A. and Gas Hernani S.A. into Naturgás Energia Distribucion, S.A.U.;
- •• Sale of 90% of the share capital held in Desarrollos Energéticos Bahia Cadiz, S.A.,
- •• Acquisition of 100% of the share capital of Eólica Don Quijote and Eólica Dulcinea by Sinae Inversiones Eólicas, S.A.;
- •• As a result of the sale of 50% of the share capital of EDP Produção Bioelectrica, S.A. EDP has reduced, for less than 20%, its investment in the share capital of CBE- Centro de Biomassa para a Energia, which originated from the exit of the consolidation perimeter of EDP Group;
- •• Sale of Generaciones Especiales S.A. and Hidraulica Santillana S.A. share capital;
- •• Acquisition of 50% of the share capital of Eólicas Murcia Sol and Ibersol by Genesa;
- •• NEO acquired 100% of the share capital of Eólica Plouvien Breiz and 39% of Renovables Castilla la Mancha;
- •• Sale of Sociedad Promotora de las Telecomunicaciones en Asturias (SPTA) total held share capital (44.51%).

19. Investments in associates

This balance is analysed as follows:

	Grou	Group		any
	Dec 2006 Euro'000	Dec 2005 Euro'000	Dec 2006 Euro'000	Dec 2005 Euro'000
Investments in associates				
Equity holdings in associates	202,000	351,302	112,274	442,946
Impairment losses on investments in associates	-137	<u>-</u> _	-14,355	-88,311
Carrying Amount	201,863	351,302	97,919	354,635

The breakdown of **Investments in associates**, for the **Group**, is analysed as follows:

breakdown of investments in associates, for the Group, is analysed as follows.	Group				
	Dec 2		Dec 2	2005	
	Investment Euro'000	Impairment Euro'000	Investment Euro'000	Impairment Euro'000	
Associated companies:					
CEM - Companhia de Electricidade de Macau	48,944	-	56,177		
D. E. de Canárias, S.A.	3,894	-	-		
DECA - Distribucion Eléctrica Centroamerica, S.A.	57,877	-	65,358		
Edinfor, S.A.	41,557	-	36,306		
Eólica da Alagoa, S.A.	1,008	-	879		
Grupo Veinco	2,542	-	-		
Hidroastur, S.A.	1,765	-	2,088		
LBC Tanquipor - Movimentação e Armazenagem de Liquidos, S.A.	1,048	-	1,056		
NUON España, S.L.U	-	-	3,096		
Parque Eólico Altos del Voltoya, S.A.	3,034	-	3,377		
Parque Eólico del Madero, S.A.	3,424	-	4,832		
Portsines - Terminal de Multipurpose de Sines, S.A.	7,591	-	7,680		
REN - Rede Eléctrica Nacional, S.A.	-	-	130,200		
Setgás-Soc.de Prod.e Distrib.de Gás, S.A.	5,810	-	2,068		
Sociedade Promotora de las Telecomunicaciones en Asturias, S.A.	-	-	16,878		
Turbogás - Produtora Energética, S.A.	17,793	-	14,899		
Other	5,713	-137	6,408		
	202,000	-137	351,302		

The movement of ${\bf Investments}$ in ${\bf associates},$ for the ${\bf Group,}$ is analysed as follows:

	Grou	JP
	Dec 2006 Euro'000	Dec 2005 Euro'000
Balance as at 1 January	351,302	316,775
Acquisitions	2,542	9,201
Disposals	-17,559	-35,809
Share of profits of associates	245,329	35,295
Dividends received	-157,410	-28,304
Exchange differences	-12,917	16,840
Transfers	-209,287	37,304
Balance as at 31 December	202,000	351,302

 $The \ balance \ share \ of \ profits \ of \ associates, for \ 2006, includes \ the \ results \ of \ REN \ in \ the \ amount \ of \ 223,730 \ thousand \ Euros.$



The breakdown of **Investments in associates**, on a **company basis**, is analysed as follows:

Company					
Dec 2	006	Dec 2	005		
Investment Euro'000	Impairment Euro'000	Investment Euro'000	Impairment Euro'000		
52,220	-	62,954	-13,002		
-	-	319,589	-60,891		
59,978	-14,279	59,978	-14,279		
76	-76	425	-139		
112,274	-14,355	442,946	-88,311		
	52,220 - 59,978 -76	Dec 2006 Investment Impairment Euro'000 Euro'000	Investment Euro'000 Impairment Euro'000 Investment Euro'000 52,220 - 62,954 - - 319,589 59,978 -14,279 59,978 76 -76 425		

Following the publication of Decree-law 172/2006, and since 31 December 2006, the voting rights in REN are limited to a maximum of 5%. As a result, EDP Group lost its significant influence over this investment, which was transferred, as at 31 December 2006, to Available for sale investments (Note 2).

The movement of Impairment on investments in associates during 2006, on a company basis, is analysed as follows:

Impairment on investments in associates	Balance 1 January Euro'000	Impairment losses for the period Euro'000	Perimeter Variations Euro'000	Reversal of impairment losses Euro'000	Transfers Euro'000	Balance 31 December Euro'000
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	-139	-748			811	-76
	-88,311	- 748		13 002	61 702	- 14 355

During 2006, the shareholders equity of DECA – Distribuicion Eléctrica Centro America, S.A. increased, and this associated company paid dividends and reimbursement of accessory capital. As a result, the impairment recorded in the individual financial statements of EDP, S.A. of 13,002 thousand Euros, was reversed.

The movement of Impairment on investments in associates during 2005, on a company basis, is analysed as follows:

Impairment on investments in associates	Balance 1 January Euro'000	Impairment losses for the period Euro'000	Perimeter Variations Euro'000	Reversal of impairment losses Euro'000	Transfers Euro'000	Balance 31 December Euro'000
•						
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				<u> </u>	-138	-139
	-73,894				-14,417	-88,311

20. Available for sale investments

This balance is analysed as follows:

Group		Company	
Dec 2006 Euro'000	Dec 2005 Euro'000	Dec 2006 Euro'000	Dec 2005 Euro'000
72,799	75,513	72,799	-
5,575	-	5,575	-
235,632	196,783	-	-
5,100	6,891	-	-
-	4,720	-	-
-	259,500	-	259,500
320,400	-	320,400	-
146,624	-	-	-
1,097	1,097	-	-
19,998	11,445	-	-
3,878	3,878	-	-
11,045	6,619	1,031	894
822,148	566,446	399,805	260,394
	72,799 5,575 235,632 5,100 - 320,400 146,624 1,097 19,998 3,878 11,045	Dec 2006 Euro'000 Dec 2005 Euro'000 72,799 75,513 5,575 - 235,632 196,783 5,100 6,891 - 4,720 - 259,500 320,400 - 146,624 - 1,097 1,097 19,998 11,445 3,878 3,878 11,045 6,619	Dec 2006 Euro'000 Dec 2005 Euro'000 Dec 2006 Euro'000 72,799 75,513 72,799 5,575 - 5,575 235,632 196,783 - 5,100 6,891 - - 4,720 - - 259,500 - 320,400 - 320,400 146,624 - - 1,097 1,097 - 19,998 11,445 - 3,878 3,878 - 11,045 6,619 1,031



In December 2006, as a result of the merge of EDP Internacional SGPS, S.A. into EDP, S.A., the investment held in Ampla Energia (ex-CERJ) was transferred to EDP, S.A.

During 2006, the partial split of Ampla Energia e Serviços, S.A., through the transfer of part of its assets to Ampla Investimentos e Serviços, S.A. of 5,575 thousand Euros was concluded.

In October 2006, EDP Group signed an agreement with Sonaecom SGPS, S.A. ("Sonaecom") regarding a roll-up operation with the purpose of concentrating on Sonaecom the Optimus share capital held by 093X – Telecomunicações Celulares, S.A. ("093X"). As a result of this operation, 093X becames the holder of 58,300,000 shares of Sonaecom, representative of 16.4% of its share capital. The impact of this roll-up in the profit for the year amounts to 20,371 thousand Euros.

In December 2006, 093X, held in 100% by EDP, iniciated a private offer managed by Millennium BCP Investimento and UBS, for the sale of 29,150,000 shares of the share capital of Sonaecom, at a price of 4.85 Euros each share, which implied an accounting loss of 14,000 thousand Euros (Note 12).

During 2006, attending to the financial position of Elcogás, S.A., EDP Group decided to recognise an impairment loss for this investment of 4,720 thousand Euros.

EDP Group entered into sale and purchase agreements over its 15% share in REN – Rede Eléctrica Nacional, S.A. ("REN"). These agreements represent 5% of REN's share capital each and were signed with Gestmin, SGPS, S.A., Logoenergia, SGPS, S.A. and Oliren, SGPS, S.A. The final transaction price will be based on the share price fixed under the Initial Public Offer (IPO) announced for 2007 and by the share price evolution in the market during the first negotiation months. The transaction has resulted in immediate payments to EDP, as principal price payment, in the amount of 160,200 thousand Euros, subject to the above mentioned adjustments.

Considering the existence of contractual clauses regarding the final price definition and considering that EDP holds the right to receive the 2006 REN dividends, the sale of the 15% share in REN can not be considered effective until the date in which the effect of the referred contractual clauses ceases.

As referred in Note 19, due to the loss of a significant influence in REN related to the limitation of the voting rights up to 5%, this investment was transferred from Investments in associates to Available for sale investments, and was revalued considering the 15% sale amount, as previously referred.

The main Available for sale investments are analysed as follows:

	Dec 2006							
	Balance 1 January Euro'000	Acquisitions/Tr ansfers Euro'000	Disposals Euro'000	Impairment Euro'000	Changes in fair value Euro'000	Balance 31 December Euro'000		
Ampla Energia e Serviços, S.A.	75,513	-5,575	-	-	2,861	72,799		
Ampla Investimentos e Serviços, S.A.	-	5,575	-	-	-	5,575		
Banco Comercial Português, S.A.	196,783	-	-	-	38,849	235,632		
EDA - Electricidade dos Açores, S.A.	6,891	-	-	-	-1,791	5,100		
Elcogás, S.A.	4,720	-	-	-4,720	-	-		
Optimus, S.A.	259,500	-	-259,500	-	-	-		
REN - Rede Eléctrica Nacional, S.A.	-	221,316	-	-	99,084	320,400		
Sonaecom	-	307,241	-153,621	-	-6,996	146,624		
Tagusparque, S.A.	1,097	-	-	-	-	1,097		
Tejo Energia, S.A.	11,445	-	-	-	8,553	19,998		
ValorSul, S.A.	3,878	-	-	-	-	3,878		
Other	6,619	4,426	<u> </u>	<u> </u>		11,045		
	566,446	532,983	-413,121	-4,720	140,560	822,148		

In 2006, the fair values of the investments held by EDP Group in Tejo Energia and Empresa de Electricidade dos Açores ("EDA"), were determined based on external valuations. Based on the referred valuations, the investment held in Tejo Energia was increased and the investment held in EDA decreased by 8,553 thousand Euros and 1,791 thousand Euros, respectively, through reserves.



In 2005, the main Available for sale investments are analysed as follows:

			Dec 2005		
	Balance 1 January Euro'000	Acquisitions Euro'000	Disposals Euro'000	Changes in fair value Euro'000	Balance 31 December Euro'000
Ampla Energia e Serviços, S.A. (ex-CERJ)	85,905	-	-	-10,392	75,513
Banco Comercial Português, S.A.	295,939	-	-140,501	41,345	196,783
EDA - Electricidade dos Açores, S.A.	6,891	-	-	-	6,891
Elcogás, S.A.	4,720	-	-	-	4,720
Galp Energia, SGPS, S.A.	328,171	-	-328,171	-	-
OPTEP (Optimus)	336,000	-	-	-76,500	259,500
Red Eléctrica de España	66,959	-	-66,959	-	-
Tejo Energia, S.A.	4,988	1,367	-	5,090	11,445
Other	39,525	<u>-</u> .	-27,931		11,594
	1,169,098	1,367	-563,562	-40,457	566,446

The changes in fair value presented correspond to the changes in the available for sale investments portfolio as at 31 December 2006 and 2005.

21. 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 2006 Euro'000	Dec 2005 Euro'000	Dec 2006 Euro'000	Dec 2005 Euro'000	Dec 2006 Euro'000	Dec 2005 Euro'000
Tax losses brought forward	92,594	166,026	-	-	92,594	166,026
Provisions	579,760	469,965	-	6,860	579,760	463,105
Derivative financial instruments	56,314	163,881	59,374	101,313	-3,060	62,568
Available for sale investments	34,269	10,054	-	-	34,269	10,054
Property, plant and equipment	221,284	227,319	-	-	221,284	227,319
Reinvested gains	-	-	11,418	11,192	-11,418	-11,192
Other financial investments	62,189	-	-	-	62,189	-
Reversal of regulatory assets and liabilities	81,051	131,330	77,515	60,363	3,536	70,967
Allocation of acquired assets and liabilities fair						
values	-	-	297,316	105,644	-297,316	-105,644
Accounting revaluations	6,921	49,324	330,881	310,664	-323,960	-261,340
Exchange differences and other	38,440	-	55,264	98,932	-16,824	-98,932
Assets/Liabilities compensation for deferred taxes	-274,499	-325,246	-274,499	-325,246	<u>-</u> .	<u>-</u>
	898,323	892,653	557,269	369,722	341,054	522,931

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 2006 Euro'000	Dec 2005 Euro'000	Dec 2006 Euro'000	Dec 2005 Euro'000	Dec 2006 Euro'000	Dec 2005 Euro'000
Provisions	13,351	6,809	-	-	13,351	6,809
Derivative financial instruments	34,035	107,638	49,442	79,420	-15,407	28,218
Available for sale investments	21,497	26,036	-	-	21,497	26,036
Other financial investments	62,189	-	-	-	62,189	-
Accounting revaluations	7,790	6,540	12,100	12,589	-4,310	-6,049
Exchanges differences and other	6,780	1,112	438	2,809	6,342	-1,697
	145,642	148,135	61,980	94,818	83,662	53,317



The **Deferred tax** movement, for the **Group** and for the **Company**, in 2006 and 2005, is analysed as follows:

	Deferred taxes		Deferred taxes	
	Grou	ıp	Company	
	Dec 2006	Dec 2005	Dec 2006	Dec 2005
	Euro '000	Euro '000	Euro '000	Euro '000
Balance at the beginning of the year	522,931	565,772	53,317	55,404
Charges through the profit and loss account	-6,233	-41,128	-31,782	-13,501
Charges against reserves:	-23,279	22,550	-16,351	10,609
Foreign exchange differences, perimeter variations and transfers	-152,365	-24,263	78,478	805
Balance at the end of the year	341,054	522,931	83,662	53,317

Taxes recorded against reserves are analysed as follows:

	Grou	Group		any
	Dec 2006 Euro'000	Dec 2005 Euro'000	Dec 2006 Euro'000	Dec 2005 Euro'000
Current tax				
Reserve arising on merger	-	-	12,942	-
Fair value of derivative financial instruments	-	3,931	-	3,931
Gains from the sale of treasury stock	-3,559	-693	-3,559	-693
	-3,559	3,238	9,383	3,238
Deferred tax				
Fair value of derivative financial instruments	-30,159	10,519	-16,616	10,609
Gains from the sale of assets	-	4,229	-	-
Other	6,880	7,802	265	<u>-</u>
	-23,279	22,550	-16,351	10,609
	-26,838	25,788	-6,968	13,847

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

Group		
Dec 2006 Euro'000	Dec 2005 Euro'000	
-	70,346	
443	130,188	
55,023	289,551	
760	76,303	
1,021	64,606	
3,466	164,656	
911	-	
63,341	11,220	
960,461	948,089	
1,085,426	1,754,959	
	Dec 2006 Euro'000	

22. Inventories

This balance is analysed as follows:

	Group		Company	
	Dec 2006 Euro'000	Dec 2005 Euro'000	Dec 2006 Euro'000	Dec 2005 Euro'000
Merchandise	6,073	12,235	-	-
Advances on account of purchases	9,794	104	-	-
Finished and intermediate products	8,513	16,719	-	-
Products and work in progress	-	224	-	-
Sub-products, waste, residues and scrap	8,860	5,049	-	-
Raw and subsidiary materials and consumables:				
Coal	80,893	52,951	-	-
Fuel	63,582	66,664	-	-
Other consumables	50,977	65,248		
	228,692	219,194		<u> </u>



23. Trade receivables

Trade receivables are analysed as follows:

	Group		Company	
	Dec 2006 Euro'000	Dec 2005 Euro'000	Dec 2006 Euro'000	Dec 2005 Euro'000
Short term trade receivables - Current:				
Resident customers:				
State and official entities	29,503	23,620	-	-
Local government	46,368	23,664	-	-
Corporate sector and individuals	761,726	806,337	66,396	70,534
Trade accounts - Bills receivable	50	796	<u>-</u> .	-
	837,647	854,417	66,396	70,534
Non-resident customers:				
Corporate sector and individuals	651,830	618,938	<u> </u>	-
	1,489,477	1,473,355	66,396	70,534
Doubtful debts	200,197	197,488	10,013	10,952
Impairment losses on doubtful debts	-214,472	-207,338	-10,013	-10,822
	1,475,202	1,463,505	66,396	70,664
Medium and long-term trade receivables - Non Current: Resident customers:				
Local government - Debt at 31 December 1988 (i)	160,077	164,127	_	_
Corporate sector and individuals	22,134	21,595	<u>-</u> .	-
	182,211	185,722	<u>- </u>	-
Impairment losses on Local government	-64,560	-63,730	<u>-</u>	-
	117,651	121,992		
	1,592,853	1,585,497	66,396	70,664

⁽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.

In 2006, the movements in Impairment losses, for the Group, are analysed as follows:

	Balance 1 January Euro'000	Perimeter Variations/ Exchange differences 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 Local government - Debt at	207,338	-26,378	55,489	-17,216	-4,761	-	214,472
31 December 1988 (i)	63,730	830			<u>-</u>	-	64,560
	271,068	-25,548	55,489	-17,216	-4,761		279,032

In 2005, the movements in $\mbox{\bf Impairment losses}$, for the $\mbox{\bf Group}$, are analysed as follows:

	Balance 1 January Euro'000	Perimeter Variations/ Exchange differences 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 Local government - Debt at	188,551	-3,495	24,230	-35,661	1,817	31,896	207,338
31 December, 1988 (i)	88,228		697		<u> </u>	-25,195	63,730
	276,779	-3,495	24,927	-35,661	1,817	6,701	271,068



In 2006, 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	10,822	726	-1,822	287	10,013
	10,822	726	-1,822	287	10,013

In 2005, 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



24. Debtors and other assets

Debtors and other assets are analysed as follows:

otors and other assets are analysed as follows:	Grou	Group		Company	
	Dec 2006 Euro'000	Dec 2005 Euro'000	Dec 2006 Euro'000	Dec 2005 Euro'000	
Short term debtors - Current					
Loans to subsidiaries	-	-	19,997	91,299	
Dividends		-	337,750	495,000	
Other related companies	9,770	7,574	-	1,620	
Advances to suppliers	3,397	663	-	-	
Other debtors: - Current account with the Pension Fund	218	1,656	220	1,656	
- Advances to pensioners, on account of the Social Security	4,895	5,376	1	37	
- Advances to pensioners, on account of the Pension Fund	4,073	11,017	'	-	
- Amounts owed to staff	2,190	2,263	1	12	
- Amounts receivable from the Telecommunications business	55,640	65,786		-	
- Amounts receivable from Brazilian tariff expenses	1,057	-	-	-	
- Amounts receivable from Spanish tariff expenses	25,554	74,775	-	-	
- Amounts receivable from Portuguese tariff expenses	124,932	-	-	-	
- Amounts owed by the State and Concessors	5,935	8,020	5,828	6,748	
- Debtors in respect of other goods and services	67,917	61,615	6,083	50,030	
- Amounts receivable from the energy efficiency program (Brazil)	5,907	-	-	-	
- Amounts receivable from the sale of GALP	-	576,400	-	-	
- Amounts receivable from the sale of 60% of Edinfor	1,903	6,233	1,903	6,233	
- Amounts receivable from the sale of EDP Brasil shares	2,055	16,626	2,055	16,626	
- Amounts receivable from the sale of Fafen	8,944	8,854	-	-	
- Amounts receivable from the sale of Pinto substation in Spain	-	6,382	-	-	
- Derivative financial instruments	121,216	226,819	121,229	218,728	
- ONI bank credit acquisition	-	-	333,868	-	
- Other debtors - subsidiaries	-	-	839,262	347,539	
 Amounts receivable related to power management activity 	14,764	14,792	14,764	14,792	
- Amounts receivable related with gas sales	15,404	-	-	-	
- Amounts receivable related with steam sales	1,754	-	-	-	
- Amounts receivable related to insurance and re-insurance activities	10,921	14,766	-	-	
- Other tax receivable	13,673	8,456	-	-	
- Debtors in respect of centrals maintenance and repair	19,583	8,146	-	-	
- Expenditure on bonds issued	-	4,085	-	4,085	
- Expenditure on concessions	7,094	8,223	-	-	
- Rents	1,237	1,540	323	314	
- Insurances	6,503	3,961	5,490	3,631	
- Deferred costs	16,381	109,287	150	6,507	
- Financial assets advanced payments	11,395	35,796	-	-	
- Energin finance lease (IFRIC 4)	29,105	29,827		-	
- Hidraulicity receivable	31,551	-	31,551	-	
- OMIP Futures	23,918 10,000	-	5,469	-	
- Guarantee deposit to OMEL	5,895	5,070	-	-	
- Energy sales on SENV	1,458	3,070	-	-	
- Production Adjustments - Belver hydroelectric plant - CO_2 licences - SEP	244,357	98,073		_	
- Sundry debtors	51,639	123,992	120,287	92,516	
- Johany debiors					
hara siima and la aara an ah and danna dabbana. Cannand	958,162	1,546,073	1,846,231	1,357,373	
Impairment losses on short-term debtors - Current	-83,246	-80,461	-279,029	-1,213	
	<u>874,916</u>	1,465,612	1,567,202	1,356,160	
Medium and long-term debtors - Non Current:					
Other related companies	27,935	38,355	21,191	11,351	
Loans to subsidiaries	-	-	3,324,941	3,481,868	
Loans to associated companies	8,603	11,360	-	-	
Other debtors:					
- Other Tax receivable	-	3,612	-	-	
- Amounts receivable from regulatory entities	-	9,356	-	-	
- Debt from Municipalities (i)	2,894	2,894	-	-	
- Compensations receivable from CNE	144,045	213,000	-	-	
- Guarantees and tied deposits	104,023	67,858	4,927	977	
- Sundry debtors	15,121	30,716		-	
	302,621	377,151	3,351,059	3,494,196	
Impairment losses on medium/long-term debtors - Non Current	-2,653	-2,550		-	
	299,968	374,601	3,351,059	3,494,196	
	1,174,884	1,840,213	4,918,261	4,850,356	



(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.

Other debtors includes, as at 31 December 2005, the amount of 576,400 thousand Euros related to the remaining 80% of the selling price of GALP Energia, SGPS, which was received on the 27th of January 2006.

Medium and long term debtors includes an amount of 144,045 thousand Euros (2005: 213,000 thousand Euros) related to tariff deficit from the Spanish regulatory entities – CNE.

In Portugal, the Decree-law 237-B/2006, of 19 December 2006, recognised the irrevocable right of the operators of the binding sector to recover the tariff deficit, independently of the form of its future payment or in situations of insolvency and cease of operations. The Decree-law also allows the transfer of the tariff deficit collecting right to third parts. Therefore, as at 31 December, 2006, the tariff deficit related to the Distribution activity was booked as receivables against the profit and loss account, in the amount of 124,932 thousand Euros. As the Decree-law 237-B/2006 does not establish for the tariff adjustments the same irrevocable right defined for tariff deficit, the annual amount of the tariff adjustments will continue to be reversed in the IFRS consolidated financial statements of the EDP Group.

The balance Impairment losses on short-term debtors – Current, for the Company, includes 263,003 thousand Euros corresponding to the difference between the purchase price of ONI's bank loans from ONI's main creditors and its corresponding selling price to Win Reason, S.A., in accordance with the contract dated 9 November 2006.

During 2006. the Group adopted, with reference to 1 January 2006, the interpretation IFRIC 4 – "Determining whether an Arrangement contains a lease", as established in the transition rules. The IFRIC 4 has been applied to the existing contracts of the Energin cogeneration plant, which originated a receivable rents totalling 29,105 thousand Euros.

In 2006, 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	80,461	-2,354	15,362	-10,223			83,246
	80,461	-2,354	15,362	-10,223			83,246

In 2005, 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

In 2006, 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	278,312	-1,027	531	_	279,029
	1,213	278,312	-1,027	531		279,029

The impairment losses for the year includes the amount of 263,003 thousand Euros corresponding to the difference between the purchase price of ONI bank loans from ONI's main creditors and its corresponding sell price to Win Reason, S.A., as referred.

In 2005, 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



In 2006, 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	2,550	103			-		2,653
	2,550	103	-	-	-	-	2,653

In 2005, 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	Transfers Euro'000	Charge off for the year Euro'000	Balance 31 December Euro'000
Other debtors	21,821	-14,334		-4,937	<u> </u>	2,550
	21,821	-14,334		-4,937		2,550

25. Tax receivable

Tax receivable is analysed as follows:

	Dec 2006 Euro'000	Dec 2005 Euro'000	Dec 2006 Euro'000	Dec 2005 Euro'000
State and other public entities:				
- Income tax	221,872	44,381	4,179	103,633
- Value added tax	329,110	255,810	45,838	36,958
- Turnover Tax (Brazil)	29,802	27,607	-	-
- Social Tax (Brazil)	18,476	6,929	-	-
- Other taxes	21,580	11,448		
	620.840	346 175	50 017	140 591

Group

Company

26. Financial assets held for trading

Financial assets held for trading are analysed as follows:

de de la composição de	Grou	Group		any
	Dec 2006 Euro'000	Dec 2005 Euro'000	Dec 2006 Euro'000	Dec 2005 Euro'000
Debt securities:				
Bonds listed	56,396	10,040	-	-
Other debt securities				
Listed	37,927	38,864	_	-
Unlisted	3,560	14,595		
	97,883	63,499	-	_
Equity securities	· 		,	
Shares	16,863	211,698	-	204,955
Other equity securities	1,693	421	1,693	421
	18,556	212,119	1,693	205,376
	116,439	275,618	1,693	205,376



27. Cash and cash equivalents

Cash and cash equivalents are analysed as follows:

ii did casii equivalei iis die analysea as ioliows.	Grou	qu	Company	
	Dec 2006 Euro'000	Dec 2005 Euro'000	Dec 2006 Euro'000	Dec 2005 Euro'000
Cash:				
- Cash in hand	310	33	<u>-</u> .	-
Bank deposits:				
- Current deposits	390,357	270,301	82,619	62,220
- Term deposits	91,248	58,114	2,320	2,320
- Other deposits	11,202	84	<u> </u>	-
	492,807	328,499	84,939	64,540
Other short term investments:				
- Domestic banks	156,000	123,500	150,000	118,499
- Foreign banks	104,376	133,467	295	295
	260,376	256,967	150,295	118,794
Cash and cash equivalents (asset)	753,493	585,499	235,234	183,334
Cash equivalents				
- Bank overdrafts (see Note 33)	-1,262	-318,141	<u>-</u> .	
Cash and cash equivalents in the Cash Flow Statement	752,231	267,358	235,234	183,334

28. Share capital and Share premium

EDP, which started as a state-owned Company, was subsequently transformed into a 'Sociedade Anónima' (limited liability company under Portuguese law) firstly wholly owned by the State and other Public Sector Entities and afterwards 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, the second and third stages of the privatisation took place in 1998 and the fourth stage in 2000, and the State now holds about 30% of the share capital, directly and indirectly.

 $The share \ capital \ amounts \ to \ 3,656,537,715 \ Euros, \ represented \ by \ 3,656,537,715 \ ordinary \ shares \ with \ a \ par \ value \ of \ 1 \ Euro \ each, \ and \ is \ fully \ paid-up.$

Share capital and Share premium are analysed as follows:

o capital alla bital o promotiti are all'alyeca ae telletto.	Group and (Company
	Share Capital	Share Premium
	Euro'000	Euro'000
Balance as at 31 December 2004	3,656,538	472,955
Recognition of tax benefits with share capital increase		29,037
Balance as at 31 December 2005 and 2006	3,656,538	501,992

The earnings per share (EPS) attributable to the equity holders of EDP are as follows:

earnings per strate (LF3) attributable to the equity flotders of LDF are as follows.	Gro	Jp	Company		
	Dec 2006	Dec 2005	Dec 2006	Dec 2005	
Profit attributable to the equity holders of the parent in Euros	940,823,362	1,071,102,496	515,696,421	509,834,599	
Profit from continuing operations attributable to the equity holders of the parent in Euros	1,011,911,000	1,115,118,000			
Weighted average number of ordinary shares outstanding	3,647,586,639	3,639,274,980	3,647,586,639	3,639,274,980	
Weighted average number of diluted ordinary shares outstanding	3,649,816,126	3,639,274,980	3,649,816,126	3,639,274,980	
Earnings per share (basic) attributable to equity holders of the parent in Euros	0.26	0.29	0.14	0.14	
Earnings per share (diluted) attributable to equity holders of the parent in Euros	0.26	0.29	0.14	0.14	
Earnings per share (basic) from continuing operations attributable to the equity holders of the parent in Euros	0.28	0.31			
Earnings per share (diluted) from continuing operations attributable to the equity holders of the parent in Euros	0.28	0.31			



The EDP Group calculates its basic and diluted earnings per share attributable to equity holders of the parent using the weighted average number of ordinary shares outstanding during the period, net of the treasury stock movement occurred.

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

	Grupo e Ir	dividual
	Dec 2006	Dec 2005
Ordinary shares issued at the beginning of the period	3,656,537,715	3,656,537,715
Issuance of new shares for cash	<u>-</u>	
Realised shares	3,656,537,715	3,656,537,715
Treasury stock	-8,951, 076	-17,262, 735
Weighted average number of ordinary shares (basic) outstanding during the period	3,647,586,639	3,639,274,980
Stock options	2,229,487	<u>-</u>
Weighted average number of ordinary shares (diluted) outstanding during the period	3,649,816,126	3,639,274,980

29. Treasury stock

This balance is analysed as follows:

	Group and (Company
	Dec 2006 Euro'000	Dec 2005 Euro'000
Book value of EDP, S.A. treasury stock	14,542	38,119
Number of shares	7,084,793	17,262,735
Market value per share	3.84 euros	2.60 euros
Market value of EDP, S.A. treasury stock	27,206	44,883

The treasury stock 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). This treasury stock is stated at acquisition cost.

30. Reserves and retained earnings

This balance is analysed as follows:

	Group		Company	
	Dec 2006 Euro'000	Dec 2005 Euro'000	Dec 2006 Euro'000	Dec 2005 Euro'000
Legal reserve	392,946	367,454	392,946	367,454
Fair value reserve (cash flow hedge)	-15,296	-16,709	-15,296	-16,709
Tax effect from the fair value reserve (cash flow hedge)	3,844	3,824	3,844	3,824
Fair value reserve (available for sale investments)	158,358	-49,735	45,027	-67,533
Tax effect from the fair value reserve (available for sale investments)	-19,660	10,519	-6,121	10,519
Exchange differences arising on consolidation	84,651	113,963	-	-
Other reserves	-100,419	-797,429	1,107,542	1,460,827
	504,424	-368,113	1,527,942	1,758,382

Legal reserve

In accordance with Article 295 of "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 for 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 39.



Fair value reserve (available for sale investments)

This reserve includes the cumulative net change in the fair value of available for sale investments as at the balance sheet. The movements occurred during 2006 in this balance, for the Group, are analysed as follows:

	Gro	up
	Increases Euro'000	Decreases Euro'000
Balance as at 1 January 2005	92,386	-72,871
Changes in fair value Transfers to profit or loss	59,088 -	-86,893 -41,445
Balance as at 31 December 2005	151,474	-201,209
Changes in fair value Transfers to profit or loss	196,510 34,380	-22,797 -
Balance as at 31 December 2006		158,358

As at 31 December 2006, proposed dividends before the financial statements approval, which are not yet recorded as a distribution to shareholders, amounted to 402,200 thousand Euros, corresponding to 0.11 Euros per share.

The balance **Exchange differences arising on consolidation** reflects the changes 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 from their functional currency into Euros. The exchange rates used in the preparation of the financial statements are as follows:

		Exchange rat	es Dec 2006	Exchange rates Dec 2005	
Currency		Closing rates	Average exchange-rate	Closing rates	Average exchange-rate
American Dollar	USD	1.317	1.259	1.180	1.243
Brazilian Real	BRL	2.812	2.731	2.744	3.024
Macao Pataca	MOP	10.548	10.069	9.422	9.960
Quetzal	GTQ	10.036	9.554	8.942	9.469

31. Minority interest

This balance is analysed as follows:

	Grou	Group		
	Dec 2006 Euro'000	Dec 2005 Euro'000		
Minority interest in income statement	76,260	40,859		
Minority interest in reserves	869,401	1,246,904		
	945,661	1,287,763		

Minority interests, by subgroup, are analysed as follows:

	Gro	υp
	Dec 2006 Euro'000	Dec 2005 Euro'000
Brazil Group	743,519	702,296
Hidrocantábrico Group	154,134	585,137
NEO Group	33,387	-
Other	14,621	330
	945,661	1,287,763

In 2006, EDP Group profit for the year attributable to minority interests amounted to 76,260 thousand Euros (2005: 40,859 thousand Euros).

Other minority interests include the amount of 13,181 thousand Euros referring to Portgás that, in 2006, following the acquisition of an additional 49% stake in NQF-Gás, was full consolidated for the first time.

The movement registered in Brazil Group minority interests includes the amount of 11,809 thousand Euros as a result of a share capital increase in Enerpeixe, S.A. tottaling 75,306 thousand Brazilian real.

The balance presented in 2005 for Hidrocantábrico Group includes the amount of 21,948 thousand Euros which refers to subsidiaries sold to NEO Group in the beginning of 2006.



EDP Group granted put options to the minority shareholders of some subsidiaries on their shares in those subsidiaries, which were accounted for as an anticipated acquisition of the underlying minority interests. Therefore a liability for the present value of the expected exercise price was recognised, in the amount of 460,868 thousand Euros (see Note 36) against minority interests, in the amount of 399,077 thousand Euros. The difference between the exercise price of the putoption and the carrying amount of the minority interests was recognised in goodwill.

Group and Company

32. Hydrological correction account

The movements in this balance are analysed as follows:

	Oloop ana v	company
	Dec 2006	Dec 2005
	Euro'000	Euro'000
Balance at the beginning of the year	169,967	364,197
Payments of the year	32,151	-188,241
Financial charges	-3,522	-5,989
Balance at the end of the year	198,596	169,967
building at the original year	170,570	107

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, and states that, in a 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 risks resulting from the early termination of PPAs. As a result 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 is probable that the liability recorded, including the balance relating to pre-1994 activity, will be payable to a third party to be nominated by the regulator.



33. Debt and borrowings

This balance is analysed as follows:

is balance is analysed as follows:	Grou	Group		Company	
	Dec 2006 Euro'000	Dec 2005 Euro'000	Dec 2006 Euro'000	Dec 2005 Euro'000	
Short term debt and borrowings - Current					
Overdrafts:		015 710			
- ONI Group	1040	315,712	-	-	
- NEO Group - Other	1,262	2,429	-	-	
- Office		2,727			
	1,262	318,141	<u>-</u>	-	
Bank loans:					
- EDP, S.A.	104,081	141,098	104,081	141,098	
- EDP Produção Group	4,718	4,718	-	-	
- Brazil Group - Hidrocantábrico Group	170,073 8,634	332,736 111,646	-	_	
- NEO Group	103,877	111,040	_	_	
- Other	18,951	10,754	_	-	
	·				
Don la Laura Nana annu et La	410,334	600,952	104,081	141,098	
Bonds loans - Non convertible:	00.050	107.540	00.050	107 540	
- EDP, S.A. - EDP Finance B.V.	99,959	106,542 27,882	99,959	106,542	
- EDF FINANCE B.V Brazil Group	66,469	3,332	-	_	
Brazil Groop		0,002			
	166,428	137,756	99,959	106,542	
Commercial paper:					
- EDP, S.A.	636,000	636,000	2,760,400	3,081,400	
- Hidrocantábrico Group	176,807	123,030			
	812,807	759,030	2,760,400	3,081,400	
Other short term debt and borrowings:					
- NEO Group	2,667	-	-	-	
- Other	188	3,173	<u> </u>	-	
	2,855	3,173	_	_	
	·	0,170			
Interest payable	134,669	164,527	28,817	57,398	
Medium/Long term debt and borrowings - Non Current					
Bank loans:	(1/ 05/	500.000	(1/ 05/	500 000	
- EDP, S.A.	616,256	530,338	616,256	530,338	
- EDP Produção Group - Brazil Group	18,870 466,649	23,588 580,882	-	-	
- Hidrocantábrico Group	27,817	482,982	-	_	
- NEO Group	439,871	-02,702	_		
- EDP Finance B.V.	1,490,000	2,605,000	_	_	
- Other	101,770	57,439	-	-	
	2.1/1.022	4 000 000	(1/ 05/	500 000	
Bonds loans - Non convertible:	3,161,233	4,280,229	616,256	530,338	
- EDP, S.A.	2,007,034	2,107,003	2,007,034	2,107,003	
- EDP Finance B.V.	3,090,836	1,590,836	2,007,004	2,107,000	
- Brazil Group	315,543	87,751	-	-	
'	·				
Commercial nanov	5,413,413	3,785,590	2,007,034	2,107,003	
Commercial paper:		100.000		100 000	
- EDP, S.A.		100,000		100,000	
	-	100,000	-	100,000	
Other medium/long term debt and borrowings:					
- Investco preference shares	11,825	-	-	-	
- NEO Group	32,846		-	-	
- Other	264	25,930	- -		
	44,935	25,930	-	-	
	·	·	0.400.000	0.707.041	
Other lightlities	8,619,581	8,191,749	2,623,290	2,737,341	
Other liabilities: - Recognition of liabilities on the sale of OPTEP in 2002		315,000		315,000	
- Fair value related with the hedging of issued debt risk	5,114_	93,972	636	119,558	
	5,114	408,972	636	434,558	
	8,624,695	8,600,721	2,623,926	3,171,899	
	10,153,050	10,584,300	5,617,183	6,558,337	



As at 31 December 2005, other liabilities include, for the Group and for the Company, the amount of 315,000 thousand Euros resulting from the sale of 100% of OPTEP/Optimus in 2002, due to the existence of a "selling price adjustment mechanism", which did not allow the derecognition of the asset and of the liability. During 2006, EDP Group has exercised the call option over this investment through the payment of the referred liability.

At the EDP, S.A. level, the Group has short-term credit facilities of 197,386 thousand Euros, indexed to Euribor for the agreed period of use, with spread conditions agreed in advance, of which 177,434 thousand Euros have a firm underwriting commitment. There is also a 350,000 thousand Euros commercial paper programme with guaranteed placement. As far as medium-term credit facilities are concerned, 1,300,000 thousand Euros is available to EDP, SA, with a firm underwriting commitment, also indexed to Euribor under previously agreed conditions. As at December 31, 2006, 100,000 thousand Euros of the total credit facilities were used. Furthermore, EDP S.A. has agreed 536,000 thousand Euros of "Euro Commercial Paper".

Bank loans in Euros are associated with floating-rate interest indexed to the three or six month Euribor rates. The bank loans in Brazil are associated with floating-rate interest on the BRL, mostly indexed to the CDI (Interbanks Deposits Certificates) rate.

Consolidated debt includes the loans obtained under project finance, which amount to 600,555 thousand Euros and 536,996 thousand Euros as at 31 December 2006 and 2005, respectively. The terms of these loans include the usual guaranties under these type of loans, namely pledges over shares, deposits and other assets management related to the projects.

The breakdown of **Bonds loans** issues as at 31 December 2006 is analysed as follows:

Issue	er	Issue date	Interest rate	Hedge Accounting	Repayment conditions	Group Euro'000	Company Euro'000
Issued by EDP S.A.							
EDP, S.A.	22nd Issue	30/May/96	Euribor 6 months - 0.10%		(i)	-	-
EDP, S.A.	23rd Issue	20/Dec/96	Euribor 6 months - 0.125%		(i)	10,321	10,321
EDP, S.A.	25th Issue	23/Nov/98	Euribor 6 months + 0.225%		(ii)	199,320	199,320
EDP, S.A.	26th Issue	26/Mar/03	Euribor 6 months + 0.5%		26/Mar/13	150,000	150,000
						359,641	359,641
Issued by EDP under "E	uro Medium Term	Notes" Programme					
EDP, S.A.	1st Issue	29/Oct/99	Fixed rate EUR 6.40%	Fair Value	29/Oct/09	1,000,000	1,000,000
EDP, S.A.	2nd Issue	28/Mar/01	Fixed rate EUR 5.875%	Fair Value	28/Mar/11	747,352	747,352
EDP Finance B.V.	4th Issue	26/Nov/01	Zero Coupon		27/Nov/09	22,455	-
EDP Finance B.V.	6th Issue (*)	9/Aug/02	Fixed rate GBP 6.625%	Fair Value	9/Aug/17	320,000	=
EDP Finance B.V.	7th Issue	16/Dec/02	Fixed rate EUR 5.00%		20/Mar/08	355,024	-
EDP Finance B.V.	8th Issue	23/Dec/02	Fixed rate EUR 2.661%		23/Dec/22	93,357	-
EDP Finance B.V.	9th Issue	22/Jun/05	Fixed rate EUR 3.75%		22/Jun/15	500.000	-
EDP Finance B.V.	10th Issue	29/Jun/05	Fixed rate EUR 4.125%		29/Jun/20	300,000	-
EDP Finance B.V.	11th Issue	12/Jun/06	Euribor 3 months + 0.15%		14/Jun/10	500,000	-
EDP Finance B.V.	12th Issue	12/Jun/06	Fixed rate EUR 4.25%		12/Jun/12	500,000	-
EDP Finance B.V.	13th Issue	12/Jun/06	Fixed rate EUR 4.625%		13/Jun/16	500,000	
						4,838,188	1,747,352
Issued by Escelsa (Braz	zil) in the Internation	nal Market					
Escelsa USD 133 N	Aillions (**)	28/Jul/97	Fixed rate USD 10.0%		15/Jul/07	41,049	-
EDP Energias do B	rasil	7/Jul/05	Fixed rate USD 10.0%		15/Jul/07	14,826	-
Issued by Investco (Bra	zil) in the Domestic	Market					
Investco	1st Issue	1/Nov/01	IGPM + 12.80%		1/Nov/11	23,306	-
Bandeirante		1/Apr/06	CDI 104.4%		1/Mar/11	88,911	-
Enersul		2/May/06	CDI 104.3%		2/May/11	120,030	-
Escelsa		1/Jun/06	CDI 104.4%		1/Jun/11	93,890	
						382,012	
						5,579,841	2,106,993

⁽i) 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.

In compliance with the debt portfolio management policies of the Group, EDP has exchanged 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 252,000 and 145,000 thousand Euros, respectively. According to this exchange, EDP Finance BV has issued new bonds in the amount of 500,000 thousand Euros (9th International Issue) with maturity in 2015, corresponding to an increase of 102,400 thousand Euros in consolidated net debt.

⁽ii) 6 semi-annual payments beginning on 23 May, 2006.

^(*) These issues by EDP Finance BV have associated interest rate and 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.



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

	Grou	Group		Company	
	Dec 2006 Euro'000	Dec 2005 Euro'000	Dec 2006 Euro'000	Dec 2005 Euro'000	
Bank loans and overdrafts:					
Up to 1 year	475,017	1,086,793	96,362	141,098	
1 to 5 years	1,187,555	3,857,469	229,516	798,270	
Over 5 years	1,973,678	857,662	386,740	224,024	
	3,636,250	5,801,924	712,618	1,163,392	
Bond loans:					
Up to 1 year	185,926	137,756	136,210	106,542	
1 to 5 years	3,013,457	1,668,800	1,857,034	1,207,268	
Over 5 years	2,399,956	2,116,790	150,000	899,735	
	5,599,339	3,923,346	2,143,244	2,213,545	
Commercial paper:					
Up to 1 year	813,728	759,030	2,761,321	3,081,400	
1 to 5 years		100,000		100,000	
	813,728	859,030	2,761,321	3,181,400	
Other loans:					
Up to 1 year	58,798	-	-	-	
1 to 5 years	12,089	-	-	-	
Over 5 years	32,846				
	103,733			_	
	10,153,050	10,584,300	5,617,183	6,558,337	

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

	Dec 20	006	Dec 2005	
	Carrying	Market	Carrying	Market
	Value	Value	Value	Value
	Euro'000	Euro'000	Euro'000	Euro'000
Short term debt and borrowings - Current Medium/Long term debt and borrowings - Non current	1,528,355	1,528,355	1,983,579	1,983,579
	8,624,695	8,619,581	8,600,721	8,935,348
	10,153,050	10,147,936	10,584,300	10,918,927

According to the accounting policy described in note 2 ft, the risks of 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 debt and borrowings 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 and borrowings is considered to be the market value.

As at 31 December 2006, the scheduled repayments of Group's debt are as follows:

	Total Euro'000	2007 Euro'000	2008 Euro'000	2009 Euro'000	2010 Euro'000	2011 Euro'000	Following Years Euro'000
Medium/long term debt and borrowings Short term debt and borrowings	8,624,695 1,528,355	- 1,528,355	1,016,657 <u>-</u>	1,309,759	759,480 <u>-</u>	1,138,201	4,400,598 <u>-</u>
	10,153,050	1,528,355	1,016,657	1,309,759	759,480	1,138,201	4,400,598

The breakdown of guarantees is presented in Note 40 to the financial statements.

34. Employee benefits

Employee benefits balance are analysed as follows:

	Grou	h Jb	Company	
	Dec 2006 Euro'000	Dec 2005 Euro'000	Dec 2006 Euro'000	Dec 2005 Euro'000
Provisions for social liabilities and benefits Provisions for healthcare liabilities	1,010,100 760,460	1,099,604 743,642	-	10,693 6,394
	1,770,560	1,843,246	-	17,087



As at 31 December 2006, the balance Provision for social liabilities and benefits includes the amount of 930,275 thousand Euros from defined benefit plans related to retirement pension (2005: 1,024,477 thousand Euros) and 60,693 thousand Euros (2005: 50,848 thousand Euros) and 19,132 thousand Euros (2005: 24,279 thousand Euros), resulting from pension benefits of Hidrocantábrico Group employees reflecting the increase in their salaries and estimated costs with external human resources services resulting from the personnel reorganisation program (PAR), respectively.

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

	Group		Company	
	Dec 2006 Euro'000	Dec 2005 Euro'000	Dec 2006 Euro'000	Dec 2005 Euro'000
Balance at the beginning of the year	1,099,604	1,259,655	10,693	10,659
Charge for the year	28,099	68,618	-	509
Curtailments	44,832	34,855	-	-
Actuarial (gains)/losses	-1,374	53,436	-	-
Charge-off	-176,435	-327,049	-	-475
Transfers	15,374	10,089	-10,693	<u>-</u>
Balance at the end of the year	1,010,100	1,099,604		10,693

Actuarial gains, in the amount of 1,374 thousand Euros (2005: loss in the amount of 53,436 thousand 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 2006 Euro'000	Dec 2005 Euro'000	Dec 2006 Euro'000	Dec 2005 Euro'000
Balance at the beginning of the year	743,642	725,575	6,394	6,261
Charge for the year	46,488	45,350	573	139
Actuarial (gains)/losses	-2,906	-23,184	-	-
Write-backs	-	-	-	-6
Charge-off	-33,939	-22,349	-	-
Transfers	7,175	18,250	-6,967	
Balance at the end of the year	760,460	743,642		6,394

Actuarial (gains) / losses, include a gain of 2,906 thousand Euros (2005: 23,184 thousand Euros), which were charged against reserves, according to the accounting policy presented in Note 2 n).

As mentioned in accounting policy presented in Note 2 n), EDP Group opted upon IFRS transition, to charge the total amount of deferred actuarial losses existing at that date, against reserves, for the several employees' benefit plans. The impact in reserves, as at 31 December 2004 amounted to 1,162 million Euros. In the following years, according to that accounting policy, the actuarial gains and losses verified in those plans, which resulted in a loss of 30,252 thousand Euros in 2005 and a gain of 4,280 thousand Euros in 2006, were directly charged against reserves.

Employee Benefit plans

Some of the EDP Group companies give their employees, through defined benefit or defined contribution plans, some retirement benefits, namely, 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, Bandeirante, Energest 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 2006 and 2005, the number of employees covered by the pension plans is as follows:

	<u>Portugal</u>	Brazil	Portugal	Brazil
	2006	2006	2005	2005
Number of participators				
Retired and pensioners	18,283	1,815	18,185	1,727
Active workers	8,373	3,236	8,118	3,429
	26,656	5,051	26,303	5,156

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

		Dec 2006							
	Portugal		Brazil						
	-	Bandeirante	Escelsa	Enersul					
Assumptions	·-								
Expected return of plan assets	7.5%(a)	12.20%	12.45%	12.00%					
Discount rate	4.75%	10.75%	10.75%	10.75%					
Salaries increase rate	3.70%	5.55%	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	2.20%	4.50%	4.50%	4.50%					
		RP-2000	RP-2000	RP-2000					
Mortality table	TV 88/90	Geracional	Geracional	Geracional					
		ajustada	ajustada	ajustada					
Disability table	50% EKV 80	TASA 27	TASA 27	TASA 27					
Expected % of subscription by employees									
eligible for early retirement	(b)	not applicable	not applicable	not applicable					

(a) Expected return of plan assets is 7.5% for 2006 and 5.5% for the following years.

(b) 40% of the eligible population (employees entitled to early retirement in accordance with the Collective Work Agreement: 36 years of service with at least 60 years of age, or 40 years of service and any age).

	Dec 2005						
	Portugal		Brazil				
		Bandeirante	Escelsa	Enersul			
Assumptions							
Expected return of plan assets	6.40%	12.20%	12.45%	12.00%			
Discount rate	4.60%	10.75%	10.75%	10.75%			
Salaries increase rate	3.50%	5.50%	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 Work Agreement: 36 years of service with at least 60 years of age, or 40 years of service and any age).

As at 31 December 2006 and 2005, according to the accounting policy described in Note 2 n), the amounts recognised in the balance sheet are analysed as follows:

	Dec 2006			Dec 2005		
	Portugal Euro'000	Brazil Euro'000	Group Euro'000	Portugal Euro'000	Brazil Euro'000	Group Euro'000
Provision for Pension Plans						
Liabilities at the end of the year	2,041,221	205,802	2,247,023	2,053,310	178,288	2,231,598
Fair value of plan assets at the end of the year	-1,151,648	-165,100	-1,316,748	-1,070,656	-136,465	-1,207,121
Value of the provision at the end of the year	889,573	40,702	930,275	982,654	41,823	1,024,477



As at 31 December 2006 and 2005, the consolidated liabilities for employee service in prior years related to these plans are as follows:

		Dec 2006			Dec 2005			
		ortugal uro'000	Brazil Euro'000	Group Euro'000	Portugal Euro'000	Brazil Euro'000	Group Euro'000	
Evolution of liabilities								
Liabilities at the beginning of the year		2,053,310	178,288	2,231,598	2,015,930	107,403	2,123,333	
Current service cost		13,943	688	14,631	12,828	380	13,208	
Interest cost		90,592	20,247	110,839	96,455	13,621	110,076	
Benefits paid		-163,342	-11,437	-174,779	-145,859	-6,544	-152,403	
Curtailments/Settlements		44,832	-	44,832	34,855	-	34,855	
Actuarial losses and gains		1,886	9,876	11,762	39,101	27,450	66,551	
Currency fluctuation		-	-5,258	-5,258	-	34,841	34,841	
Other			13,398	13,398	<u> </u>	1,137	1,137	
Liabilities at the end of the year 2,041,221	205,802	2,247,023	3 2,053,310	178,288	8 2,231,598	3		

The components of consolidated net cost recognised during the year with these plans are as follows:

		Dec 2006			Dec 2005			
	Portugal Euro'000	Brazil Euro'000	Group Euro'000	Portugal Euro'000	Brazil Euro'000	Group Euro'000		
Cost for the year								
Current service cost	13,943	688	14,631	12,828	380	13,208		
Interest cost	90,592	20,247	110,839	96,455	13,621	110,076		
Expected return on plan assets	-79,473	-21,627	-101,100	-51,980	-12,477	-64,457		
Curtailments/Settlements	44,832	-	44,832	34,855	-	34,855		
Plan participants contribution	-	-1,028	-1,028	-	-1,031	-1,031		
Other	11,019		11,019	<u>-</u>				
Net cost for the year	80,913	-1,720	79,193	92,158	493	92,651		

The change in the fair value of the plan assets in 2006 and 2005 is analysed as follows:

	Dec 2006			Dec 2005			
	Portugal Euro'000	Brazil Euro'000	Group Euro'000	Portugal Euro'000	Brazil Euro'000	Group Euro'000	
Pension Funds							
Fair value of plan assets at the beginning of the year	1,070,656	136,465	1,207,121	839,669	89,339	929,008	
Group contribution	53,336	6,712	60,048	196,135	5,752	201,887	
Plan participants contribution	-	1,028	1,028	-	1,031	1,031	
Benefits paid by the Fund during the year	-53,336	-11,437	-64,773	-42,981	-6,544	-49,525	
Actual return on plan assets	79,473	21,627	101,100	51,980	12,477	64,457	
Actuarial losses and gains	12,538	11,245	23,783	25,853	4,764	30,617	
Currency fluctuation	-	-5,093	-5,093	-	29,646	29,646	
Other	-11,019	4,553	-6,466				
Fair value of plan assets at the end of the year	1,151,648	165,100	1,316,748	1,070,656	136,465	1,207,121	

The assets of the pension fund in Portugal are managed by four independent pension fund management companies. As at 31 December 2006 and 2005, the composition of the fund portfolio is as follows:

	Asset allocation by nature							
	Cash EUR'000	Bonds EUR'000	Shares EUR'000	Properties EUR'000	Other EUR'000	Total EUR'000		
31 December 2006	23,033	529,758	380,044	207,297	11,516	1,151,648		
31 December 2005	21,413	524,621	310,490	203,425	10,707	1,070,656		
			Asset allocation	on by nature				
	Cash	Bonds	Shares	Properties	Other	Total		
	%	<u> </u>	%	%	<u></u>	%		
31 December 2006	2.00%	46.00%	33.00%	18.00%	1.00%	100.00%		
31 December 2005	2.00%	49.00%	29.00%	19.00%	1.00%	100.00%		

The properties included in the fund, that are being used by the Group amount to 135,252 thousand Euros.



Assumptions for the Discount rate and for the expected return of plan assets

The discount rates used for the EDP Group pension plans were selected based on an analysis of the return rates available at date, of the most suitable bonds. These bonds were selected when their maturity and rating were considered appropriated considering both the amount and the period of occurrence of the cash flows related to the payment of benefits to the employees.

The expected assets return rates for the years 2006, 2007 and the following years, 7.5% and 5.5%, respectively, were calculated under EDP's investment objectives by type of assets, and the best long term return estimations for each class of assets, as follows:

		2006			Expected return rate for 2007 and the follow years			
	Weight	1 year expected return	Long term expected return ⁽⁴⁾	%	Asset class expected return	Expected return of plan assets		
Bonds (1)								
Treasury bonds	16.0%	3.5%	5.0%	42.0%	4.3%	1.8%		
Corporate bonds (2)	49.0%	6.0%	8.6%	28.0%	4.7%	1.3%		
Shares Global shares ⁽³⁾	5.0%	8.0%	9.0%	30.0%	7.9%	2.4%		
Other investments								
Real State	7.0%	7.0%	8.0%	-	-	-		
Private equity	10.0%	10.0%	15.0%	-	-	-		
Hedge funds	13.0%	7.3%	10.0%	-	-	-		
Total	100.0%	6.3%	8.8%	100.0%	n.a.	5.5%		
			7.5%					

 $^{^{\}scriptscriptstyle{(1)}}$ Includes euro zone bonds and international bonds with Euro exchange-risk hedged.

As at 31 December 2006, the amount of expected future benefits to be paid, of the activity in Portugal, is analysed as follows:

Expected future benefits to be paid

Pensions	Medical Plan	Other	Total
168,233	22,775	6,405	197,413
163,923	23,489	6,775	194,187
160,276	24,108	7,012	191,396
157,124	24,728	7,218	189,070
152,444	25,350	7,518	185,312
148,532	25,999	8,161	182,692
144,032	26,764	8,743	179,539
140,382	27,484	9,383	177,249
135,480	28,335	10,312	174,127
131,107	29,244	10,909	171,260
129,804	30,357	11,980	172,141
	168,233 163,923 160,276 157,124 152,444 148,532 144,032 140,382 135,480 131,107	168,233 22,775 163,923 23,489 160,276 24,108 157,124 24,728 152,444 25,350 148,532 25,999 144,032 26,764 140,382 27,484 135,480 28,335 131,107 29,244	168,233 22,775 6,405 163,923 23,489 6,775 160,276 24,108 7,012 157,124 24,728 7,218 152,444 25,350 7,518 148,532 25,999 8,161 144,032 26,764 8,743 140,382 27,484 9,383 135,480 28,335 10,312 131,107 29,244 10,909

Contributions to the Pension Fund made by the Group companies are analysed as follows:

	2006 Euros '000	2005 Euros '000
Shares	-	153,154
Cash	60,048	48,733
	60,048	201,887

In 2005, the balance Shares includes the BCP shares representing 2.01% of the BCP share capital that was transferred from EDP to the Pension Fund.

In 2006, the amount of pensions paid by the Funds amounted to approximately 64,773 thousand Euros (2005: 49,525 thousand Euros). In 2007, the Group estimates to pay contributions to the pension Funds of 55,000 thousand Euros (Portugal) and 6,000 thousand Euros (Brazil).

⁽²⁾ Includes fixed and variable rate bonds.

⁽³⁾ Includes international shares with Euro exchange-risk hedged.

 $^{^{\}mbox{\tiny (4)}}$ Term of 5 years.



II. Pension Plans - Defined Contribution Type

Hidrocantábrico in Spain, Bandeirante in Brazil and EDP Estudos e Consultoria in Portugal 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 fully covers the these liabilities

In Brazil, Escelsa and Energest also have a Medical Care Plan for retired employees, supported through a provision that fully covers these liabilities.

The actuarial assumptions used to determine the liabilities with MedicalCare Plans within the EDP Group are as follows:

	Dec 2006		Dec	2005
	Portugal	Brazil	Portugal	Brazil
Assumptions				
Discount rate	4.75%	10.75%	4.60%	10.75%
Annual increase rate of medical services costs	4.5% (a)	10% (c)	4.5% (a)	8.16%
Estimated administrative expenses by beneficiary per year (Euros)	233	non applicable RP-2000	220	non applicable
Mortality table	TV 88/90	Geracional ajustada	TV 88/90	GAM-83
Disability table	50% EKV 80	TASA 27	50% EKV 80	Light-Average
Expected % of subscription by employees eligible for early retirement	b)	non applicable	b)	non applicable

⁽a) 4.5% on the first 7 years and 4.0% during the remaining years.

The evolution of consolidated liabilities for past services related to medical care plans is analysed as follows:

	Dec 2006			Dec 2005		
	Portugal Euro'000	Brazil Euro'000	Group Euro'000	Portugal Euro'000	Brazil Euro'000	Group Euro'000
Evolution of liabilities						
Liabilities at the beginning of the year	727,105	16,357	743,462	721,765	3,810	725,575
Current service cost	8,738	329	9,067	7,961	182	8,143
Interest cost	32,811	2,219	35,030	35,375	1,832	37,207
Benefits paid	-31,485	-2,454	-33,939	-22,324	-25	-22,349
Curtailments/Settlements	2,391	-	2,391	1,999	-	1,999
Actuarial losses and gains	-5,893	2,987	-2,906	-17,671	-5,513	-23,184
Currency fluctuation	-	-442	-442	-	6,562	6,562
Other	2,437	5,360	7,797	<u>-</u>	9,510	9,510
Liabilities at the end of the year	736,104	24,356	760,460	727,105	16,357	743,462
Value of the provision in 31 December 2006	736,104	24,356	760,460	727,105	16,357	743,462

The Medical Care Plan responsibilities are recognised in the Group statements through provisions that totally cover the responsibilities, as stated above.

The components of net consolidated cost recognised during the year with this plan are as follows:

	Dec 2006			Dec 2005		
	Portugal Euro'000	Brazil Euro'000	Group Euro'000	Portugal Euro'000	Brazil Euro'000	Group Euro'000
Cost for the year						
Current service cost	8,738	329	9,067	7,961	182	8,143
Interest cost	32,811	2,219	35,030	35,375	1,832	37,207
Curtailment	2,391	<u> </u>	2,391	1,999	<u> </u>	1,999
Net cost for the year	43,940	2,548	46,488	45,335	2,014	47,349

⁽b) 40% of the eligible population (employees entitled to early retirement in accordance with the Collective Work Agreement: 36 years of service with at least 60 years of age, or 40 years of service and any age).

⁽c) 10% during the first year, decreasing to 5.5% in 10 years.



35. Provisions for liabilities and charges

This balance is analysed as follows:

	Group		Company	
	Dec 2006 Euro'000	Dec 2005 Euro'000	Dec 2006 Euro'000	Dec 2005 Euro'000
Provision for legal, labour and other contingencies	153,985	88,004	-	-
Provision for customers guarantees	17,579	26,821	-	-
Provision for other liabilities and charges	216,909	154,424	19,910	14,754
	388,473	269,249	19,910	14,754

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

	Group		Company	
	Dec 2006 Euro'000	Dec 2005 Euro'000	Dec 2006 Euro'000	Dec 2005 Euro'000
Balance at the beginning of the year	88,004	132,020	-	-
Changes in the consolidation perimeter	12	-32,447	-	-
Charge for the year	11,359	3,214	-	-
Write-back for the year	-111	-788	-	-
Charge-off for the year	-	-15,565	-	-
Transfers and exchange differences	54,721	1,570		
Balance at the end of the year	153,985	88,004		

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

	Group		Company	
	Dec 2006 Euro'000	Dec 2005 Euro'000	Dec 2006 Euro'000	Dec 2005 Euro'000
Balance at the beginning of the year	26,821	35,059	-	-
Changes in the consolidation perimeter	-	-13,246	-	-
Charge for the year	5,706	95,638	-	-
Write-back for the year	-10,605	-	-	-
Charge-off for the year	-	-74,402	-	-
Transfers and exchange differences	-4,343	-16,228		
Balance at the end of the year	17,579	26,821	_	

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

	Group		Company	
	Dec 2006 Euro'000	Dec 2005 Euro'000	Dec 2006 Euro'000	Dec 2005 Euro'000
Balance at the beginning of the year	154,424	126,153	14,754	39,386
Changes in the consolidation perimeter	1,095	41,621	-	604
Charge for the year	104,667	225,639	5,886	4,454
Write-back for the year	-16,452	-135,608	-3,462	-604
Charge-off for the year	-90,526	-168,494	-	-
Transfers and exchange differences	63,701	65,113	2,732	-29,086
Balance at the end of the year	216,909	154,424	19,910	14,754

The Group environmental provisions total 8,010 thousand Euros (28,475 thousand Euros in 2005) for the difference between actual emissions for the year 2006 and allocated rights applied during that period. This amount was calculated based on the need of emission licenses acquisition at year end market value. If the group does not acquire these licenses it faces penalties to be defined by the country's regulator.

Provisions for other liabilities and charges include 14,129 and 7,049 thousand Euros, related to provisions for dismantling and decommissioning of nuclear centrals and wind generation facilities, calculated in accordance with the accounting policy referred to Note 2 o).



36. Trade and other payables

This balance is analysed as follows:

	Group		Company	
	Dec 2006 Euro'000	Dec 2005 Euro'000	Dec 2006 Euro'000	Dec 2005 Euro'000
Short term trade payables - Current				
Suppliers	854,337	951,464	98,536	65,503
Property and equipment suppliers	431,038	306,302	69	3,768
Other shareholders of Group companies	23,064	20,757	-	-
Advances from customers	10,835	11,851	55	54
Trade payables - subsidiary companies	-	-	192,562	6,926
Other trade payables:				
- Employees	40,212	12,976	-	-
- Supply of other goods and services	-	2,489	4,233	10,987
- Concession rents	6,530	6,108	-	-
- Creditors for collections	-	21,362	-	-
- Credits related to OMEL	-	73,466	-	-
- Amounts payable related to tariffs (Bandeirante)	20,563	-	-	-
- Advance related to R&D investments (Brazil)	15,307	-	-	-
- Advance related to the sale of 15% stake in the share capital of REN (Note 20)	160,200	-	160,200	-
Credits to related companies	-	33,974	7,903	100,781
Energetic efficiency program	16,693	15,464	-	-
Holiday pay, bonus and other charges	76,882	86,222	753	681
Derivative financial instruments	88,127	221,926	55,832	148,817
Accrued costs related to trading activity	15,622	51,117	15,622	47,222
Accrued costs related to energy acquisition (PRE)	38,676	32,325	-	-
Deferred income EDP Distribuição	33,060	177,530	-	-
CO ₂ licenses	541,309	196,634	-	-
Other deferred income	73,668	274,054	-	28,693
ONI sale related costs	4,350	-	4,350	-
Other creditors and sundry operations	307,196	117,904	26,252	-5,46
	2,757,669	2,613,925	566,367	407,971
Medium/long-term trade payables - Non current:				
Regularisation account - (Reg. DL 344-B/82)	2,235	3,589	-	-
State shares in Multipurpose hydroelectric power stations	10,386	-	10,386	-
Deposits received from customers and other debtors	47,424	43,929	4	4
Credits to related companies	30,931	31,913	-	-
Property and equipment suppliers	6,041	44,270	1,521	1,511
Subsidies for investment in fixed assets	1,841,904	1,760,513	829	2,082
Put options over minority interests liabilities (Note 31)	460,868	-	-	-
Other creditors and sundry operations	27,404	14,044		1
	2,427,193	1,898,258	12,740	3,598

The balance CO_2 licenses includes the amount of 244,357 thousand Euros of SEP (Portugal) granted licenses (Note 24), the amount of 264,000 thousand Euros related to SENV (Portugal) and Hidrocantábrico Group (Spain) consumptions and 32,352 thousand Euros related to licenses that the Group expects to return to the Spanish government as a result of Real Decreto-Ley 03/06 application (Note 9).

37. Tax payable

This balance is analysed as follows:

	Grot	Group		Company	
	Dec 2006 Euro'000	Dec 2005 Euro'000	Dec 2006 Euro'000	Dec 2005 Euro'000	
State and other public entities:					
- Income tax	357,424	42,914	10,493	5,622	
- Withholding tax	26,613	14,345	402	132	
- Social security contributions	8,125	8,421	12	18	
- Value added tax	5,268	10,744	-	-	
- Turnover Tax (Brazil)	46,627	42,628	-	-	
- Social Tax (Brazil)	20,079	19,643	-	-	
- Other taxes	56,971	37,045	<u> </u>	<u>-</u>	
	521,107	175,740	10,907	5,772	

The balance Other taxes, for the Group, as at December 2006, includes foreign taxes, namely from Spain - Hidrocantábrico Group: 42,050 thousand Euros (2005: 26,098 thousand Euros).



38. 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 - ONI

In November 2006, EDP – Energias de Portugal, S.A. celebrated a contract in which agreed to sell to Win Reason, S.A., a company currently held by The Riverside Company ("Riverside"), and that will be held in 33% by Gestmin, SGPS, S.A. ("Gestmin") 100% of the share capital of ONI SGPS, S.A. share capital. Before signing this contract, EDP acquired the last 44% of the share capital of ONI from the remaining shareholders (BCP, BRISA, GALP), as well as the supplementary capital owned by those companies, for the price of 1 Euro for each part. EDP also acquired ONI bank loans to its main creditors.

After obtaining the necessary regulatory authorizations (namely from Portuguese Competition Authority and from ANACOM), EDP will transfer 100% of ONI's share capital (together with the correspondent supplementary capital and the credits owed by ONI to EDP to Win Reason, S.A. by an estimated amount of approximately 95,000 thousand Euros. As at 31 December 2006, the EDP Group financial statements include a 12,808 thousand Euros provision to cover the accounting loss resulting from the sale of its participation in ONI.

	Dec 2006 Euro'000 ONI
Assets classified as held for sale	
Property, plant and equipment Intangible assets	128,552 66,134
Total Non-Current Assets	194,686
Inventories Trade receivables Debtors and other assets Tax receivable Cash and cash equivalents Total Current Assets	1,601 39,854 10,995 1,894 6,651 60,995
Liabilities classified as held for sale	Dec 2006 Euro'000 ONI
Employee benefits Provisions for liabilities and charges Trade and other payables	427 16,401 29,030
Total Non-Current Liabilities	45,858
Short term debt and borrowings Trade and other payables Tax payable	8,926 104,742 572
Total Current Liabilities	114,240
	160,098

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39. 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:

			200 Fair Value C		ges Fair Value Changes	
Hedge Type	Hedging Instrument	Hedging Risk	Instruments Euro'000	Risk Euro'000	Instruments Euro'000	Risk Euro'000
- Fair value	Interest rate swap	Interest rate	-90,954	90,954	-53,634	53,634
- Fair value	Currency interest	Interest and				
	rate swap	exchange rate	-2,504	2,504	22,731	-22,731
- Cashflow hedge	Interest rate swap	Interest rate	-75		-317	
			-93,533	93,458	-31,220	30,903

During 2006 and 2005, the movements in the Fair value reserve related with cash flow hedges, were as follows:

	Group			
	Dec 2006 Euro'000	Dec 2005 Euro'000		
Balance at the beginning of the year Fair value changes	-16,709 -75	-643 -16,932		
Transfers to results	1,488	866		
Balance at the end of the year	-15,296	-16,709		

The balance Fair value reserve (cash flow hedge) includes, in fair value changes as at 31 December 2005, 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 Debtors and other 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 2006 and 2005, are analysed as follows:

	Group		Company	
	Dec 2006 Euro'000	Dec 2005 Euro'000	Dec 2006 Euro'000	Dec 2005 Euro'000
Derivatives held for trading	155,917	-153,493	193,691	-108,201
Fair value hedge				
- Derivatives	-93,458	-30,903	-90,954	-53,634
- Hedged liabilities	93,458	30,903	90,954	53,634
Cash flow hedge				
- Derivatives		-866	-1,488	-866
	154,429	-154,359	192,203	-109,067

In 2006, the maturity of derivatives associated to financing operations is analysed as follows:

			Group		
	Up to 3 months Euro'000	3 months to 1 year Euro'000	1 year to 5 years Euro'000	More than 5 years Euro'000	Total Euro'000
Interest rate contracts:					
Interest rate swaps	-	-	2,253,174	512,640	2,765,813
Options purchased and sold		250,000	547,963	7,668	805,631
		250,000	2,801,137	520,308	3,571,444
Interest rate and exchange rate contracts:					
CIRS (currency interest rate swaps)			-	320,000	320,000
		250,000	2,801,137	840,308	3,891,444
			:	;;;;;;;;;;;;;;;	



In 2005, the maturity of derivatives associated to financing operations is analysed as follows:

	Group				
	Up to 3 months Euro'000	3 months to 1 year Euro'000	1 year to 5 years Euro'000	More than 5 years Euro'000	Total Euro'000
Interest rate contracts:		-			
Interest rate swaps	-	400,000	1,859,344	807,640	3,066,984
Options purchased and sold		235,000	1,007,832	37,194	1,280,026
		635,000	2,867,176	844,834	4,347,010
Interest rate and exchange rate contracts:					
CIRS (currency interest rate swaps)		35,410	60,634	336,922	432,966
		670,410	2,927,810	1,181,756	4,779,976

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

		Group				
	Currency	EDP Pays	EDP Receives			
Interest rate contracts:						
Interest rate swaps	EUR	[5.15% - 3.00%]	[6.40% - 3.70%]			
Interest rate and exchange rate contracts:						
CIRS (currency interest rate swaps)	EUR / GBP	4.76%	6.63%			
	Nominal value					
	Euro'000	Group	Company Dec 2006			
Interest rate contracts:						
Options purchased on interest rates (CAP purchases)	805,631	[5.75% - 4.00%]	[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)	793,661	[4.27% - 3.00%]	[3,50% - 3.00%]			

40. Commitments

As at 31 December 2006, the financial commitments not included in the balance sheet in respect of financial and real guarantees provided, are analysed as follows:

	Grou	qu	Company	
Commitments	Dec 2006 Euro'000	Dec 2005 Euro'000	Dec 2006 Euro'000	Dec 2005 Euro'000
Guarantees of a financial nature				
EDP, S.A.	569,811	326,873	569,811	326,873
Hidrocantábrico Group	61,864	-	-	-
Brazil Group	88,580	76,986	-	-
NEO Group	122,543	<u> </u>	<u> </u>	-
	842,798	403,859	569,811	326,873
Guarantees of an operational nature				
EDP, S.A.	254,863	74,036	254,863	74,036
Hidrocantábrico Group	300,613	306,968	-	-
Brazil Group	45,349	41,511	-	-
NEO Group	8,687	15,268	-	-
Others (Portugal)	15,871	87,722	<u> </u>	-
	625,383	525,505	254,863	74,036
Total	1,468,181	929,364	824,674	400,909
Real guarantees	16,017	74,293	-	-

From the total financial guarantees contracted as at 31 December 2006 and 2005, the amount of 731,648 thousand Euros and 403,859 thousand Euros, respectively, are related with Group contracted loans already included in its consolidated debt. From these, we highlight the guarantees related to contracted loans in Brazil for the hydroelectrical plants construction (Lajeado and Peixe Angical), which amount to 341,418 thousand Euros in 2006, having associated counterguarantees received by EDP from these projects partners, amounting to 136,567 thousand Euros.

For Portugal and Spain power generation and distribution current activity, it is required to EDP and all of its subsidiaries to present bank or corporative guarantees, of an operational nature. From the total existing amount of operational guarantees as at 31 December 2006 and 2005, 239,816 thousand Euros and 164,302 thousand Euros, respectively, relate to guarantees given to the operator of the Portuguese and Spanish market, necessaries for EDP and its subsidiaries to participate in the energy markets, being annually renewable.



Operational nature guarantees contracted in 31 December 2006, include granted guarantees related to wind farms in Spain, in the amount of 7,472 thousand Euros, which have associated guarantees obtained from the equipment suppliers in the same amount.

		Dec 2006				
Debt capital by period						
Total Euro'000	Up to 1 year Euro'000	1 to 3 years Euro'000	3 to 5 years Euro'000	More than 5 years Euro'000		
10,153,050	1,528,355	2,326,416	1,897,681	4,400,598		
10,203	2,362	4,584	3,257	-		
7,665	4,560	2,922	183	-		
33,122,815	3,227,845	4,451,318	4,031,407	21,412,245		
2,075,382	258,413	385,582	374,381	1,057,006		
45,369,115	5,021,535	7,170,822	6,306,909	26,869,849		

Dec 2005

	Debt capital by period					
	Total Euro'000	Up to 1 year Euro'000	1 to 3 years Euro'000	3 to 5 years Euro'000	More than 5 years Euro'000	
Short and long term financial debts	10,584,300	1,983,579	3,966,227	1,788,926	2,845,568	
Leasing rents payable	5,598	67	4,555	976	-	
Operational leasing liabilities	-	-	-	-	-	
Buying obligations	21,291,462	1,959,367	3,325,412	3,486,865	12,519,818	
Other long term liabilities	1,898,432	250,533	381,658	369,286	896,955	
	33,779,792	4,193,546	7,677,852	5,646,053	16,262,341	

Short and long term debts are related to borrowings balances and related interests, contracted by the Group with bank entities, non convertible bond loans, commercial paper and other borrowings. See Note 33 – Debt and borrowings.

The leasing rents payable are related to tangible fixed assets, which acquisition was financed through leasing agreements by the Group. These amounts include debt capital and interests.

Buying obligations include debts related with long-term agreements of product and services supply related to the Group operational activity. When prices are defined under "forward" contracts, these are used in estimating the amounts of the contractual commitments.

Other long term debts are related with reorganization plans occurred in previously years, as well as Group liabilities related to pension plans, medical care and other benefits, classified as provisions in the consolidated balance sheet (see Note 34 – Employees benefits).

The Group contractual obligations referred above reflect essentially the necessary agreements and obligations for the normal course of the operational activity of the company. Specifically, these obligations envisage to ensure the supply of fuel and energy necessary for the Group to be successful in its medium/long term investments, as well as to provide energy to the Iberian and Brazilian clients. EDP considers that operational income will be enough to accomplish the obligations and additionally support the operational costs and shareholders payment.



As at 31 December 2006, the Group has the following contingent liabilities/rights related with call options and put options on investments:

- EDP holds a call option for 60% of the share capital of Edinfor over LogicaCMG until April 2007. EDP holds a put option for 40% of share capital of Edinfor over LogicaCMG until April 2009, by the highest of the following amounts:
 - * Fair value of the asset determined under an investment bank valuation process;
 - * Floor determined through the valuation of Edinfor Group at the date of the 60% disposal to LogicaCMG;

After April 2009, the share price equals the fair value determined under an investment bank valuation process;

- LogicaCMG holds a call option over EDP for 40% of Edinfor after 2009, by the fair value of the asset, determined under an investment bank valuation process;
- Put option of Cajastur over EDP for 3.13% Hidrocantábrico's share capital;
- Put option of Ente Vasco de la Energia over HC of 30.4% of Naturgás, by the major of the following amounts:
 - * Initial price discounted to the put option exercise date, considering the dividends distributed up to the balance sheet date;
 - * Fair value of the asset, determined under an investment bank valuation process;
- Put option of EDP over Endesa for 11.1% of TejoEnergia until July 2007;
- Put option of EDP over Endesa for 7.7% of Ampla investment by the fair value of the asset, determined under an investment bank valuation process, up to March 2007. However, the exercise period could be extended up to March or September 2008, depending on the accomplishment of the existent suspensive conditions.

41. 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 three stock options plan which are analysed as follows: i) Plan for the members of the Board of Directors approved in 1999, in which options can be granted for up to 2,450,000 shares of common stock, ii) Plan for the Members of the Board of Directors and Management of the group subsidiaries, in which options can be granted, during the year up to 16,250,000 shares of common stock., iii) Plan for the President of the Board of Directors, CEO and Executive Vogals for the 2003/2005 period, in which were granted, during the year, 1,461,497 options over EDP shares, that can be exercised into a maximum of 1/3 in each of the following years counting from the grant date. The non-exercised options will lapse 8 years after their grant date.

The exercise price of each option is calculated from the market price of the company's stock at the date of grant. Options maximum term is seven years, for the first two plans, and eight years for the third plan.

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
Options exercised	1,044,621	
Options granted	1,461,497	2.22
Balance as at 31 December 2006	2,460,020	

The stock options information related to 2006, is analysed as follows:

Options outstanding	Weighted average exercise price	Weighted average remaining contractual life	Options exercisable	Options fair value Eur'000	-
2,460,020	2.22	6.84	123,483	1,750	

In addition to granted shares, EDP Group granted, during 2006, a group of 1,511,183 own shares to workers in a total amount of 3,340 thousand Euros (see Note 8).



42. Related Parties

As at 31 December 2006, 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
Companies				
Balwerk	10,100	266,078	355	276,533
Edalpro	243	-	12	255
Edinfor	-	-	6,024	6,024
EDP Brasil	-	-	12,370	12,370
EDP Comercial	127,508	-	13,471	140,979
EDP Distribuição	670,176	1,228,125	40,877	1,939,178
EDP Estudos e Consultoria	-	-	74	74
EDP Finance	-	285,938	7,342	293,280
EDP Gás	-	-	1,035	1,035
EDP Imobiliária e Participações	301,655	2,692	264	304,611
EDP Powerline	4,328	-	11	4,339
EDP Produção	61,877	1,381,912	11,717	1,455,506
EDP Produção Bioeléctrica	32	9,992	171	10,195
EDP Produção EM	-	-	3,436	3,436
EDP Serviner	-	-	69	69
EDP Soluções Comerciais	13,874	-	11,563	25,437
EDP Trader Internacional	-	25	-	25
EDP Valor	-	125	4,934	5,059
Enernova	-	112,091	2,031	114,122
Hidroeléctrica del Cantábrico	836	-	12,200	13,036
Labelec	-	-	344	344
NEO	-	30,460	3,072	33,532
NQF Energia	-	-	1,814	1,814
NQF SGPS	-	-	15,018	15,018
ONI SGPS	-	24,397	296,115	320,512
ONI Telecom	-	-	40,577	40,577
Sãvida	-	-	361	361
SCS	51	-	-	51
Other	680	11,198	43,155	55,033
	1,191,360	3,353,033	528,412	5,072,805

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
Companies				201 000
Balwerk	-	266,078	-	266,078
EDP Comercial	163,124	· -	36,355	199,479
EDP Distribuição	330,993	1,228,125	50,041	1,609,159
EDP Energia Ibérica	· -	-	10,197	10,197
EDP Finance	-	278,109	5,523	283,632
EDP Internacional	875	-	1,039	1,914
EDP Gás	-	1,886	343	2,229
EDP Produção	-	1,599,474	31,697	1,631,171
EDP Produção Bioeléctrica	7,953	13,493	51	21,497
EDP Produção EM	-	-	2,866	2,866
EDP Soluções Comerciais	31,600	-	11,663	43,263
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
	555,716	3,573,407	166,297	4,295,420



As at 31 December 2006, the debts to 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
Companies				
Edinfor	-	-	8,918	8,918
EDP Comercial	-	-	18,253	18,253
EDP Distribuição	-	-	4,138	4,138
EDP Estudos e Consultoria	38	-	4,331	4,369
EDP Finance	-	-	276	276
EDP Gás	530,110	-	364	530,474
EDP Imobiliária e Participações	-	-	182	182
EDP Produção	-	-	19,174	19,174
EDP Produção Bioeléctrica	-	-	495	495
EDP Produção EM	8,588	-	644	9,232
EDP Serviner	2,301	-	-	2,301
EDP Soluções Comerciais	-	-	121	121
EDP Valor	17,145	-	669	17,814
Enernova	25,534	-	-	25,534
Hidroeléctrica del Cantábrico	-	-	2,087	2,087
Internel	1,960	-	-	1,960
Labelec	643	-	226	869
MRH	223	-	277	500
NQF Energia	63,628	-	-	63,628
NQF Gás	-	-	302	302
O&M Serviços	960	-	-	960
Oni Telecom	-	-	400	400
Sãvida	2,767	-	85	2,852
SCS	-	-	20	20
Tergen	548	-	-	548
Other			2,482	2,482
	654,445	_	63,444	717,889

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

	Intra-group		Other	
	financial mov. Eur'000	Loans Eur'000	assets Eur'000	Total Eur'000
Companies	-			
Edinfor	-	-	22,029	22,029
EDP Comercial	-	-	6,479	6,479
EDP Distribuição	-	-	63,074	63,074
EDP Gás	156,669	-	220,805	377,474
EDP Produção	106,945	-	325,841	432,786
EDP Produção EM	4,847	-	757	5,604
EDP Serviner	1,409	-	-	1,409
EDP Soluções Comerciais	-	-	673	673
EDP Valor	-	-	7,078	7,078
Enernova	-	-	1,233	1,233
Internel	2,127	-	46	2,173
O&M Serviços	1,880	-	-	1,880
Sãvida	5,605	-	98	5,703
Other	1,634		9,512	11,146
	281,116	-	657,625	938,741



43. Fair values of financial assets and liabilities

		Dec 2006 Group		1	Dec 2005 Group	
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Financial assets						
Available for sale investments	822,148	822,148	-	566,446	566,446	-
Trade receivables	1,592,853	1,592,853	-	1,585,497	1,585,497	-
Derivative financial instruments	121,216	121,216	-	226,819	226,819	-
Financial assets held for trading	116,439	116,439	-	275,618	275,618	-
Cash and cash equivalents	753,493	753,493	<u>-</u>	585,499	585,499	<u>-</u>
	3,406,149	3,406,149		3,239,879	3,239,879	
Financial liabilities						
Debt	10,153,050	10,147,936	-5,114	10,584,300	10,918,927	334,627
Suppliers	1,285,375	1,285,375	-	1,257,766	1,257,766	-
Derivative financial instruments	88,127	88,127	-	221,926	221,926	
	11,526,552	11,521,438	-5,114	12,063,992	12,398,619	334,627

44. Gains or losses on the sale of discontinued operations

In accordance with IFRS 5, the ONI assets and liabilities are presented in the consolidated balance of December 31 2006, by the total of acquired assets and liabilities in specific captions.

The income statement of discontinued operations as at 31 December 2005 includes the results of the year for ONI and Comunitel.

In April 2005, EDP Group sold 60% of Edinfor – Sistemas Informáticos, S.A. (Edinfor), a company operating in the information technologies sector. The above mentioned transaction, in the amount of 81,000 thousand Euros, was based on enterprise value in the amount of 135,000 thousand Euros, including the shares and loans amounts due to shareholders. This transaction generated in a gain, on a consolidated basis, approximately of 15,000 thousand 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 257,000 thousand Euros and a net financial debt of 42,000 thousand Euros. The receivable amount of 215,000 thousand Euros includes shareholders' loans of 100,000 thousand Euros. This transaction generated a gain, on a consolidated basis, of 31,000 thousand Euros.

The breakdown of these operations is detailed in Note 38 - Assets and liabilities classified as held for sale and discontinued operations.

45. CO₂ Licenses

The movements for the CO₂ licenses is analysed as follows:

	Group Dec 2006	Group Dec 2005
	CO ₂ (Ton)	CO ₂ (Ton)
CO ₂ Licenses at 1 January	-1,125,149	-
Granted licenses	12,450,838	11,219,527
Acquired licenses	1,530,210	20,000
Transferred licenses (from consumption to trade)	-1,373,626	<u>-</u>
	11,482,273	11,239,527
Licenses to return in the period	11,539,565	12,364,676
Excess/(Lack) of licenses	-57,292	-1,125,149

The licenses corresponding to the consumptions occurred in each calendar year are returned to the regulatory entity of each country until the end of the fourth month of the subsequent year.

The excess/(lack) annual value calculation does not correspond to the net difference between the returned licenses value and the consumed licenses, because it also includes the difference between the unitary costs. The FIFO method is used to calculate the excess and the market value at year end is used to calculate the lack amount of licenses.



The movements for the CO₂ licenses held for trade are analysed as follows:

	Group Dec 2006	Group Dec 2005
	CO ₂ (Ton)	CO ₂ (Ton)
CO ₂ Licenses held for trade in 1 January	20,000	-
Acquired licenses	537,000	20,000
Transferred licenses for trade	1,373,626	-
Sold licenses	-1,672,210	-
	258,416	20,000
Fair value in 31 December	6.55	21.05
CO ₂ licenses for trade (in thousand Euros)	1,693	421

The licenses acquisition and disposals are valuated based on transaction date value. The transferred licenses correspond to the exceeds licenses not consumed.

The fair value is related to the market value at the end of each year.

46. Relevant and subsequent events

Portuguese Competition Authority (AdC) authorisation for selling ONI.

On 19 January 2007, AdC announced its non opposition to the sale and purchase agreement signed between EDP and Winreason for the sale of ONI, considering that this business does not adversely affect the telecommunications market in Portugal. This agreement was settled in November 2006 and established the sale of the entire share capital of ONI SGPS, S.A. to Winreason, a company owned by The Riverside Company.

Desa Group qualificated participation disposal (formerly designated "Nuon España")

On 15 February 2007, EDP sold to Caja Madrid a 20% stake in the share capital of a group of companies designated as "DESA" (Desa Group). This transaction was made for an equity value of 100,400 thousand Euros, which corresponds to DESA's acquisition cost supported by NEO in December 2005, plus financial costs.

Announcement of legislative package for the electric system

On 16 February 2007 the Portuguese government confirmed its decision of early terminating the PPAs and implementing the CMECs mechanism, defining the rules to calculate the compensations due to power generators for such early terminations. In essence, an adjustment will be introduced in relation to the reference market price of sale of electricity used to calculate the CMEC's initial amount, which will change from an average value of ϵ 36/MWh to ϵ 50/MWh according to recent recommendations issued by the EU Commission.

The announced measures also contemplated the consolidation of the legal regime applicable to the use of hydro resources for power generation, through the introduction of a payment due by hydro power generators under PPAs, to be calculated on the basis of two independent valuations.

Notification of changes in UBS AG qualified holding

On 16 February 2007, UBS AG notified EDP – Energias de Portugal S.A. of its acquisition, on 13 February 2007, of 29,869,239 ordinary shares of EDP representative of 0.82% of EDP's share capital. Following this transaction, UBS AG London Branch ("UBS AG") became holder of 83,518,182 shares representing 2.284% of EDP's share capital and 2.289% of EDP's voting rights. UBS AG also informed that 2,787,933 shares representing of 0.076% of EDP's voting rights, should also be imputed to UBS AG by reason of the voting rights held by UBS AG subsidiaries.

In these terms, UBS AG informed that the total participation to be imputed to UBS AG was 86,306,115 shares corresponding to 2.360% of EDP's share capital and 2.365% of the voting rights.

This change in qualified holding was announced by EDP to the market in accordance with articles 16 and 17 of the Portuguese Securities Market Code on 19 February 2007.

On 20 February 2007, UBS AG notified EDP of the disposal on the 15 February 2007 of 14,739,134 ordinary shares representative of 0.40% of EDP's share capital. On the same date, UBS AG also notified that 2,936,933 shares representative of 0.081% of EDP voting rights should also be imputed to UBS AG by reason of the voting rights held by its subsidiaries. Consequently, UBS AG notified that the total participation to be imputed to UBS AG was 66,943,466 shares corresponding to 1.831% of EDP share capital and 1.834% of the voting rights.

This change in qualified holding was announced by EDP to the market in accordance with articles 16 and 17 of the Portuguese Securities Market Code on 21 February 2007.

Notification of changes in Caixa Geral de Depósitos, S.A. qualified holding in EDP's share capital

On 28 February 2007, Caixa Geral de Depósitos, S.A. ("CGD") notified EDP that it became holder, direct and indirectly, of 181,766,785 EDP shares representing 4.971% of the company's share capital and 4.9807% of the total voting rights.



This change in qualified holding was announced by EDP to the market on 28 February 2007, in accordance of articles 16 and 17 of the Portuguese Securities Market Code.

Pictet ownership in EDP's share capital

On 22 February 2007, Pictet Asset Management ("Pictet") notified EDP that on 5 February 2007 it held 104,396,422 ordinary shares of EDP representing 2.855% of the share capital and 2.861% of the voting rights. Pictet also informed that on 15 September 2006, became holder of a qualified investment in a percentage above the legal allowable value of 2%, as it discretionary controlled over 78,209,011 EDP shares.

This qualified participation change was announced to the market by EDP in accordance with articles 16 and 17 of the Portuguese Securities Market Code on 23 February 2007.

Disposal of a 5% stake in REN

On 6 March 2007, EDP – Energias de Portugal, S.A. ("EDP") announced the signature of a sale and purchase agreement with Red Eléctrica de España, S.A., the operator of the Spanish electricity transportation network, for the sale of a shareholding of 5% in the share capital of REN - Redes Energéticas Nacionais, SGPS, S.A.

The value of the shares sold depends on REN's IPO price, foreseen to occur in 2007 as a result of the re-privatization, and on the evolution of the market price of these shares during the first few trading months.

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 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 was approved by the European Commission on 8 September 2006. This interpretation 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 and IFRS 2 therefore applies.

IFRIC 9 - Reassessment of Embedded Derivates

The International Financial Reporting Interpretations Committee (IFRIC) has issued on 12 March 2006 an Interpretation – IFRIC 9 Reassessment of Embedded Derivates which was approved by the European Commission on 8 September 2006.

This interpretation clarifies that the reassessment of embedded derivates should be performed wherever there are changes in the terms of the underlying contracts.

The adoption of this interpretation is mandatory and applicable for annual periods beginning on or after 1 June 2006.

IFRIC 10 – Interim Financial Reporting and Impairment

The International Financial Reporting Interpretations Committee (IFRIC) has issued on 20 July 2006 an Interpretation – IFRIC 10 Interim Financial Reporting and Impairment, which should be approved by the European Commission during the second quarter of 2007.

This interpretation prohibits the reversal of impairment losses recognised in previous interim reporting periods, related to goodwill, investments in equity instruments or financial assets carried at cost.

The adoption of this interpretation is mandatory and applicable prospectively for goodwill, investments in equity instruments or financial assets carried at cost, from the date that the Group first applied the measurement criteria of IAS 36 and IAS 39, respectively.

The Group does not expect any material impact from the adoption of IFRIC 10.



IFRIC 11 - IFRS 2 - Group and Treasury Share Transactions

The International Financial Reporting Interpretations Committee (IFRIC) has issued on 2 November 2006 an Interpretation—IFRIC 11 – IFRS 2 Group and Treasury Share Transactions, which should be approved by the European Commission during the second quarter of 2007. This interpretation addresses two different issues:

1.a) Contracts where an entity grants to its employees rights to equity instrument of the entity, and either chooses or is required to buy equity instruments from another party, to satisfy its obligations to its employees; and

1.b) Contracts where an entity's employees are granted rights to equity instruments of the entity.

2. Contracts with share-based payments that involve two or more entities within the same Group.

This IFRIC is mandatory and applicable for periods beginning on or after 1 January 2007.

The Group does not expect any material impact from the adoption of IFRIC 11.

IFRIC 12 - Service Concession Arrangements

The International Financial Reporting Interpretations Committee (IFRIC) issued in November 2006 the IFRIC 12 - Service Concession Arrangements.

According to IFRIC 12, Service Concession Arrangements are contractual arrangements whereby a Government or another public sector entity (the grantor) engages a private sector entity (the operator) to provide public services. The right to control the use of the assets remains with the grantor, but the operator is responsible for the construction, upgrade, operation and maintenance of the public service infrastructure.

IFRIC 12 gives guidance regarding the recognition, measurement, presentation and disclosure requirements in respect of public-to-private service arrangements.

This IFRIC is applicable for annual periods beginning on or after 1 January 2008.

The Group is evaluating the impact of adopting this Interpretation, therefore, at this date, it is not possible to determine the impact of its adoption in the consolidated financial statements.

IFRS 7 - Financial Instruments: Disclosures and Amendment to IAS 1 Presentation of Financial Statements

The International Accounting Standards Board (IASB) issued on 18 August 2005 IFRS 7 Financial Instruments: Disclosures and Amendment to IAS 1 Presentation of Financial Statements, which is applicable for periods beginning on or after 1 January 2007.

IFRS 7 introduces new requirements to improve the information on financial instruments that is given in entities' financial statements and replaces IAS 30 - Disclosures in the Financial Statements of Banks and Similar Financial Institutions and some of the requirements of IAS 32 -Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces requirements for disclosures about an entity's capital.

This standard was not early adopted by EDP Group as at 31 December 2006.

IFRS 8 - Operating Segments

The International Accounting Standards Board (IASB) issued on 30 November 2006 the IFRS 8 Operating Segments, which should be approved by the European Commission during the second quarter of 2007.

The IFRS 8 sets out requirements for Disclosures of information about an entity's operating segments and also about the entity's products and services, the geographical areas where the entity operates and where its major clients are located. This standard specifies how an entity should disclose its information in the annual financial statements and, as a consequential amendment to IAS 34 Interim Financial Reporting, regarding the information to be disclosed in the interim financial reporting. Each entity should also provide a description of the segmental information disclosed namely Profit or loss and of Segment assets, as well as a brief description of how the segmental information is produced.

This IFRS is mandatory and applicable for periods beginning on or after 1 January 2009.

The Group is evaluating the impact of adopting this standard.

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. Environmental issues

Expenses of environmental nature are the expenses that were identified and incurred to avoid, reduce or repair damages of an environmental nature that result from the company's normal activity.

These expenses are booked in the profit and loss account of the year, except if they qualify to be recognised as an asset, according with IAS 16.

Investments of an environmental nature recognised as tangible fixed assets, for the Group, are analysed as follows:

	Grou	JΡ
	Dec 2006 Euro'000	Dec 2005 Euro'000
Air and climate protection	117.212	35.278
Biodiversity and landscape protection	16,308	12,220
Waste management	2,177	4,020
Soil, subterranean and superficial water protection	1,676	3,512
Other management and environment protection activities	13,071	11,358
	150,444	66,388

Environment gains booked in 2006 are related with the sale of environmental subproducts totalling 5,277 thousand Euros (2005: 5,084 thousand Euros) and the sale of environmental nature waist of 5,188 thousand Euros (2005: 2,642 thousand Euros).

During 2006, the Group recognised expenses that are analysed as follows:

	Grou	J p
	Dec 2006 Euro'000	Dec 2005 Euro'000
Air and climate protection	1.157	1,279
Biodiversity and landscape protection	527	325
Waste management	2,702	2,889
Soil, subterranean and superficial water protection	1,358	395
Other management and environment protection activities	2,532	1,638
Trillo environmental taxes	2,226	-
Other expenses	2,525	2,732
	13,027	9,258

49. 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.



EDP Group Activity by Business Segment - IFRS

Information by business segment - December 2006

Control Cont								4	Iberian Peninsula operations* Beciricity	serations.						89			Operations in Brazil Biscricity				Confinuing		
404 604 <th></th> <th></th> <th>Generation</th> <th></th> <th>1</th> <th>Renewable</th> <th></th> <th></th> <th>d</th> <th>Distribution</th> <th></th> <th></th> <th>Supply</th> <th></th> <th>ď</th> <th>Distribution</th> <th>8</th> <th>Ì</th> <th>Distribution</th> <th>Aiddins</th> <th></th> <th></th> <th>Operations</th> <th></th> <th></th>			Generation		1	Renewable			d	Distribution			Supply		ď	Distribution	8	Ì	Distribution	Aiddins			Operations		
1, 1, 1, 1, 1, 1, 1, 1, 1, 1, 1, 1, 1,		Portugal	Spoin		Portugal	3			E.	Spain			13.			ujeds	Total				Operations	Consolidation Adjustments	Group	Discontinued	pen suo
1, 1, 1, 1, 1, 1, 1, 1, 1, 1, 1, 1, 1,	Revenue Cust of consumed electricity Crest of consumed gus	1,382,809	772,594	2,655,903	-115	204,892	0.5.5		4,288,978		3,026,849	326,705	538,337	865,042 -912,683	96.217	1032.208	1,128,425 -104,553 -744,350	-39,227	1,574,267	181,774	457,310	1,503,039	10,185,656 -4,380,703 -744,350		164,168
1	Changes in inventories and cost of raw making and cost of raw	-558.567	304210	-862,777	2,002	11,94	-2	47,109	-14,964	30	-15,000	-19,733	30,795	-53,528	-57	-53.19)	-55,248	-934	12,289	-29	-290,264	283,064	-1,052,114	72	-14,205
1, 10, 10, 10, 10, 10, 10, 10, 10, 10,		1,069,799	464.552	1584351	46,054	155,740	1	201,794	1247,165	127,454	1374,619	-50,558	-50,501	-101109	43,762	182.582	226,274	727.386	603,856	20.849	148,102	-127,603	4,008,497	Z.	149,963
1,15, 1,15	Other operating income / inoperated of Other operating of Other operating of other o	9,937 -89,743 -84,475 -37,666 -15,155	3,894 39,111 28,593 -1,309 -40,507	13,821 -28,854 -113,068 -38,975 -55,662	584 5,884 2,1177 2,883	2479 -24,676 -11,642 -41	- 35 7 1 7	3,014 -30,686 -13,970 -74 -13,219	42,321 -2240,079 -185,678 -236,787	19,639 -53,613 -24,769 -1173 -25,479	61960 -793,692 -210,447 -98,328 -262,266	18,965 -15,260 -5,537 -18,454	26,257 -26,863 -5,270 -151 -151	45.727 44,123 10,807 522 29,773	2,591 -8,273 -4,704 -14	5,352 -36,269 -22,440 -342 -15,275	8,043 -44,547 -27,144 -356 -17,516	45 -43,351 -4,608 -1,051 -7,270	5,871 -104,240 -85,315 -22,713 -56,309	7,474 -2,008 -1,507	71,156 -131,184 -92,991 -8835 -788,647	1		# 7 T	7,762 119,724 -21,192 -06 -10,193
45.5 13.0 <th< td=""><td></td><td>-277,702</td><td>-105,636</td><td>-322,738</td><td>-10,303</td><td>-44,465</td><td>167</td><td>-54,935</td><td>-777,378</td><td>-85,395</td><td>-802,773</td><td>-20,657</td><td>-15,846</td><td>39,503</td><td>:12,543</td><td>-68,976</td><td>-81,517</td><td>-26,237</td><td>-265,706</td><td>19.549</td><td>450,501</td><td>353,888</td><td>1729,577</td><td>31:</td><td>143,433</td></th<>		-277,702	-105,636	-322,738	-10,303	-44,465	167	-54,935	-777,378	-85,395	-802,773	-20,657	-15,846	39,503	:12,543	-68,976	-81,517	-26,237	-265,706	19.549	450,501	353,888	1729,577	31:	143,433
1, 1, 1, 1, 1, 1, 1, 1, 1, 1, 1, 1, 1,		872,897	338.916	120,613	35,751	311,275	191	146,859	529,787	42.059	571,846	-71,325	-69,347	140,672	31,219	119,508	144,757	151,101	338,180	1,300	-302.399	226,285	2,298,920	•	6,530
1,2,4,5, 1,4,5,	Provisors Dependent and americallon expense Americalon of deferred income on particular Amided properties received under	2.6	10161	-325,949	-14.723	-62.916	24)	-12.055	-57,032	4,00	-61,132	3,015	3,326	6,341	2,683	33.515	2,683	-15,272	-7.064	- 115	-11,575 -14,575	93,570	-1,018,651	14	40,015
1,12,	CONTRACTOR	2,485	148	2,633	1	488	1	436	33,878	2224	86,102	1		1	1.224	S.	2,765	1	8,846		885	07	0)415		8
147.02 148.04 1	Gains / Income from the date of	48'529	242 985	368,802	20,978	36,842	-191-	57,653	222,004	H_089	236,093	-73,085	-68,542	-141,627	28,657	31,564	10,221	95,865	256,214	1,185	-327.352	144,080	1,291,134	35	38,098
66.279.95 278.77 (1) 64.77 (1) <	francia assets Ofter francial isome Ofter francial isome Ofter francial expenses Store of prefit of associates	8 147,125 -171,936 11,920	9,660	8 156,785 -195,507 11,920	169'01-	39 (977 -58,382 3,762		39 2,579 69,378 3,765	59,433	757 -11.233	11,254	1,910	978	2,888	105,255 23,923 -6,245 1754	7,744	105,255 31,667 -7,985 1,936	3,661	69,762	3,877	188,302 604,580 -658,294 137,210	-288,813 -117,622 243,545 90,500	9769,351 956,053 245,329	4	1,010
446.476 172.24 772.24	Profit befare tox	612,934	228,774	841,708	688'01	-15,767	472	-5,344	173,548	3,118	176,661	-91,208	-69,154	-160,357	153,344	87,750	241,094	962'09	019,671	4,240	-55,554	21,690	1,354,552	-58	58,746
446,176 (85,80) 610,386 770 1,82,40 (12,90) 44,00 (45,90) (45,	Income tax expense.		-79,264	-222,722	-2,978	29.186	1	26.208	35,947	1981	-37,898	22,896	23672	44,878	-12,428	-42,801	-55,729	-13,733	49,673	108-	8,439	34,074	-266,457		3
446.00 18.00	Profit offer tax and before goin of discontinues, operations. Gain / floss) on side of discontinued operation het of tax.		150.510	619,986	116.7	13,425	472	20,864	(37,60)	1,162	138,763	-68,307	47.172	-115,479	140,916	44,949	185,865	47,065	129,943	3,439	47,115	105,764	1,088,095	-58	-56,204
44 1241 1244 1244 1244 1244 1244 1244 1	Profit for the year	468,476	150,510	618,986	7,911	13,425	27.74	20,864	137,601	1,162	138,763	-68,307	47,772	-115,A79	140,916	44,949	185,865	47,065	129,943	3,439	-47,115	105,764	1,088,095	20'11-	20
445 G. 1837 485 G. 1837 485 G. 1837 485 G. 1837 485 G. 183 G.	Attrodoble to Soully Indides of EDP Minority (Indees)ts	468,432	149,146	617,576	7,91)	12,631	-472	20,070	137,601	1,162	138,763	-68,307	47.772	-115,479	134,517	34,782	169,299	38,393	129.943	3,439	97,926	57.831		Tr.	200
4 May 1969 1635-20.6 STALLOG S	Profit for the year	468,476	150,510	618,986	7.911	13,425	472	20,864	137,601	1,162	138,763	-68,307	-47,772	-115,A79	140,916	44,949	185,865	47,065	129,943	3,439	40,115	105,764	1,088,095	L.	-7,072
14977-86 1635.02 5.0140-92 20177 (469.05 51.59 17.50 1	Other information:																								
	Property, plant and equational intergalities assets Corrent dassets Shareholders' coulty and minority interest Corrent labilities.	3,497,766 187,095 585,609 1,947,891	1635,926 209,183 127,496 1,067,959 671,546	5,133,692 396,276 743,105 3,015,850 1,410,696	4647 4647 43,456 24,806 20,046	1,469,566 671,581 285,591 231,653 939,965	55,982 39,560 13,111 74,567	(829,319 665,738 342,560 251,328 967,540	4,283,155 1134,955 154,289 1,384,105	571,648 105,737 215,966 235,729	4856,800 1,242,692 372,275 1,723,834	90.517 104,755 19,114 16,680	4,158 13 189,047 191,646	94.675 "3 293.802 -172.783 341.326	262.092 4,148 564.422 129.596 293.563	474,674 702,533 345,322 818,337 272,951	736,765 698,385 929,744 948,933 566,514	593.265 76.067 77.585 530.488 153.89),037,143 50,661 926,166 679,417 612,004	190 221 45,455 10,748 23,252	182.892 750.549 573.096 9,054.014 388.064	316.983 1.084.035 -706.445 -8.245.957 -1.385.190		255,681 95,583 160,098	288

EDP Group Activity by Business Segment - IFRS



This continue that the conti									Derfor Peninsula Bechid	insula operations* Bechicity						Se		80	Operations in Brazil Becirioly					Continuing	Continuing
Charles State St			Generation			Renew	able			Distribution			/jddns		G.	stribution	9	eneration	Distribution	Adding				Operations	Operations
1, 1, 1, 1, 1, 1, 1, 1, 1, 1, 1, 1, 1,		Partugal	Spain	Toral	Portugal	upds	France	Total	Portugal	upds	Total	Portugal	upods	Total	Portugal	upds	Total				Operations	Consolidation Adjustments	offen	ents Group	
1,500 1,50	Revenue Cost of consumed electricity Cost of consumed gats	187,559		2,784,898	29,970	97,619	- F - F - F	127,589	3,767,596	152,933	3,920,529	525,023	354.521	1,083,920	49,030	568,401 74,923 434,253	772,431	70,862	1,405,222	142,373	569,720	-1,230,678 DT1,997	22.	78 9,374,890 70 4,222,003	
1,10,10,10,10,10,10,10,10,10,10,10,10,10	Changes in inventables and cost of raw material and consumables triand	-647,380	-366,632	-1,014,012		-26,931		-76,931	-14,018	2,902	-11716	1	5,554	-5.554	Z.	4368	4366	-395	-72.825		-289,739	248,805		1,106,791	
1,11,11,11,11,11,11,11,11,11,11,11,11,1		968,907	567.130	1,536,027	29.970	06539		98,550	1173,394	123,245	1296,639	-56,000	-153,930	-209,930	25,048	163,593	188,641	63,490	545,630	21,983	235 526	-168,703		3,587,863	3,537,863 267,476
430.0 340.0 110.0 440.0 410.0 440.0 410.0 440.0 410.0 440.0 <th< td=""><td>Officer operating Income / lexpenses)</td><td>200</td><td>48.755</td><td>112.17</td><td>554</td><td>T.</td><td>8</td><td>1464</td><td>20.00</td><td>in creat</td><td>CAT BY</td><td>4 9.66</td><td>28.666</td><td>0,000</td><td>264</td><td>7 870</td><td>2,612</td><td>927.00</td><td>23.00</td><td></td><td>24 590</td><td>DEA NO</td><td></td><td>906 318</td><td></td></th<>	Officer operating Income / lexpenses)	200	48.755	112.17	554	T.	8	1464	20.00	in creat	CAT BY	4 9.66	28.666	0,000	264	7 870	2,612	927.00	23.00		24 590	DEA NO		906 318	
1,100 1,10	Supplies and services	-92.760		-131,975	-7,013	-34.953	2 2	789,15-	-255,046	-49,475	-904.521	-12,435	-23.757	-36,192	4,094	-33,787	-37,881	-20,814	-86,686	-0,105	-158 434	190,629		-610,966	
1,500 1,50	Personnel costs	-74,057	*		-1,039	-3,960	9	666.7	-18) 130	-34,201	-215,331	4,000	5,776	-9776	-2.699	-21,628	-24,327	151,6-	-78.518	-934	-100,865	44,003	20	504,024	
1,11,12,13, 1,12,1	Other operating expenses	3,410			6661	-5332	1	-7,331	-247,257	-19,475	-266,732	-5,957	-28,339	-34.296	1358	-9.844	-11,202	.5.575	-52.555	171	156,772	-20/926	3.3	444,771	44,771 -8,895
1,11,11,11,11,11,11,11,11,11,11,11,11,1		-187.224		-230,410	5.402	123,482	0	-32,675	.743,992	-94,084	835,076	16,417	-31,451	49,568	7,446	-57,759	65,205	157	.207,223	4,202	153,813	59,909	1,5	551,606	51,606 -253,586
The column The		781.683		1,305,627	20,368	45,098		65,675	429 402	29.16)	458,563	74,417	-185,381	-259,793	17,602	105,834	123,436	63,647	338,407	182'24	81,713	158,794	2.03	2.036,257	6,257 13,910
1,500 1,50	Provisions	1,597		(22)	-78	911		4 25 00	-5,436	200,000	-5,438	-6,403	403	-6,856	240	7	-165	06	757	1 9	106.252	-171,196	-73,338	98	536 60,864
1,527 1,12	Amortization of delerred income on particily funded properfies received under		Ŷ.	Cha's D7	107.5	0.65.57		ngp'sy	867280-	in the	704,003	0.00	077	1000	in and	de ye	207/90	1000	Ac'sh	600	oco'aqu.	204/6	100		
94,416 91,524<	concessions	4.572		4,723	142	210	1	352	30,005	2,014	62,019		1	1	1231	1,746	2,977	Ï	6,734	1	1,013	-268	97,600		
12.65 12.55 <th< td=""><td>Primer I locates books the contract</td><td>594,285</td><td>427,857</td><td>1,022,142</td><td>13,348</td><td>23,031</td><td>0-</td><td>36,388</td><td>77,263</td><td>-954</td><td>170,309</td><td>-85,238</td><td>-190,047</td><td>-275,285</td><td>14,260</td><td>75,200</td><td>69,460</td><td>58,558</td><td>276,55</td><td>17,676</td><td>82,322</td><td>-323,776</td><td>1,154,345</td><td></td><td>-12,465</td></th<>	Primer I locates books the contract	594,285	427,857	1,022,142	13,348	23,031	0-	36,388	77,263	-954	170,309	-85,238	-190,047	-275,285	14,260	75,200	69,460	58,558	276,55	17,676	82,322	-323,776	1,154,345		-12,465
64.69.90 11.377 7.66.91 47.69 47.69 47.69 45.59 45.69 45.59 16.79 45.69 45.59 16.79 45.69 45.70 45.69 45.70 45.69 45.70 45.69 45.70 45.69 45.70	financial assets Officer financial income	28.676		29.317	15	2 429		1,000	17.507	2,017	17.519	288	58	88 88	1,775	202	1,245	4065	63.036	6.616	355,792	81,305	527.260		634
150 150	Other financial expenses Share of profit of escociates	12,874		12,874	-4,704	-16,762		2,614	43,569	-10.253	-53,822	-3,086	CIT.	-6,803	-5,076	-6,553	-9,629	-12,678	771,553	-1,017	1,151,392	609,187	35,295		226'62:
1,42,124 1,44,124 1,24,124	Profit before tax	571,146	417,349		9,215	9314	¥	18 533	145,201	971,9-	136,023	-93,036	-190,43B	-263,474	13,674	77,453	91,127	29,945	194,833	23,275	\$0,05	8,560	1,260,298		-41,670
448.27 770.77 671.24 55.70 448.07 55.70 45.70	Income los expense	U,	-146,572	-300,836	3,359	2,654	1	7,213	-16,515	3.145	-13,370	21,782	607.99	38,491	-333	-22,676	-25 989	-4.244	-46,796	7,343	103,459	113,605	-300,236		-51,953
1,1,1,1,1,1,1,1,1,1,1,1,1,1,1,1,1,1,1,	sperations		TT0,012	687,659	3,856	5,460	4	0,320	128,686	-6,033	122,653	-71,254	-123,729	-194,983	10,361	54.777	65,138	45,701	143,067	15,932	153,510	105,045	1,160,062		-93,623
1,5,5,5,5 1,5,5,5,5 1,5,5,5,5 1,5,5,5 1,5,5,5 1,5,5,5 1,5,5,5 1,5,5,5 1,5	out / total on sole or decommend operation. Yet of tox				9		1		1			1	1	7	2	1	ĺ	ĺ	1	1					45,572
Autorian	Profit for the year	416,882	270,777	659 299	5,856	5,460	4	11,320	128,686	-6,083	122,659	-7,254	-123,729	-194,983	10,361	54,77	65,138	45,701	148,067	15,932	153,510	105,045	1,160,062	100	46,101
46,882 7077 6768 5854 5860 4 1320 7058 5857 5 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	Attricurable to: Equity halders of EDP Vincury, interests	416,780		38	5,856	1,003	9	10,30	128,686	-6,033	127,653	-n,254	427,221	-194,983	7,716	20,129	32,774	44,967	148,087	15.932	3,868	89,08	1,115,118		44,016
154-01-01-01-01-01-01-01-01-01-01-01-01-01-	Roll for the year	416,882	270,777	693,659	5,856	5,460	*	11,320	125,686	-6,033	122,653	-71,254	-123,729	-194,983	10,361	M.R.	65,138	45,701	M3.057	15,932	153,510	105,045	1,160,062		48,101
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	Property, plant and excipensist interpolate assets. Current assets. Startsholders again, and minority interest Current liabilies.	3,565,644 96,945 382,039 1,961,227 639,248		5,030,500 25,047 1,057,241 3,003,358 977,306	202,305 1,448 23,325 37,618 106,028	533,440 166,824 24,777 806,187	205	892,634 534,897 190,354 62,423 913,500	800,325 (30,908 (325,981	3,04,015 1,140 157,301 275,410 87,712	4,759,897 (140) 1,097,626 346,318 (1,313,693	59,046 155,983 -12,530 247,346	3,373 88,095 144,959 361,724	3,373 3,373 7,44,073 -157,489 408,520	24,459 285,127 64,001	417,289 618,493 265,878 1,109,731 173,916	566,984 618,493 291,367 824,604 237,917	823,389 80,378 50,693 473,161 (29,804	957,090 49,466 42,4,577 544,482 734,907	292 292 292 0,748 39,744	-532,437 2,604,874 1,142,503 9,910,357 1,565,001	1,134,123 -486,819 -293,768 -8,807,937 -1,926,802	13,722,208 3,431,136 4,236,370 6,216,030 4,393,590		17,693 77,693 101,233 98,867 33,954





Annual Report 2006 Financial Report Documents of the Single Auditor and the Registered Auditor in the CVCM



Annual Report 2006 Financial Report Documents of the Single Auditor and the Registered Auditor in the CVCM





KPMG & Associados - Sociedade de Revisores Oficiais de Contas, S.A. Edifício Monumental Av. Praia da Vitória, 71 - A, 11°

Av. Praia da Vitória, 71 - A, 11º 1069-006 Lisboa Portugal Telefone: +351 210 110 000 Fax: +351 210 110 121 Internet: www.kpmg.pt

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 for the year ended 31 December, 2006 included in the Executive Board of Directors consolidated report, and presented in the Institutional and Financial Reports, and in the consolidated financial statements, included in the Financial Report of EDP Energias de Portugal, S.A., which comprise: the Consolidated Balance Sheet (showing total assets of Euros 25,468,911 thousand and shareholders' equity attributable to the equity holders of EDP of Euros 5,589,235 thousand, including a profit for the year of Euros 940,823 thousand), the Consolidated Statement of Income and the Consolidated Cash Flow Statement for the year then ended and the corresponding Notes to the accounts.
- The amounts of the financial statements and the financial information were derived from the accounting records.

Responsibilities

- 3. The Executive Board of Directors is responsible for:
 - a) the preparation of the consolidated financial information in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union which presents fairly the consolidated financial position and the results of its operations and its cash flows;
 - the preparation of financial information that is complete, true, current, clear, objective and lawful as established by the Stock Exchange Code ("Código dos Valores Mobiliários");
 - c) the adoption of adequate accounting policies and criteria;
 - d) the maintaining of an appropriate internal control system; and
 - e) the communication of any relevant fact that may have influenced the activity, financial position or results of the Group.
- 4. 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.

KPMG & Associados - Sociedade de Revisores Oficiais de Conta S.A., a portuguese company is a member firm of KPMG KPMG & Associados - SROC, S.A. Capital Social: 511.700 Euros Pessoa Colectiva № PT 502 161 078 Inscrito na O.R.O.C. № 189 Inscrito na C.M.V.M. № 9093

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





Scope

- Our audit was conducted in accordance with the Technical Standards and Guidelines issued by the Portuguese Institute of Statutory Auditors ('Ordem dos Revisores Oficiais de Contas'), which require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial information are free of material misstatement. Accordingly our audit included:
 - verification of the financial statements of the companies included in the consolidation, verification of the information underlying the figures and its disclosures contained therein, and an assessment of the estimates made, based on the judgements and criteria defined by the Executive 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;
 - assessing the adequacy of the accounting policies used and of their disclosure, taking into account the circumstances applicable;
 - verification of the application of the going concern principle;
 - evaluating the overall financial statements presentation; and
 - assessment of whether the consolidated financial information is complete, true, current, clear, objective and lawful.
- 6. Our audit also included the verification of the consistency of the consolidated financial information included in Executive Board of Directors report with the financial statements.
- 7. We believe that our audit provides a reasonable basis for our opinion.

Opinion

8. In our opinion, the consolidated financial information referred to above presents fairly, in all material respects, the consolidated financial position of EDP – Energias de Portugal, S.A., as at 31 December, 2006, the consolidated results of its operations and cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and the information contained therein is complete, true, current, clear, objective and lawful.

Lisbon, 8 March 2007

KPMG & Associados – S.R.O.C., S.A. represented by

Jean-éric Gaign (ROC nº 1013)

Annual Report 2006 Financial Report Documents of the Single Auditor and the Registered Auditor in the CVCM





KPMG & Associados - Sociedade de Revisores Oficials de Contas, S.A. Edifício Monumental

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EDP - Energias de Portugal, S.A.

AUDITORS' REPORT

Introduction

- In accordance with the applicable legislation, we present our Audit Report on the financial information for the year ended 31 December, 2006 included in the Executive Board of Directors report, and presented in the Institutional and Financial Reports, and in the statutory financial statements, included in the Financial Report of EDP Energias de Portugal, S.A., which comprise: the Balance Sheet (showing total assets of Euros 12,613,329 thousand and shareholders' equity of EDP of Euros 6,187,626 thousand, including a profit for the year of Euros 515,696 thousand), the Statement of Income and the Cash Flow Statement for the year then ended and the corresponding Notes to the accounts.
- The amounts of the financial statements and the financial information were derived from the accounting records.

Responsibilities

- 3. The Executive Board of Directors is responsible for:
 - a) the preparation of the financial information in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union which presents fairly the financial position of EDP, the results of its operations and its cash flows;
 - the preparation of financial information that is complete, true, current, clear, objective and lawful as established by the Stock Exchange Code ("Código dos Valores Mobiliários");
 - c) the adoption of adequate accounting policies and criteria;
 - d) the maintaining of an appropriate internal control system; and
 - the communication of any relevant fact that may have influenced the activity of EDP, its financial position or results.
- 4. 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.

KPMG & Associados - Sociedade de Revisores Oficiais de Conta 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 № PT 502 161 078 Inscrito na C.R.O.C. № 189 Inscrito na C.M.V.M. № 9093 Matriculada na Conservatória do registo Comercial de Lisboa sob o nº 715, fls. 178 do Livro C -





Scope

- 5. Our audit was conducted in accordance with the Technical Standards and Guidelines issued by the Portuguese Institute of Statutory Auditors ('Ordem dos Revisores Oficiais de Contas'), which require that we plan and perform the audit to obtain reasonable assurance about whether the financial information are free of material misstatement. 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 Executive Board of Directors, used in the preparation of the referred financial statements;
 - assessing the adequacy of the accounting policies used and of their disclosure, taking into account the circumstances applicable;
 - verification of the application of the going concern principle;
 - evaluating the overall financial statements presentation; and
 - assessment of whether the consolidated financial information is complete, true, current, clear, objective and lawful.
- Our audit also included the verification of the consistency of the financial information included in Executive Board of Directors report with the financial statements.
- We believe that our audit provides a reasonable basis for our opinion.

Opinion

8. In our opinion, the financial information referred to above presents fairly, in all material respects, the financial position of EDP – Energias de Portugal, S.A., as at 31 December, 2006, the results of its operations and cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and the information contained therein is complete, true, current, clear, objective and lawful.

Lisbon, 8 March 2007

KPMG & Associados – S.R.O.C., S.A. represented by

Jean-eric Gaign (ROC nº 1013)

Annual Report 2006 Financial Report Documents of the Single Auditor and the Registered Auditor in the CVCM





KPMG & Associados - Sociedade de Revisores Oficialis de Contas, S.A. Edifício Monumental Av. Praia da Vitória, 71 - A, 11° 1069-006 Lisboa

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REPORT AND OPINION OF THE STATUTORY AUDITOR

Consolidated Accounts Year ended 31 December, 2006

To the Shareholders of

EDP - Energias de Portugal, S.A.

- In accordance with the applicable legislation, we herewith, as statutory auditor of EDP Energias de Portugal, S.A., present the report on our supervisory activity and our opinion on the Executive Board of Directors consolidated report, included in the Institutional Report, and on the consolidated financial statements, included in the Financial Report, presented by the Executive Board of Directors of EDP – Energias de Portugal, S.A., for the year ended 31 December, 2006.
- 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.
- 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 Executive Board of Directors, as required by line a)
 of point 1 of article 52 of Decree-Law no 487/99, of November 16.
- 4. Within the scope of our mandate, we have verified that:
 - 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 Executive Board of Directors consolidated report is sufficiently clear to present the evolution of the business and the consolidated financial position of EDP, highlighting the more significant aspects.
- 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 Executive Board of Directors annual report;
 - ii) the consolidated financial statements.

Lisbon, 8 March 2007

KPMG & Associados - S.R.O.C., S.A. represented by

Jean-eric Gaign (ROC nº 1013)

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KPMG & Associados - Sociedade de Revisores Oficiais de Contas, S.A. Edifício Monumental Av. Praía da Vitória, 71 - A, 11° 1069-006 Lisboa

Portugal

Telefone: +351 210 110 000 Fax: +351 210 110 121 Internet: www.kpmg.pt

REPORT AND OPINION OF THE STATUTORY AUDITOR

Unconsolidated Accounts Year ended 31 December, 2006

To the Shareholders of

EDP - Energias de Portugal, S.A.

- In accordance with the applicable legislation, we herewith, as statutory auditor of EDP Energias de Portugal, S.A., present the report on our supervisory activity and our opinion on the Executive Board of Directors report, included in the Institutional Report, and on the financial statements, included in the Financial Report, presented by the Executive Board of Directors of EDP – Energias de Portugal, S.A., for the year ended 31 December, 2006.
- 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 Executive Board of Directors, as required by line a) of point 1 of article 52 of Decree-Law no 487/99, of November 16.
- 4. Within the scope of our mandate, we have verified that:
 - 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 Executive Board of Directors report is sufficiently clear to present the evolution of the business and the financial position of EDP.
- 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:
 - the Executive Board of Directors annual report;
 - ii) the financial statements.

Lisbon, 8 March 2007

KPMG & Associados – S.R.O.C., S.A. represented by

Jean-éric Gaign (ROC nº 1013)

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