

Annual Report 2006 Institutional Report and Report on Corporate Governance





"We want a better future for our children. Renewable energies are one of our priorities."

António Mexia



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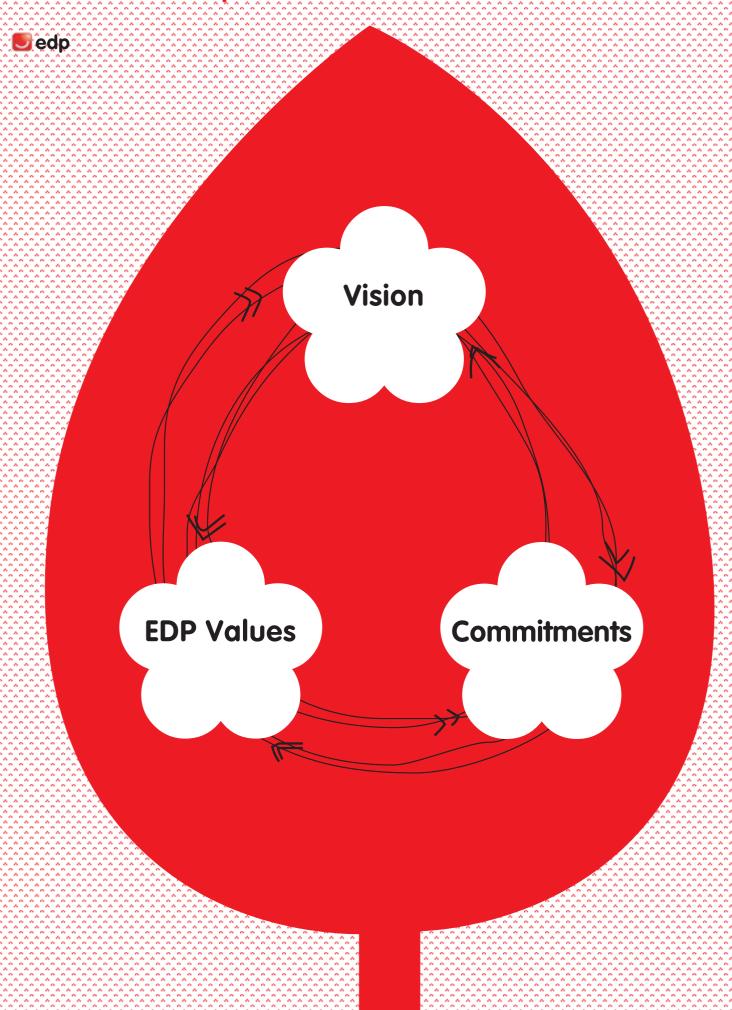
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Acknowledgements

Extract of the Minutes

of the General Meeting of Shareholders

Annual Report 2006 Institutional Report and Report on Corporate Governance Vision, Commitments and EDP Values





Vision

An integrated energy company, a leader in value creation in the markets where we can make a difference.

Commitments

Customers:

- We put the customer first whenever we make a decision.
- We endeavour to anticipate the needs of our customers and fully meet them with our service.
- We know how to listen to our clients and never let their queries go unanswered, communicating with clarity and simplicity.
- We provide the best and most innovative solutions on the market.

People:

- Our people and our teams are our main competitive advantage.
- We work enthusiastically and energetically to move the world.
- We attract, develop and reward our best employees through a merit-based system.
- · We delegate responsibilities and provide autonomy whilst demanding ethics, integrity and professionalism.

Life and the environment:

- We recognise the social responsibilities which result from a company of our size. We want to help build a fairer society.
- We have a passion for living and a deep respect for nature.
- . Our world is facing intense climatic challenges. We want to help restore the environmental balance and ensure its sustainability.
- · We help our customers make rational use of energy as a way of assisting them and improving the environment.

Results:

- We respect the trust that our shareholders and investors place in us and we reward them with our results.
- · We always seek to improve our performance and achieve excellence, working in partnership with our providers.
- We lead the energy markets in which we operate with top-level results in customer satisfaction, operational performance and efficiency indicators.
- We always seek success in everything that we do.

EDP Values – the edp way

Efficient and Excellent

Natural and Sustainable

Enthusiastic and All-encompassing

Responsible and Trustworthy

Global and Fair

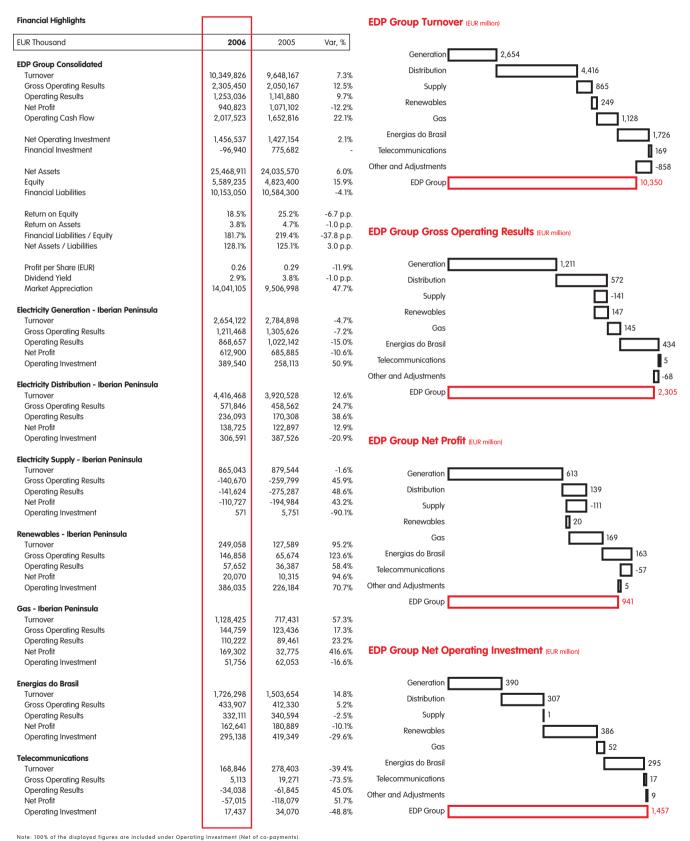
Innovative and Enterprising

Ambitious and Receptive



Annual Report 2006 Institutional Report and Report on Corporate Governance **Financial Highlights**







Operating Highlights				EDP Group Employees
	2006	2005	Var, %	Electricity 7,455
Number of Franksises	10 575	14 217	E 09/	Gas 434
Number of Employees Iberian Energy Market	13,575 7,889	14,317 8,137	-5.2% -3.0%	
Ordinary Regime Generation (ORG)	2,160	2,276	-5.1%	Brazil 3,076
Special Regime Generation (SRG)	246	229	7.4%	
Electricity Distribution	4,869	5,016	-2.9%	Suport Services 1,627
Electricity supply	180	172	4.7%	
Gas	434	444	-2.3%	Telecommunications 395
Brazil (Electricity)	3,076	3,528	-12.8%	п
Generation	242	282	-14.2%	Other 588
Distribution	2,818	3,231	-12.8%	10 F7F
Supply	16	15	6.7%	EDP Group 13,575
Support Services	1,627	1,654	-1.6%	
Telecommunications	395	492	-19.7%	
Other	588	506	16.2%	
Ordinary Regime Electricity Generation - Iberian Peninsula				
Maximum Power (MW)	11,075	11,073	0.0%	
Portugal	8,584	8,584	0.0%	
Spain	2,492	2,488	0.1%	Energy Generated - EDP Group (GWh)
Electricity Sales (GWh)	40,696	39,448	3.2%	
Portugal	27,112	24,076	12.6%	
Spain	13,584	15,372	-11.6%	Portugal 28,571
Special Regime Electricity Generation -				Spain 15,546
Iberian Peninsula Maximum Power (MW)	1.460	951	54.4%	
	1,469 499	337		
Portugal Spain	970	614	48.0% 58.0%	Brazil 3,929
Electricity Sales (GWh)	3,420	2,285	49.7%	
Portugal	1,459	1,161	25.7%	EDP Group 48,046
Spain	1,962	1,124	74.5%	
Electricity Distribution - Iberian Peninsula				
Number of Customers	6,591,077	6,492,287	1.5%	
Portugal	5,987,896	5,907,365	1.4%	
Spain	603,181	584,922	3.1%	
Electricity Sales (GWh)	54,964	53,031	3.6%	
Portugal	45,414	43,784	3.7%	
Spain	9,550	9,247	3.3%	Energy Distributed - EDP Group (GWh)
Electricity Supply - Iberian Peninsula	04757	10.000	507.00/	A5 414
Number of Customers	84,757	13,290	537.8%	Portugal 45,414
Portugal	22,586	9,212	145.2%	
Spain	62,173	4,078	1,424.6% -12,5%	Spain 9,550
Electricity Sales (GWh) Portugal	10,708 4,037	12,240 6,314	-36.1%	
Spain	6,671	5,926	12.6%	0.1
	0,071	3,720	12.070	Brazil 23,948
Gas - Iberian Peninsula				70.000
Gas Distribution – Portugal				Grupo EDP 78,912
Number of Customers	163,391	149,196	9.5%	
Gas Sales (GWh)	2,293	2,158	6.2%	
Gas Distribution – Spain	(41.00/	500.004	. 00/	
Supply Points Gas Salos (GWb)	641,336	599,904	6.9%	
Gas Supply Spain	19,713	21,547	-8.5%	
Gas Supply – Spain Supply Points	248,159	94,493	162.6%	
Gas Sales (GWh)	13,755	11,791	16.7%	
	10,733	.1,7.71		Electricity Customers - EDP Group (Millions of customers)
Brazil - Electricity			03.50	
Maximum Power (MW)	1,018	531	91.8%	
Electricity Sales (GWh)	0.000	0.751	44.40	Portugal 6.0
Generation Distribution	3,980	2,756	44.4%	
Supply	23,948 6,702	23,061 6,379	3.8% 5.1%	Spain 0.7
Number of Customers	3,113,604	2,972,458	4.7%	
	0,110,004	2,772,730	1.7 /0	Brazil 3.1
Telecommunications				J. I
Total Voice Traffic (million minutes)	1,121	978	15%	
New Broadband Customers (retail segment) (customers)	67,900	31,724	114%	Grupo EDP 9.8

Note: 100% of the displayed figures for all companies are considered, regardless of the EDP Group's shareholdin. Staff numbers include corporate bodies.

Annual Report 2006 Institutional Report and Report on Corporate Governance **Important Events**



5 Jan – BES holds 2.18% of EDP's share

BES acquired 67,204,883 shares, representing 1.84% of EDP's share capital. As a result of this transaction, BES holds, directly and indirectly, 79,524,691 shares, equivalent to 2.17% of EDP's share capital.

30 Mar – General Meeting of EDP Shareholders:

The articles of association are amended, instituting a new model of corporate governance. This will take effect after the amendment to the Portuguese Companies Code, approved by Decree-Law no. 76-A/2006 of 29 March, comes into force. Company officers are elected for the 2006-2008 three-year mandate.

3 May – Naturgas acquires complete control of Bilbogas:

Naturgas fully takes over the gas distribution company Bilbogas after signing a contract with the municipality of Bilbao to acquire the remaining 50% of the company's share capital. The value of this transaction totalled EUR 35 million.

11 May – EDP strengthens its shareholding in Portgás and Setgás:

EDP now owns all of the share capital of NQF Gás, thereby strengthening its shareholder position in Portgás and Setgás with direct and indirect ownership of 72.0% and 19.8%, respectively.









2 Feb – Baltic acquires 2% of EDP's share capital:

Stock market acquisition by BALTIC SGPS, S.A., a José de Mello company, from Brisa Participações SGPS, S.A. of 73,202,802 shares, representing a 2.002% stake in EDP's share capital

3 Feb – Standard & Poor's restates EDP's credit rating:

Standard & Poor's confirmed EDP's 'A' (long-term) and 'A-1' (short-term) credit ratings, with 'Stable Outlook'.

16 Feb – Publication of Royal-Decree no. 3/2006:

Royal Decree no. 3/2006 was comprised of two measures related to the electricity generation business. Firstly, a price of EUR 42.35/MWh was set for implicit bilateral contracts between distribution and generation companies belonging to the same group. Secondly, the value of CO₂ emission allowances relative to electricity volumes sold in the pool were deducted from company

24 Feb - Acquisition of "redeemable" preferential shares issued by Investco:

EDP Lajeado concludes negotiations with Electrobrás regarding the "redeemable" preference shares issued by Investco, a company in which EDP Lajeado owns 27.65%.

Apr

6 Apr – Tariff adjustment at Enersul:

ANEEL, the Brazilian Electricity Regulatory Agency, approved the mean rate of 16.75% for Enersul's annual tariff readjustment for the period from April 2006 to March 2007.

28 Apr – Dividend payment:

Gross dividend payment at a value of EUR 0.10 per share (2005 financial year).



2 Jun – EDP issues Eurobonds:

EDP Finance BV issues Eurobonds in three tranches for the total sum of EUR 1.5 billion.

30 Jun – The new corporate governance model comes into effect:

EDP's articles of association are amended by public deed on 30 June in accordance with the deliberation approved by the Annual General Meeting on 30 March 2006.

19 Jul – Presentation of EDP Group's strategic quidelines:

The EDP Group's strategic guidelines for the 2006-2008 three-year period are presented in London

25 Jul - Corporate re-structuring of Electra:

Agrupamento EDP / Águas de Portugal signs a framework agreement with the government of Cape Verde regarding the corporate re-structuring of Electra, in which Agrupamento promises to sell at least 51% of Electra's share capital to Cape Verde, remaining minority shareholders without any particular obligations

27 Jul – HC Energía signs a memorandum of understanding to dispose of its stake in Telecable to Cajastur:

HC Energía and Cajastur signs an agreement of intent regarding the sale to Cajastur of the 46% stake held by HC Energía in Telecable for EUR 53.7 million.

8 Sep – Naturgas Energia acquires all of Gasnalsa:

Naturgas resolves to increase its stake in the gas distributor Gasnalsa from 50% to 100%. The acquisition represents an investment of EUR 45 million.

9 Nov – Sale of ONI:

EDP signs a contract to sell 100% of ONI's share capital to Win Reason for a sum based on an enterprise value of EUR 160 million.

22 Jan – Presentation of the 2007-2010 **Business Plan:**

As a result of the favourable opinion previously issued by the CGS (General and Supervisory Board), EDP presents its 2007-2010 business plan at the Museum of Electricity in Lisbon based on the strategic guidelines presented to the market in July 2006.

15 Feb – EDP and Caja Madrid strengthen their cooperation in renewable energies in Spain:

Caja Madrid acquires a 20% stake in the Desa business group (previously known as "NUON España") from EDP. EDP and Caja Madrid's aim, through this transaction, is to intensify their cooperation in renewable energies in Spain, by consolidating Genesa and Desa in order to maximise gains in operational efficiency.

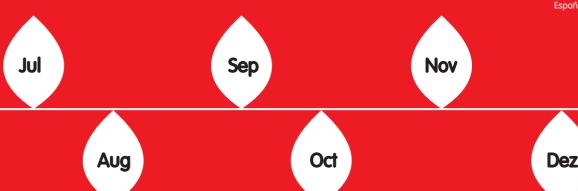
16 Feb – Announcement of a legislative package for the electricity sector:

The Portuguese government announces the approval of a legislative package for the electricity sector. This package impacts on EDP's electricity generation business, particularly by means of the revision of rules applying to the early termination of power purchase agreements (PPAs) and the use of hydroelectric power for electricity generation.

6 Mar – EDP sells a 5% stake in REN:

EDP signs a purchase-and-sale contract to dispose of a 5% stake in the share capital of REN - Redes Energéticas Nacionais, SGPS, S.A. (formerly known as Rede Eléctrica Nacional, S.A.), to the Spanish electricity transmission grid operator Red Eléctrica de España, S.A.

2007



4 Aug – Tariff adjustment of Escelsa: ANEEL, the Brazilian electricity regulatory agency, approved the a mean rate of 16.67% for Escelsa's annual tariff readjustment for the August 2006 to July 2007 period.

20 Oct – Tariff adjustment of Bandeirante:

The Brazilian electricity regulatory agency ANEEL approves a mean rate of 13.44% for Bandeirante's annual tariff readjustment for the October 2006 to September 2007 period.

26 Oct – EDP decides to exercise the call option on OPTEP:

EDP decides to exercise its call option to acquire OPTEP's shares and accessory capital as a result of the roll-up of 093X into Sonaecom's share capital. With this roll-up operation and in the scope of Sonaecom's share capital increase, 093X now holds 58.3 million shares of Songecom.

31 Oct – Agrupamento Eólicas de Portugal signs a contract concerning "Phase A" of the Portuguese tender for new wind power licenses:

Consortium Agrupamento Eólicas of Portugal is assigned a total of 1,200 MW of wind capacity. EDP Group retains a 40% stake among the wind power operators that participate in this consortium.

14 Dec – EDP acquires the renewable assets of Agrupación Eólica and Ceasa:

NEO signs agreements to purchase 100% of the share capital of Tarcan, Ceasa Promociones and Agrupación Eólica for an aggregate equity value of EUR 346 million.

14 Dec - EDP reduces its stake in Songecom:

093X makes a private placement offering to investors of 29.15 million shares of Sonaecom at a price of EUR 4.85 per share.

15 Dec – 2007 electricity tariffs for Portugal are announced:

ERSE, the Portuguese electricity regulatory agency, discloses parameters, tariffs and prices for 2007, establishing an average tariff increase of 6.2%.

18 Dec – Publication of Decree Law 237-B/2006:

Decree Law 237-B/2006 is published, allowing the securitisation of tariff deficits and adjustments in Portugal.

22 Dec – EDP sells a 15% stake in REN:

EDP signs purchase-and-sale contracts to sell a global shareholding of 15% in REN (in three 5% share blocks) to Gestmin, SGPS, S.A., Logoenergia, SGPS, S.A. and Oliren, SGPS, S.A..



Annual Report 2006 Institutional Report and Report on Corporate Governance **Message to Shareholders**



Decr Shambalders,

In 2006, EDP became the largest company to be listed on the Lisbon Stock Exchange.

This is the result of the ambition and pragmatism of a talented organisation and the implementation of a strong and open philosophy that fosters initiative, excellence and the creation of value.

In the same year, EDP recorded the largest stock appreciation in the company's history.

The 48% increase in the share price exceeded the performance of most of our international colleagues. This growth was 18 percentage points above the appreciation of the PS120 Index and 12 percentage points above the Eurostoxx Utilities Index, which are our primary benchmark indices.

In 2006, we invested in cleaner energies.

Today, EDP is one of the five largest operators wind energy operators worldwide, having installed the most generation capacity in Spain and Portugal during the previous year.

In 2006, new company bodies were elected and the corporate governance model was amended.

The Executive Board of Directors was created, which is responsible for setting management objectives and policy, preparing annual business and financial plans and managing business. The General and Supervisory Board was also created to monitor, advise and supervise the executive management.

It is against this background and with personal satisfaction that I present, on behalf of the Executive Board of Directors, this report to the shareholders of EDP, the first produced by the current Board, elected at the March 30, 2006 General Meeting.

A year of good results

I believe that the results achieved in 2006 and presented here in detail reflect the overall positive performance that was registered throughout the entire company.

Gross operating results (EBITDA) increased 13% to EUR 2.3 billion, reaching, therefore, their highest ever value. The net profit reached EUR 941 million and the return on invested capital was higher than the cost of capital, which means real value creation for our shareholders.

In light of these results, we propose the distribution of a gross dividend of EUR 0.11 per share, which encompasses a 10% increase compared to the previous year, subject to approval at the next General Meeting.

A sector undergoing profound change

These results were achieved at a time of important changes in the energy sector.

The alteration to the current international regulatory framework is subject to objectives which are difficult to reconcile: the search for greater efficiency; quicker liberalisation; increased supply safety; the protection of competitiveness and respect for the environment.

Annual Report 2006 Institutional Report and Report on Corporate Governance **Message to Shareholders**



Liberalisation processes in the electricity and gas sectors as well as strong regulatory intervention, have increased competitive pressure in the markets where we operate, namely in the areas of generation and supply.

The marked instability in raw material costs and society's growing preoccupation with the environmental agenda have led to rapid technological development in our business.

These structural changes in our industry's paradigms demand an increased capacity for forethought and innovation, be it within our energy generation portfolio or our approach to the market and customer service.

A commitment to value creation

These changes reinforced the need for a clear definition of what we want to be: an integrated energy company, a leader in value creation in the markets where we can make a difference.

- An integrated energy company, because we believe that our customers value a complete offer of energy services electricity and gas and because we have the necessary skills to be an operator of excellence in this area.
- A leader in value creation, because we are aware that this is what our shareholders expect of us, because we know that our competitive advantage does not lie in relative size.
- In the markets where we can make a difference, because EDP wants to remain a leader in the areas where it operates, focusing on the markets and businesses in which the company has distinctive competencies to make it bigger and better than its competitors.

Making this vision a reality, which takes the form of ambitious objectives set forth in our business plan through 2010, means that three fundamental aspects must be guaranteed: a clear strategy, an efficient organisation and strong values.

A clear strategy

In July 2006, we unveiled the general guidelines of our Strategic Plan to the market. This focused on three areas: controlled risk, greater efficiency and steered growth.

• Controlled risk, through the management of a lower-risk business portfolio as compared to our Iberian colleagues.

In this respect, 2006 signified a decisive contribution for the future. In particular, I would like to highlight the approval to bring in monetary compensation for the early termination of PPAs (CMECs - costs for maintenance of the contractual balance), which guarantees that the current value of PPAs are maintained. Furthermore, the resolution of this matter was essential for the effective start-up of the Iberian Electricity Market (MIBEL).

We also achieved good results in the integrated management of supply and generation activities in the liberalised market. This made possible an improvement in the unit margin, which had given negative results in previous years.

Lastly, the management of the environmental component is contributing to our controlled risk profile. EDP already has almost all of the CO₂ emissions hedged for 2007, while for the post-2008 period we estimate an exposure of only 16% of our anticipated emissions.

• **Greater efficiency** through the streamlining of operations, investment discipline, focus on core business and rigour in performance.



I would highlight here the introduction of an overall reduction of costs, which places EDP amongst the most efficient companies in the sector with an annual savings goal of EUR 150 million by 2010. This effort was already apparent in 2006 with a 1.5% growth in operating costs (excluding extraordinary costs and exchange rate effects), and thus below inflation.

I would also like to highlight the creation of greater investment discipline through new systematic and internal competition procedures for resources amongst the group's various companies.

Positive results are also evident in our core business. We sold Telecable and ONI, swapped the shareholding in Optimus for 16% of Sonaecom (and subsequently sold 8%) and performed the preparatory work for the sale of the 20% stake in REN.

• **Steered growth**, through consolidation of our position in the Iberian market, development of a position of international leadership in the renewable energies sector and increased market share in Brazilian energy generation.

We strengthened our position as the third largest operator in the Iberian Peninsula with an installed capacity of 12.5 GW, representing 5.6% year-on-year growth. This allowed us to increase generation by 5.5% to 44.0 TWh and the electricity distributed by 3.6% to 55.0 TWh.

In the renewable energies segment, we led the consortium that won the tender to install 1,200 MW of wind power in Portugal, we bought Agrupación Eólica in Spain, thereby strengthening our presence in the Iberian and French markets, and we entered the Belgian market.

In Spain, we began construction of the new combined cycle power plants (CCGTs) of Castejón 2 and Soto 4 and in Figueira da Foz, Portugal, the construction of two more groups was approved.

In the gas sector, we strengthened our position as the second largest operator of natural gas distribution in the Iberian Peninsula, namely through the acquisition of the remaining share capital of Gasnalsa and Bilbogas, supplying more than 800,000 homes and businesses.

In Brazil, we inaugurated the Peixe Angical hydroelectric plant which doubled the installed generating capacity in that country, creating balance in the distribution and generation mix.

We also strengthened our commitment to hydroelectric energy in Portugal, a technology with enormous potential that is still not fully developed, by creating the internal conditions needed so that 2007 marks the return of investments in this segment.

An effective organisation

These new challenges and the strategic re-establishment of EDP need an effective, agile, focused and cohesive organisation which, structured by regions and businesses, has the capacity to maximize its synergies.

In this context, a global programme to create value was initiated, incorporating 12 projects transversing the entire EDP Group. These laid the foundation to redefine EDP's strategy, restructure the organisation, optimize costs and investments, strengthen our skills, develop talent and apply the management tools essential for value creation.

Annual Report 2006 Institutional Report and Report on Corporate Governance **Message to Shareholders**



In terms of organisation, I would like to highlight three projects: The PROS project (processes, organisation and systems), the INOVAÇÃO (INNOVATION) project and the TALENTO (TALENT) project.

The PROS project allowed us to unleash a process of organisational transformation designed to make EDP more efficient. This included the following:

- Creation of a new Business Unit, EDP Gás, which integrated and managed the assets and shareholdings in the gas companies in Portugal and Spain;
- Restructuring of the Corporate Centre, which assumed the role of "strategic manager", that is, more concentrated on activities of a strategic nature and able to monitor the businesses in their support needs;
- Reformulation of the shared services platform, which took on more responsibilities in order to maximise the synergies which resulted from the globalisation of this operation.

The INOVAÇÃO project was the embryo for a new management model and to promote the dissemination of innovation within the group; we created a new business which is responsible for coordinating R&D and monitoring the development of new technologies.

The TALENTO project merits attention because we believe that people constitute our distinguishing factor in a typically capital-intensive sector. This project envisioned the establishment and implementation of an integrated human resource policy that values the skills which are critical for EDP and creates the necessary instruments to attract, develop and retain human capital. In this context, I would like to note the 44% increase in training time for individuals throughout the entire group, making a total of 664,000 hours in 2006.

Strong values

Turning our vision into reality requires strong business values: Responsibility and a focus on results, giving us a point of reference both in value creation and in business ethics; Openess, which encourages communication and strengthens productivity; Merit, which rewards performance and promotes essential internal mobility; Rigour, through which decisions about investment and costs guarantee competitiveness and efficiency; Achievement and excellence, which guide the organisation toward the systematic respect for its values and commitments.

These values decisively influence the way in which we make decisions and manage day-to-day activities. They allow us to understand the changes going on around us and the expectations held in our regard, as well as the importance of rational and emotional awareness. Above all, they allow us to build our confidence and commitment, starting from an energy source that is infinite: the energy of the 13,575 employees of EDP.

A future with ambition

In 2006, we celebrated 30 years of EDP's existence, in the form the company has today. This marks three decades of a long success story that transformed us into one of the largest institutions in Portugal.

We are aware of the responsibility that comes from this and which commits us to our customers, our shareholders, our employees and the communities where we operate.

We want to continue to be a benchmark in terms of sustainable development and the contribution to the well-being of our customers.

We will continue to be an active agent in the search for a balance between work, community and the environment, therefore responding to that which society demands of us.



We will continue to invest in renewable energies, with a strong emphasis on wind energy. We will also defend and focus on the development of hydroelectric capacity yet to be exploited in Portugal, the reduction of polluting emissions and the development of projects that promote and encourage energy efficiency.

We want an EDP that creates value for its shareholders, remaining an independent company in an increasingly global economy and within an international context that is progressively more competitive in the procurement of financial and human resources.

The results achieved in 2006 demonstrate that we are on the right path.

But an even more complex task awaits us in the future: to execute the ambitious goals outlined in our business plan through 2010, which we have already disclosed to the market and with all of our employees, and to exceed the expectations set by a record of positive results.

We want gross operating results and the dividend per share to grow in excess of 11% annually. We want the net profit per share to grow at a rate above 14% per year (based on 2005), while at the same time achieving a return on invested capital above 8% in 2010.

We want more than 1 million new customers. We are going to invest approximately EUR 7.6 billion, half of which in renewable energies (including hydroelectric energy).

I am certain that EDP, its people, its organisation and its partners are prepared and determined to achieve these ambitious goals.

I would like to thank our customers, for whom we work for every day so that we can earn your trust; our suppliers, for their constant collaboration, and our communities, for recognizing our work as reflected in the many awards that we received in the most diverse of areas, particularly in the fields of social responsibility, the environment and finance.

To our shareholders, I would like to end by thanking you for the support and confidence that you have placed in the company and in its strategy, thereby intensifying my conviction that these results would not be possible without the contribution of the people who make EDP. With deserved recognition, I thank these individuals for the effort and dedication shown during the year in the pursuit of our stated objectives.

António Mexia

Chairman of the Executive Board of Directors

Lisbon, 8 March, 2007

Annual Report 2006 Institutional Report and Report on Corporate Governance **EDP Company Officers**



BOARD OF THE GENERAL MEETING

José Manuel Galvão Teles, Chairman António Campos Pires Caiado, Vice-Chairman

STATUTORY AUDITOR

Permanent Statutory Auditor: KPMG & Associados, SROC, S.A., represented by Jean-Éric Gaign, ROC

Deputy Statutory Auditor: Vítor Manuel da Cunha Ribeirinho, ROC

GENERAL AND SUPERVISORY BOARD

António de Almeida, Chairman

69 years old. He has served as the Chairman of the General and Supervisory Board since 2006. In 1961, he received his degree in Economics from the Faculty of Economics of Universidade do Porto [University of Porto]. In Mozambique, he was a supervisor of Planning Services (1963-1965), Financial Director of Companhia de Cervejas e Refrigerantes MacMahon (1965-1966); Financial Director and Secretary General of Maragra - Marracuene Agrícola Açucareira (1966-1971) and the Director and Vice-Chairman of the Instituto de Crédito de Moçambique from 1971 to 1974. In Portugal, he was the Governor and President of Banco de Angola (1974-1978); Secretary of State for the Treasury (1978-1980 and 1983-1985); President of the União de Bancos Portugueses until 1991; technical consultant to Banco de Portugal until 1992; consultant for the Associação Industrial Portuense from 1991 to 1996; Chairman of EDP (1976-1998); director of the European Bank for Reconstruction and Development (1998-2004); Chairman of the EDP Audit Committee (2003-2004); President of OMIP (Portuguese pole of the Iberian Energy Exchange) from 2004 to 2006. He was also a guest lecturer in the economics undergraduate course of Universidade de Lourenço Marques (1971-1974) and in the management undergraduate course of Universidade Autónoma de Lisboa (1993-2000). He has also been a columnist for the Diário Económico newspaper (1994-2004) and for Expresso since 2005.

António Sousa Gomes

70 years old. Mechanical Engineering graduate from Instituto Superior Técnico (Lisbon) and graduated from the Stanford Executive Program of Stanford University's Graduate School of Business. He was a Director of Siderugia Nacional (1968-1974); Director of ETP, S.A. (1974-1975) and at SEDES he was General Secretary from 1972 to 1973 and Chairman from 1973 to 1974. He served as Secretary of State of Public Investments (1975-1976); a member of the Portuguese Parliament (1976-1980); Minister of Planning and Economic Co-ordination (1976-1978); Minister of Industry (1977); Minister of Public Works and Housing (1978-1979) and Vice-President of the Parliamentary Commission of European Integration (1981). From 1985 to 1990 he was Chairman of JUC (Catholic University Youth), Chairman of the Board of Directors of IPE (Investimentos e Participações Empresariais) from 1983 to 1991, director of EGF from 1987 to 1991 and director of EFACEC from 1988 to 1992. He has also served as a member of the Board of Directors for the Serralves Foundation (1990-1998); Chairman of the Board of CIMPOR, SA. (1992-2001) and he is currently the non-executive Chairman for the CORPORATION NOROESTE.

Alberto Coraceiro de Castro

54 years old. He received a degree in Economics from the Porto Faculty of Economics and a doctorate in Economics from the University of South Carolina. His areas of specialisation include industrial economics, business economics and strategy, labour economics and internationalisation. He has published several academic and professional texts. He lectures at Universidade Católica Portuguesa, where he is head of the Economics and Management Faculty. He is also a general board member of Associação Empresarial de Portugal and a board member of Associação Comercial do Porto [Porto Trade Association], Vice-Chairman of the Board of Directors of Associação para o Museu dos Transportes e Comunicações [Transport and Communication Museum Association] and a member of the Advisory Board to the Government's Technological Plan. He is Chairman of the Board of Directors of CIENCIVEST - Valorização Económica da Ciência, non-executive director of Douro Azul and consultant to APICCAPS (Portuguese Footwear Industrialists Association).

Carlos Jorge Ribeiro*

52 years old. He received a degree in Law from Universidade Clássica de Lisboa and from Universidade Gama Filho in Rio de Janeiro, Brazil. Together with investors such as Stanley Ho and other Chinese economic groups, he has financial investments in Portugal and Macau, China through various holdings and joint ventures in the media, property development, infrastructure development in banking, engineering and aerospace engineering, hospital management, telecommunications, insurance and tourism sectors. In Macau, he and Stanley Ho established the company Geocapital, Investimentos Estratégicos, where he currently occupies the positions of Vice-Chairman of the Board of Directors and Chairman of the Executive Board. He is also the Director of Energy Finance.



Carlos Santos Ferreira

57 years old. He received his degree in Law in 1971 from the Faculty of Law of Universidade Clássica de Lisboa. He was a member of the Tax Reform Commission (1984-1988), a member of the Portuguese Parliament, Vice-Chairman of the Parliamentary Commission for Health and Social Security (1976), a voting member of the Management Board of ANA (1977-1987), Chairman of the Board of Fundição de Oeiras (1987-1989) and Chairman of the Companhia do Aeroporto de Macau (1989-1991). He was a director of the Champalimaud Group (1992-1999) and was Chairman of the Board of Mundial Confiança and of the General Meeting of Banco Pinto & Sotto Mayor. As part of the BCP Group, he was the Director of Servibanca, Vice-Chairman and a voting member of the Board of Directors of Seguros e Pensões Gere (1999-2003). He also acted as Director and Chairman of the Board of Império Bonança, of the insurance companies Ocidental, Ocidental Vida and Seguro Directo, as well as ICI - Império Comércio e Indústria, Companhia Portuguesa de Seguros de Saúde, Autogere, Corretoresgest, and as a director of Eureko B.V. He was also Vice-Chairman of Estoril Sol and Finansol, non-executive Chairman of Willis Portugal-Corretores de Seguros (2003-2005) and a director of Seng Heng Bank. He currently serves as Chairman of the Board of Caixa Geral de Depósitos.

Diogo Lacerda Machado

45 years old. He holds a degree in Law. He was a teacher in Civil Procedural Law at Universidade de Lisboa (1985); Management Trainee at FIMA-LEVER-IGLO (1986); legal consultant for the Tourism Fund and the Academic Association for Universidade de Lisboa Law School (1986-1988); Advisor to the Government of Macau's Deputy Secretary for Administration and Justice (1988-1990); Senior legal consultant of the Tourism Fund (1990-1992); director of Interfina and of several of its shareholding companies (1992-1995). From 1995 to 1999 he was a lawyer and partner of the law firm Sampaio Caramelo, Fonseca Santos & Lacerda Machado and a member of the Superior Judicial Council from 1997 to 1999. He served as Legal Director for the Parque Expo'98 Group and Director of Companies in which Equity Held (1999), Secretary of State for Justice of the Portuguese Government (1999-2002) and lawyer for the firm J.A. Pinto Ribeiro and Associados (2002-2004). He currently practises with the law firm of Barrocas, Sarmento and Neves Sociedade de Advogados and is a member of CADA (Committee for Access to Administrative Documents).

Eduardo Catroga

64 years old. He received a degree in Finance from the ISEG (Universidade Técnica de Lisboa) and a post-graduate degree from the Harvard Business School. He served as Minister of Finance for the Portuguese Government (1994-1995). He is a guest professor of Corporate Strategy for the M.B.A. course. Prior to 25 April, he made his career in business management and administration holding finance and management planning and control positions, namely as director of the CUF Group and as Executive Director of the Belgian SAPEC Group. He is currently the Chairman of the SAPEC Group, director of Nutrinveste, director of Banco Finantia and a member of the Securities' Market National Body.

José Galvão Teles

68 years old. He received a degree in Law. Since 1961 he has practised law full-time and is currently senior partner of the law firm Morais Leitão, Galvão Teles, Soares da Silva & Associados. He served as Ambassador to the United Nations (1975-1976), where he represented Portugal in the UN General Assembly and the Security Council during negotiations over the decolonisation process, particularly those of Angola and East Timor. In 1996, he was named by the President of Portugal as a member of the Portuguese Council of State, where he served until 2006. Currently, in addition to serving as Chairman of the General Meeting, he is the non-executive director of Banco Santander Totta, Chairman of the General Meeting of several companies and director of several prestigious associations and sociocultural foundations.

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José Maria Ricciardi

52 years old. He received his degree in Applied Economic Sciences from the Administration and Management Institute of the Faculty of Economic, Political and Social Sciences of Université Catholique de Louvain (Belgium). From 1981 to 1983 he served as financial controller at the European headquarters of the Espírito Santo Group (GES), acting as international assistant to the group's General Financial Controller worldwide. From June 1983, he was a an assistant director of the Banco Espírito Santo Internacional Ltd. And in 1987 he was named Director of the Merchant Banking Directorate of Banco Internacional de Crédito (BIC). In 1990, he worked at BIC, as Deputy Director-General of the Corporate General Directorate and Director of the Capital Markets Directorate. He was Director of Espírito Santo Sociedade de Investimentos (1992) and Vice-Chairman of the Board of Directors of Banco Espírito Santo de Investimento. Since 1999 he has served as a director of the Executive Board of Banco Espírito Santo de Investimento.

Manuel Alves Monteiro

49 years old. He is a graduate in Law. He is a director of the listed companies CIN, Novabase, Jerónimo Martins and Douro Azul, SGPS, S.A. He is Managing Director of the Portuguese Corporate Governance Institute and a member of the Coordinating Board of SEDES, member of the Advisory Board of the Banco Privado Português and a member of the Advisory Board of the Porto Faculty of Economics. He served as Chairman of Euronext Lisbon and was a member of the Board of Directors of the Paris, Brussels and Amsterdam stock exchanges and Euronext NV. He was also President of the Porto Stock Exchange and CEO of the Lisbon and Porto Stock Exchanges and Interbolsa. He was President of the Portuguese Association of Financial Analysts, voting member of the CMVM (Portuguese Securities Market Commission) Advisory Board and President of the Casa da Música/Porto 2001, S.A.. He has occupied positions in executive bodies of international organisations connected to the capital market: the Executive Board of FIABV (Ibero-American Federation of Stock Exchanges), ECOFEX (European Committee of Options and Futures Exchanges), the International Finance and Commodities Institute and the European Capital Markets Institute. He was awarded the Chevalier de L'Ordre Nacionale de la Legion d'Honneur" by order of the President of the French Republic.

Manuel Menéndez Menéndez

47 years old. He received a degree in Economics and Business Administration in 1982 and a doctorate in Economic Sciences from Universidad of Oviedo in 1985. He was also a professor in the Department of Business Administration and Accounting at the University of Oviedo (1990). He was a voting member of the Board of Directors and member of the Executive Board of Cajastur and Hidrocantábrico; a member of the Board of Directors, Executive Board and the Audit and Control Committee of AIRTEL; a voting member of the Board of Directors of Ahorro Corporación, LICO Corporación and ENCE; Vice-Chairman of the Board of Directors of SEDES, S.A. and Executive Chairman of Sociedad de Garantias Recíprocas de Astúrias. He is Chairman of Cajastur, Hidrocantábrico and Naturgás Energia; a voting member of the Boards of Directors of Nuevas Energias de Ocidente and CECA (Spanish Confederation of Savings Banks); a voting member of the Directive Council of UNESA (Spanish Association for Electricity Industry) and a member of the Official Register of Account Auditors (Spain). He also represents Peña Rueda, S.L (a 100%-owned subsidiary of CajAstur) on the Enagas Board of Directors.

Paulo Teixeira Pinto

46 years old. He received a degree in Law with a specialisation in Juridico-Political Sciences from Universidade de Lisboa and a specialised degree in Juridical Sciences from Universidade Livre. He received his doctorate in the History of Law at Universidad Complutense of Madrid and completed the Corporate Strategy Programme of INSEAD, Fontainebleau (France) as well as the Senior Corporate Management Programme of AESE (Spain). He was the Under Secretary of State for the Presidency of the Council of Ministers, Secretary of State for the Presidency of the Council of Ministers, a spokesperson for the Portuguese government and representative of the Portuguese government at the OECD's "Public Management" Programme. In 1995 he served as head of the Legal Department of the Corporate Centre for the Banco Comercial Português (BCP). In 2000, he was named as the bank's General Manager and Secretary General. He coordinated the Millennium Programme in 2003. Since March 2005 he has acted as Chairman of the Executive Board of Directors of the BCP and Chairman of various group subsidiaries.



Vasco José de Mello

50 years old. He received a Bachelor of Science in Business Management from the American College of Switzerland (1978) and attended the Citigroup Training Program in New York (1978-1979). He was Adviser to the Board of Directors of União Industrial Têxtil e Química from 1980 to 1982, where he was also a voting member of the Board from 1982 to 1999. He was also a voting member of the Board of Directors of Sociedade Independente de Comunicação (1992-1994) and Transitec-Lausanne (1982-1987). At CUF Finance he served as Executive Director (1985-2002) and at Companhia de Seguros Império he was a voting member of the Board of Directors (1992-1996), later serving as Chairman (1996-2000). He was also Chairman of the Board of Banco Mello, S.A. (1995-2000) and Banco Mello de Investimentos (1991-2000), and Vice-Chairman of José de Mello, SGPS (1994-2004). He was a voting member of the Board of Directors at Oni, SGPS (2000-2002) and Chairman of União Internacional Financeira, SGPS (2001-2004). Since 2002 he has served as Chairman of the Board and the Executive Board of Brisa, Vice-Chairman of the Senior Board of Banco Comercial Português since 2000, a voting member of the Board of Directors of Abertis since 2003, Chairman of the Board and the Executive Board of José de Mello, SGPS, since 2004 and a voting member of the Supervisory Board of Bank Millennium since 2005.

Victor Seabra Franco

56 years old. He received a degree in Finance from Instituto Superior de Economia (Portugal) and a degree in Law with a specialisation in Juridical Sciences from Universidade de Lisboa. He was awarded a doctorate in Business Sciences from Universidad Autónoma de Madrid and is a Full Professor at the ISCTE Department of Accounting. Presently, he serves as the Chairman of the Assembly and the Accounting Department at ISCTE, where he also lectures Financial Accounting and Management Accounting as part of the school's undergraduate, masters and doctorate degree programmes in accounting. He has served as an inspector for the Inspectorate-General of Finances as well as Chairman of the General Assembly of the Association of Statutory Auditors. He is a partner of Grant Thornton & Associates, Statutory Auditors, Ltd.

Vital Moreira

62 years old. He received his degree in Law from the Faculty of Law of Universidade de Coimbra (FDUC), where he also received his master's and doctorate degrees in Public Law. He currently lectures at FDUC. He is also a postgraduate lecturer at the Universidade de Coimbra's Faculty of Humanities and at ISCTE (Lisbon). He is the President of the Centre for Public Law and Regulatory Control Studies (CEDIPRE) at FDUC and is the head of CEDIPRE's Postgraduate programme in Public Regulatory Control and Competition. He is also Vice-Chairman of the "Services of General Economic Interest" committee of the European Centre of Publicly-Owned Enterprises (CEEP), based in Brussels. He was a member of the Portuguese Parliament during the first democratic parliament (1975-1976) and during several subsequent parliamentary mandates. From 1982 to 1989 he served as a Justice of the Portuguese Constitutional Court. He has also been a member of the National Council for the Assessment of Higher Education, Chairman of the Projects Committee to commemorate 100 years of the Portuguese Republic and a member of the Calouste Gulbenkian Foundation Advisory Council.

Vítor Fernando da Conceição Gonçalves

51 years old. He received a degree in Business Management and Organisation in 1978 from ISEG and a doctorate in Business Sciences from FCEE/Universidad de Sevilla in 1987. He received a degree in Management from Universidade Técnica de Lisboa in 1993, where he has been a Full Professor of Management since 1994 and also holds the position of Vice-Chancellor. He served as Chairman of the ISEG Directive Council (2003-2006), Head of ISEG's Department of Management (1992-2000) and as Director of the doctorate programme in Management (2001-2005). He has been a guest lecturer at several European, American and Asian universities. Since 1997 he has been a member of the Assessment Committee for doctoral, post-doctoral and research candidates invited by the Fundação para a Ciência e Tecnologia (Science and Technology Foundation). He has been a member of IMD's World Competitiveness Center "Panel of Experts on World Competitiveness" since 2005, an Executive Member of the Economics and Business Management Committee of the Portuguese Economists' Association (1999-2001) and a member of the Professional Board. He was a director of Instituto de Formação Empresarial Avançada (1999-2003), a director of Promindústria (1994-1996), and director of IDEFE, the Portuguese Institute for the Development and Study of Financial and Business Economics, since 2003. From 2001 to 2002, he presided over a group of "high-level experts" who evaluated the European competitiveness programme for the European Commission.

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EXECUTIVE BOARD OF DIRECTORS

António Mexia, Chairman

49 years old. He received a degree in Economics from Université Genève (Switzerland) in 1979, where he was also an Assistant Lecturer in the Department of Economics (1979-1981). From 1985 to 1989 he was a postgraduate lecturer in European Studies at Universidade Católica (Lisbon). He was also a member of the governing board of Universidade Nova de Lisboa and of Universidade Católica, where he was a Director from 1982 to 1995. He served as Assistant to the Secretary of State for Foreign Trade from 1989 until 1991, when he took on the role of Vice-Chairman of the Board of Directors of ICEP (Portuguese Institute for Foreign Trade). From 1992 to 1998 he was a director of Banco Espírito Santo de Investimentos and in 1998 he was appointed Chairman of the Board of Directors of Gás de Portugal and Transgás. In 2000 he joined Galp Energia as Vice-Chairman of the Board of Directors. From 2001 to 2004, he was the Executive Chairman of Galp Energia and Chairman of the Board of Directors of Petrogal, Gás de Portugal, Transgás and Transgás-Atlântico. In 2004, he was named Minister of Public Works, Transport and Communication for Portugal's 16th Constitutional Government. He served as Chairman of the Portuguese Energy Association (APE) from 1999 to 2002, member of the Trilateral Commission (1992-1998), Vice-President/Chairman of the Portuguese Industrial Association (AIP), and Chairman of the General Supervisory Board of Ambelis. He was also a government representative to the EU working group for trans-European network development.

Ana Maria Fernandes

44 years old. She graduated in Economics from the Faculty of Economics of Porto (1986). She gained a postgraduate degree in Finance from the Faculty of Economics of Universidade do Porto (1989) and a MBA from Escola de Gestão do Porto. She lectured at the Faculty of Economics of Universidade do Porto from 1989 until 1991. She began her professional career in 1986 at Conselho - Gestão e Investimentos, a company of the Banco Português do Atlântico Group, in the capital markets, investments and business restructuring field. In 1989 she began working at Efisa, Sociedade de Investimentos, in the area of corporate finance, and was later made a director of Banco Efisa. In 1992 she joined Grupo Banco de Fomento e Exterior as an Investment Banking Director and was also Corporate Finance Director at Banco Português de Investimento (1996-1998). In 1998 she became the Director of Strategic Planning and Mergers and Acquisitions of Gás de Portugal and in 2000 she became the Director of Business Strategy and Portfolio Management and Director of the Board of Transgás. In 2004 she was appointed a director of the Board of Galp Energia.

António Martins da Costa

52 years old. He holds a degree in Civil Engineering (1987) and a MBA from Escola de Gestão do Porto (1989). He also received additional executive training at INSEAD (Fonainebleau, France, 1995), AESE (Lisbon, 2000) and the Wharton School (Philadelphia, USA, 2003). His professional career began in 1976 as a university lecturer in engineering, later joining EDP in 1981 in the Hydraulic Generation Sector. In 1989 he began working in the financial sector, where he served as Director-General of Banco Millennium BCP and as Executive Business Director of Insurance, Pensions (S&P) and Funds and Asset Management (AF Investimentos) of the Millenium BCP Group. He was also Director of Eureko BV (the Netherlands), Chairman of Eureko Polska and Executive Vice-Chairman of PZU (Poland), the largest insurer and asset and pension fund manager of Central and Eastern Europe.

António Pita de Abreu

56 years old. He received his degree in Electrotechnical Engineering from Instituto Superior Técnico (Lisbon) in 1972, where he worked as an assistant lecturer and guest lecturer in the Department of Electrotechnical Engineering and Computers. He has worked in the electricity sector since 1977, where he occupied the following positions up to 2006: executive member of the Board of Directors of EDP; Chairman of the Board of Directors of REN (Portuguese National Electricity Grid), of EDP Produção, of CPPE (Portuguese Electricity Generation Company), of EDP Cogeração and of Termoeléctrica do Ribatejo; Vice-Chairman of the Board of Directors of EDP Distribuição - Energia, member of the Board of Directors of EDP Energia and EDP Brasil; executive member of the Board of Directors of REN; Chairman of the Board of OniTelecom and Edinfor; Vice-Chairman of Turbogás and a voting member of the Board of Directors of EDA (Electricidade dos Açores). Currently, he is the Vice-Chairman of APE (Portuguese Energy Association), Chairman of the ELECPOR Directive Council and a member of the Board of Directors of EURELECTRIC.



João Manso Neto

48 years old. He graduated in Economics from Instituto Superior de Economia (1981) and a post-graduate degree in European Economics from Universidade Católica Portuguesa (1982). He also completed a professional education course through the American Bankers Association (1982-1985), the academic component of the master's degree programme in Economics of the Faculty of Economics of Universidade Nova de Lisboa and in 1988 he completed the "Advanced Management Program for Overseas Bankers" at the Wharton School of the University of Pennsylvania (Philadelphia). From 1981 to 1995 he worked at the Banco Português do Atlântico, occupying the positions of Supervisor for the International Credit Division, Head of the International Credit Division, Department Director, Deputy Central Director for International Management and Central Director of Financial Management and Retail Commerce South. From 1995 to 2002 he worked at the Banco Comercial Português, where he held the posts of General Director of Financial Management, General Manager of Large Institutional Businesses, General Manager of the Treasury, member of the Board of Directors of BCP Banco de Investimento and Vice-Chairman of BIG Bank Gdansk. From 2002 to 2003, in Banco Português de Negócios, he was the Chairman of BPN Serviços ACE, Director of BPN SGPS, Director of Sociedade Lusa de Negócios and a member of the Board of Banco Efisa. He is still a voting Member of the OMEL Board of Directors.

Jorge Cruz Morais

49 years old. He was awarded a degree in Electrotechnical Engineering from Instituto Superior Técnico (Lisbon) in 1980 and a MBA from Universidade Nova de Lisboa in 1989. He began his career at EDP in 1983 in transport network planning. From 1991 to 1994 he served as Adviser to the EDP Board of Directors, acting as Coordinator of the restructuring process that resulted in the creation of the EDP Group in 1994. He was then appointed Director of Strategic Planning and was responsible for coordinating the Group's privatisation (first and second phases of the IPO process). He was also a non-executive member of the Turbogás Board of Directors (1998-2000), non-executive member of the Board of Electricidade dos Açores (1999-2000) and Director of the Centro para a Conservação de Energia (1993-1996). From 2000 to 2004 he was the Executive Director of Oni SGPS and other Oni Group companies, acting as CFO from 2002 to 2004.

Nuno Alves

48 years old. He received a degree in Naval Architecture and Engineering (1980) and a MBA (1885) from the University of Michigan. He began his professional career in 1988 as a technician in the Studies and Planning Directorate of Banco Comercial Português, where he also held the positions of Sub-Director of the Financial Investment Directorate (1990) and Director of Investor Relations (1991). In 1994 he became the Director of Private Retail Coordination. In 1996 he served as Director of Capital Markets for Banco CISF, Banco de Investimento do Banco Comercial Português, and was promoted to a director's place on the investment bank's Board in 1997. In 1999, he became Chairman of the Board of Directors of CISF Dealer, where he remained until 2000 when he became a director of Money and Capital Markets on the Board of Milleniumbcy Investimento (formerly Banco CISF).



Annual Report 2006 Institutional Report and Report on Corporate Governance EDP Group Business edp



Annual Report 2006 Institutional Report and Report on Corporate Governance **EDP Group Business**



1. BRAND

Feel our energy for the future

2006 was a year marked by paradigm shifts.

It was the first year of domestic market liberalisation in Portugal. The first year in a new management cycle.

The first year of a new reality in global energy. The year in which it was understood that there will be no energy in the future without taking responsibility today.

For these reasons, 2006 was also the first year in the reconstruction of the EDP brand.

A reconstruction which intends to infuse the brand with the principles that form the basis of our growth as a business: solid policies of sustainability and investment in renewable energies and the adoption of efficient practices.

With so many important changes, it was essential to make changes to the brand's architecture and conclude the identity restructuring process begun in 2004.

Bearing in mind the company's important social role based on the intrinsic relationship between people and their everyday activities, EDP wants not only to be present in the lives of all but also to ensure the permanence of this relationship in the future. Therefore, EDP intends to:

- Create a brand ideology which enables not only the creation of a social image, but above all, create and give visibility to EDP's content, symbolically represented by its current brand promise: the smile;
- Create more than a visual expression of the brand, building a way to be, to believe, to invoke its close relationship to people's lives, the responsibility to promote their well-being, their quality of life, the exciting conquest of the future;
- Anticipate an even closer relationship with the company's clients through the optimisation of processes, promotion of energy efficiency, recognising their role as free consumers in a market now open to choice and competition;

 Have a positive impact on society with initiatives only made possible by a company that plays a leading role in the economy, in technological innovation and in environmental protection.

Feel our energy in the brand

What is the meaning behind the smile of the EDP brand?

It was essential to adapt all of the brand structures not only to the brand promise contained in the smile, but also to the current and future challenges of the liberalised market

It was necessary to transmit positively and enthusiastically the meaning of this responsibility taken on and transform it into the symbol of EDP's market placement.

The environment, its importance to the economy and international development, community relations, investing in the development of societies and creating a relationship based on experience-these are fundamental components of advertising in the energy sector today.

Within this context, EDP created a mission, a vision, values, a market position, a slogan and a graphic restyling that reflects a more modern and flexible image.

Feel the energy of our slogan

The positioning was redefined and so was the brand slogan, bringing it more in line with the values behind the brand's identity while adding a vision of the future as well as a clear expression of the promise of the present.

This promise is clearly founded on the concept of well-being, but it also has the power to project the company in all directions, defining an attitude and a personality: EDP generates energy, which in turn creates a quality of life that generates dynamism and enthusiasm. It is EDP's intention that this energy is felt by all so that a harmonious environment may exist.



An energy in three dimensions

It was essential that the brand's visual identity - the logo and the symbol - follow this reconstruction process, but without beginning a new process of identity creation. For this reason, the brand was given a new appearance by rendering the symbol in 3D, giving it greater visual impact and better adapting it to audiovisual and virtual environments.



sinta a nossa energia









Annual Report 2006 Institutional Report and Report on Corporate Governance **EDP Group Business**



2 CUSTOMER

A year marked by the liberalisation of the standard low voltage (BTN) market

The liberalisation scheme for the Portuguese electricity market ended on 4 September, 2006, with the deregulation of the standard low voltage segment. Without a doubt, this was a defining moment for the sector and for EDP in particular. This event clearly had the greatest impact in 2006 for the market and for customers

EDP made five priority commitments to the liberalisation process which were restated on 1 September, a day designated as the Day of the Customer, at a meeting dedicated exclusively to the customer and the liberalised market in which more than 300 EDP associates attended.

- Lead the market: As the market leader in Portugal, EDP has great responsibility in terms of its positioning on liberalisation. It is a reality that changes all of the traditional business paradigms and presents new challenges. EDP intends to continue strengthening its leadership in the market, even within the new context of liberalisation;
- Secure customer loyalty: EDP supplies electricity to all standard low voltage customers. Liberalisation will enable customers to choose suppliers other than EDP. EDP values each one of its customers and works to ensure their satisfaction and loyalty;
- Provide excellence in service; This new reality
 reinforced the importance of quality service. If, up to
 that point, EDP had a clear focus on continually
 improving the service it provides, then from 4
 September, this need became even greater. At EDP,
 every detail of our service is valued, knowing that
 the difference lies in the fine points;
- Be innovative in what we have to offer: Market liberalisation is also putting pressure on the provision of solutions that are increasingly adapted to customer needs. In a traditionally conservative sector, EDP is faced with the challenge of leading through innovation. EDP intends to provide the best products and services adapted to the real needs of the market;
- Respect the competitors: As a result of liberalisation, it is expected that competitors will appear in a market

formerly served by a single operator. We witnessed this phenomenon in other sectors which were transformed from monopolies into strongly competitive environments. EDP likes the market to be competitive and respects its competitors.

Throughout 2006, various activities were developed in order to make a solid and sustained entry into this new phase of the market:

- The implementation of "switching procedures": EDP invested in the preparation of procedures and systems related to switching electricity supplier. This investment was decisive in making market liberalisation a reality. Creating a call centre, information technology systems, business procedures: everything was prepared so that on the day that liberalisation came into effect, EDP could meet its clients' needs;
- Providing information to our customers about liberalisation: Another decisive contribution to the liberalisation process was the information that EDP sent to its customers in association with the Energy Service Regulator and which was disseminated through the general media. In an unrivalled publicity campaign, leaflets were posted to customers' homes and shops and countless press advertisements published;
- Introduction of a new energy service, "edp5D": "edp5D", a new energy service conceived for this segment, was the key feature of the commercial supply in the liberalised standard low voltage market. This integrated service consists of five dimensions in market placement: more savings, more comfort, more proximity, more innovation and more environment. Clients who subscribe to edp5D will have new tariffs designed to provide more savings, new advisory services about energy efficiency, home assistance insurance, an exclusive telephone line, access to new technology and the possibility of becoming "green clients" by subscribing to a rate plan that guarantees that an amount of energy generated from clean sources that is equivalent to their annual consumption, is input into the grid.
- Creation of new customer management mechanisms:
 Following the structural changes taking place in the market, EDP also adapted its customer management mechanisms to the needs created by the new reality.



Of note is the creation in 2007 of the Customer Relations Directorate, part of EDP's Quality Department, which seeks to strengthen our skills in the area commonly known as Customer Relationship Management.

EDP made considerable endeavour to prepare for a new market reality. Liberalisation is also a reality which requires the strengthening of new skills and indoctrination in an internal philosophy characterised by openness, flexibility and pragmatism and which allows us to meet our goals.

The fourth of September, 2006, thus marked the end of the market liberalisation process with the complete opening up of the standard normal voltage customer segment.

Although competition still remains low, this reality strengthened the demand for the creation of new management and communication mechanisms as well as the development of human capital skills.

Help reduce the customer's electricity bill

In the new market context, EDP is committed to remaining a partner par excellence with Portuguese companies, giving preference to a relationship based on partnership and closeness with its customers.

To complement its offering and thus contribute to the improvement of its operational performance and the subsequent reduction in energy costs for its clients, EDP placed particular emphasis on making its value offering more dynamic in 2006. New value-added services were created and developed, particularly in the fields of quality and efficiency in electricity consumption.

In the same year, in addition to enhancing its offer, EDP applied to the Plan for Promoting Efficiency in Consumption (PPEC), promoted by the Energy Service Regulating Body (ERSE). The philosophy and methodology behind EDP's approach to this application fit well within the company's strategy to contribute positively to the fulfilment of national objectives for the overall rationalisation of energy in its many aspects, to improve standards of quality and service and to share social concerns about environmental protection within a context of sustainable development.

In this context, EDP received a total of EUR 8.1 million of the EUR 10 million budgeted for this purpose by the ERSE.

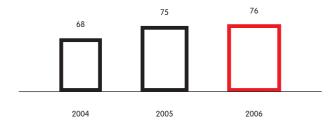
So that customers can make their choices, priority must be given to producing information that features measures such as the "Top Ten Portugal", which seeks to assist the customer in choosing more efficient household appliances, the competition for university and polytechnic students to develop business ideas relating to energy efficiency or the promotion of the efficient use of electricity by end customers. EDP will also put into action a serious of measures in all consumer segments which consider the effective installation of equipment that is more energy efficient than the standard technology.

A commitment to employee satisfaction and involvement

Priorities for 2006 consisted of making the internal organisation more efficient, increasing employee awareness of customer expectations, making employees more qualified and training them to increase the standard of their response.

The level of employee satisfaction and involvment with the EDP objectives were determining factors in the quality of the relationship with our customers. In 2006, the company's customer satisfaction index showed positive growth compared to previous years.

Company Satisfaction Index



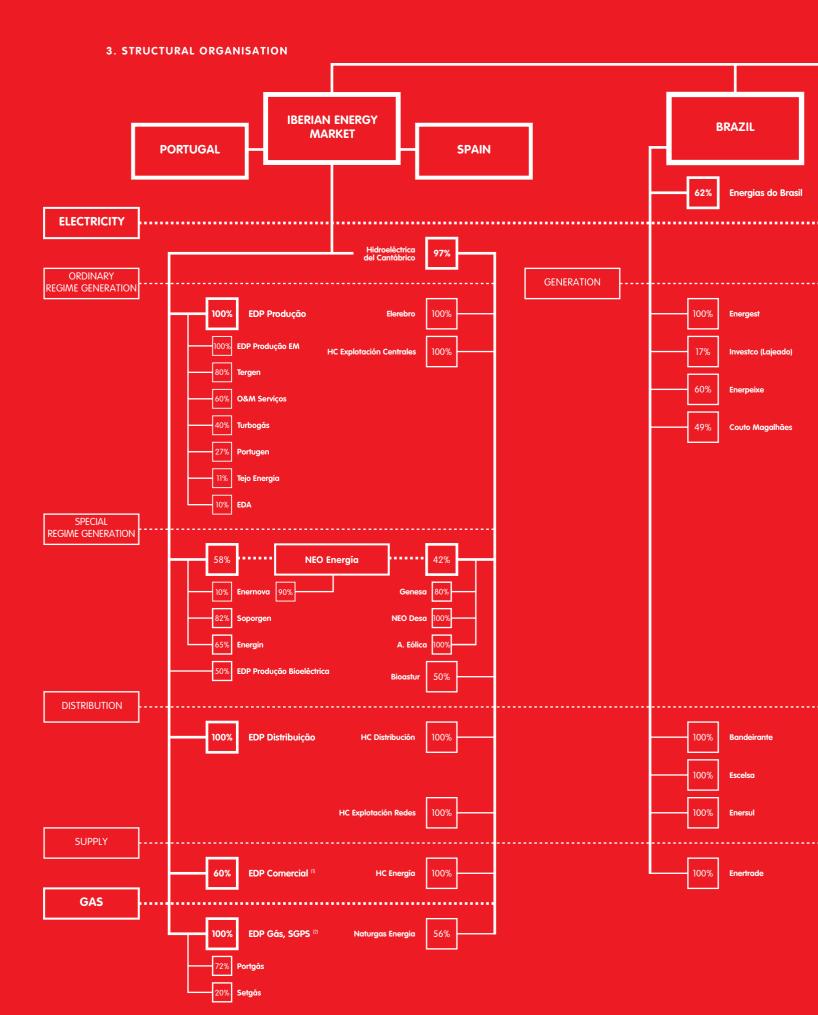
Note: electricity business companies in Portugal

Of note is the 77% response rate for 2006 - an increase of ten percentage points on the previous year - which indicates growing customer involvement with the company.

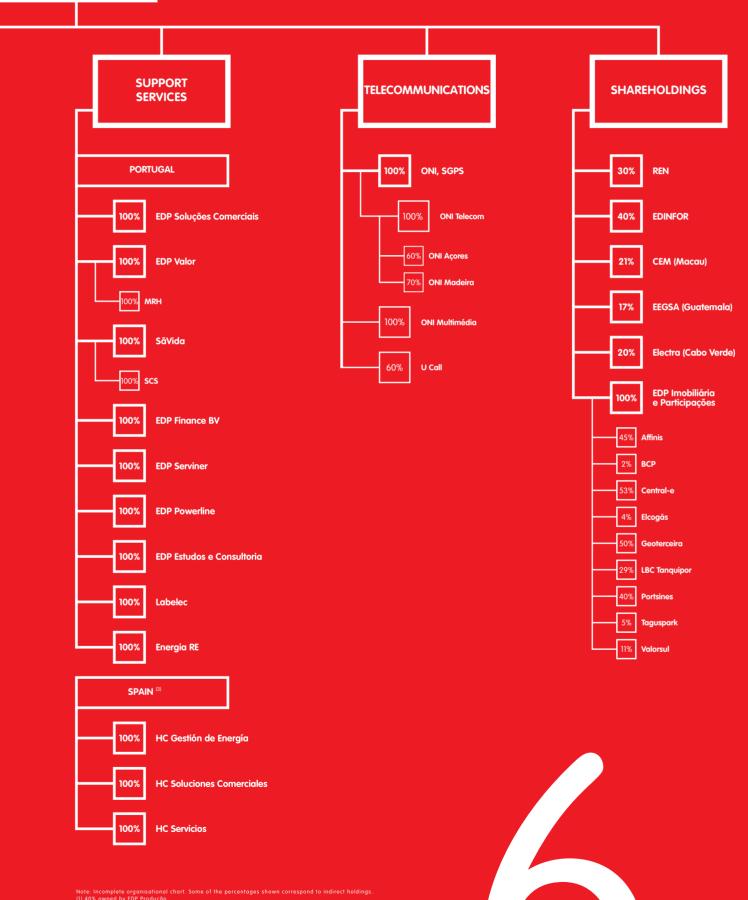
For the particular impact on satisfaction and motivation, special attention was paid to intermediate management through follow-up and leadership training programmes implemented in Portugal, Spain and Brazil.

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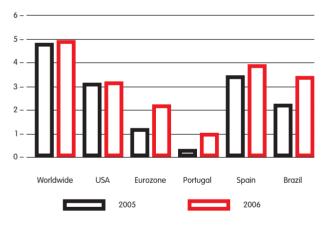
4. MACROECONOMIC FRAMEWORK

4.1. World economy

4.1.1. World economic growth

In 2006 the world economy grew by around 5%, continuing the upward growth seen since 2003. This growth was not only robust, surpassing the trend seen for the last 30 years, but the range of countries which contributed the most to this growth has also expanded with the presence of nations such as China and India. Europe's economic recovery should also be noted, which counteracted the negative contributions of the Japanese and American economies in the second half of the year. The outlook for the global economy in 2007 appears relatively stable, though a slowdown in economic expansion is expected.

Evolution of GDP (%)



Source: IMF, WEO, Sept. 2006

The economic recovery and ample liquidity available drove capital markets upward, which in turn promoted an increase in the distribution of results, growth in corporate actions, very low volatility and lower credit spreads. The search for profitability, improvement in the "fundamentals" of emerging economies and improvement in ratings supported the search for assets in emerging markets in 2006. The rare episodes of strong risk aversion and market turbulence were quickly resolved.

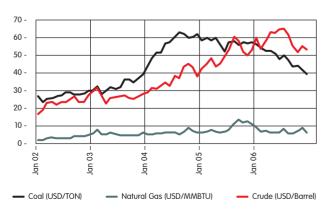
4.1.2. Fuel prices

The global economy's rapid expansion (more evident in countries with less efficient energy consumption) and the limited supply response capacity have been the main causes behind the increase in fuel prices. Oil reached its highest value ever in 2006, reaching more than USD 75 per barrel during the summer, a situation made worse by tensions in the Middle East. However, prices quickly dropped as these tensions eased, weather conditions became milder, the demand for petroleum slowed down and the demand for crude oil increased.

The trends for coal and natural gas prices were similar to those seen for petroleum, given the inter-fuel competition and a more widespread use of indexing mechanisms for oil prices in long-term contracts. Despite the decreased demand for coal by European energy producers, the increase in demand from other regions avoided a larger price correction. Natural gas prices proved more stable throughout the year even with the persistent risk of interruption to supply by producers.

Despite efforts based on environmental interests to reverse the use of fossil fuels and incentives to use more renewable resources, it is expected that these fuels will remain the dominant source of energy in coming years, with China and India accounting for a considerable and growing share of worldwide demand. The prospect of high demand and limited reserve capacity are expected to raise energy prices to very high levels, with markets being vulnerable to an interruption in supply.

Fuel Prices



Source: Bloomberg

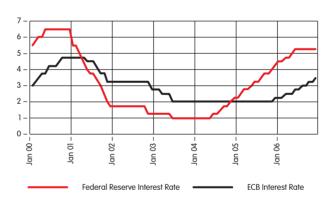


4.1.3. Interest rates

Solid economic expansion, deceleration of monetary and credit aggregates and the increase of inflationary pressures in the industrialised world point to an upcoming change in the monetary policy stimuli that have characterised the current economic cycle. The United States Federal Reserve increased interest rates by 100 base points to 5.25%; the European Central Bank gradually increased the main refinancing rate from 2.25% at the end of 2005 to 3.50% in December 2006, and the Bank of Japan increased its official interest rate from 0% to 0.25%.

During the second half of the year, the progressive contraction of the American property market and the slowdown in worldwide production led to an expected retreat in US interest rates. Long-term interest rates therefore remained low, ensuring that financial conditions remained very favourable.

Interest Rates (%)



Source: Bloomberg

4.1.4. Evolution of exchange rates

Global imbalances-high savings in Asia and a large external deficit in the United States - did not result in instability in the US dollar, which was, in fact, extremely stable when compared to the majority of currencies in 2006. Pressures on the dollar intensified at the end of the year, allowing the euro to appreciate to over 1.3, which was still lower than the value recorded in 2004. The performance of the yen weakened somewhat and the attractiveness of carry trade strategies pushed the Japanese currency to the lowest levels recorded vis-à-vis the euro. It is important to highlight the decision of the Chinese government

to allow its currency to appreciate in value, which allowed the correction of global imbalances and encouraged the stability of global markets.

The positive performance of emerging markets and the solid demand for commodities proved beneficial for emerging currencies in the first half of 2006, led by strong appreciation of the Brazilian real. The worldwide correction of risk assets during the May/June period, motivated more by demand to encourage gains from previous appreciations than by a change in the assumptions underlying evaluations, led to the sudden but temporary depreciation of emerging market currencies.

As such, the Brazilian currency, the real, ended 2006 not very far from the levels recorded at the beginning of the year.

Exchange Rates



Source: Bloomberg

4.2. Evolution of leading world economies

North American economic growth in 2006 is estimated at 3.2%, the same as in 2005. This figure encompasses a slowdown seen throughout the year, reflecting the impact of more restrictive financial conditions. Residential investment fell drastically as a result of apprehension concerning the continuation of this decline

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Labour market elasticity, a decrease in the price of oil, the constant increase in corporate gains and the favourable external environment are compensating for the real estate sector and support the forecast of a gradual recovery in 2007.

Growth prospects for Asia remain favourable associated to the expected continuation of strong domestic demand, despite the link to inflationary pressures. The Japanese economy continued its gradual recovery, supported by the strong performance of industrial activity driven by fluctuating export markets. Despite the strength of the labour market, private consumption remains calm. Although deflation appears to have ended by late 2005, inflation still remains at very low levels, making it possible for the Bank of Japan to pursue the growth plan set out in its monetary policy. In China, concerns about overcapacity and strong credit dynamics led authorities to adopt different measures to contain investment growth and promote a growth pattern more orientated toward the increase in consumption. Even so, Chinese economic growth once again exceeded 10%.

The economic situation in the euro zone improved substantially in 2006. After several years of rather moderate growth, the sudden increase in export markets extended to domestic demand, first with regard to investment expenditure and later to private consumption. The opposite was observed in the labour market with the lowest unemployment rate seen in recent years. This contributed to a significant increase in household confidence and thus supported a gradual recovery in private consumption. Economic growth in the euro zone is estimated at around 2.7% in 2006, well above the estimated growth rate.

4.3. Iberian economy

4.3.1. Portugal

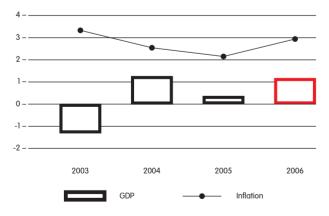
The Portuguese economy grew by approximately 1.3% in 2006. Although this growth is one percentage point higher than that recorded in 2005, it still remains below the European average, reinforcing the trend of divergence of recent years. This growth has been bolstered by the strong contribution made by net exports, benefiting from the upturn in demand by traditional Portuguese partners and by other markets such as the US and Africa. Although the economic upturn is not a significant one, the unemployment rate

shrank from 8.0% to 7.3%, which resulted in greater confidence and an increase in private consumption. Public spending restrictions, strong foreign competitiveness in Portugal's traditional industrial sectors and uncertainty over the sustainability of economic growth will continue to limit improvement in the performance of investment, particularly in the construction sector.

The annual inflation rate for 2006 was 3.0%, 0.7 percentage points higher than 2005, reflecting the influence of the rise of indirect tax rates and variations in fuel and food prices. Weak domestic demand and strong international competition led to salary restrictions, which kept inflation stable and at moderate levels.

The decrease in the price of oil and a rise in exports led to a reduction in the external deficit to around 7% of the GDP. Although this figure has improved over the previous year, it remains high and is a sign of the Portuguese economy's vulnerability to the mood of the global economy. The demand for a combination of policies which favour fiscal consolidation and the renewal of increased competitiveness is therefore of the utmost importance. The gradual renewal of investment expenditure, with the early implementation of diverse investment projects, the slow growth of real disposable income and the favourable external environment are essential factors in the Portuguese economy's continued recovery.

Evolution of GDP and Inflation (%)



Source: National Statistics Institute (INE) and the European Commission



4.3.2. Spain

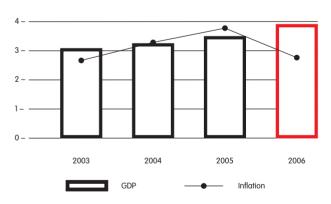
The Spanish economy continued its upward trend in 2006 compared to previous years, with growth rates above the European average.

The same year saw considerable growth as the GDP increased to around 3.9%, a figure similar to that recorded for the previous year and above the euro zone average of 2.6%. This growth is due in large part to continued domestic demand, despite the rise in interest rates, and to substantial growth in non-Community market exports, in particular to the United States, Latin America and Russia. The surge in the Spanish economy is supported to a large extent by the positive results of the construction, public works and services sector, though the significant increase in the immigrant population observed in recent years constitutes another important factor.

Unlike the rest of Europe, the country's inflation rate at the end of the year was 2.7%. This represents a considerable reduction, primarily due to the decrease in energy prices, though still far from the euro zone figure of 1.9%.

This good period in the Spanish economy led to a decline in the unemployment rate to around 8%, the lowest figure of the last 25 years.

Evolution of GDP and Inflation (%)



Source: Eurostat and the European Commission

4.4. Brazilian economy

The scenario of economic stability was maintained in 2006. The main economic indicators continued the

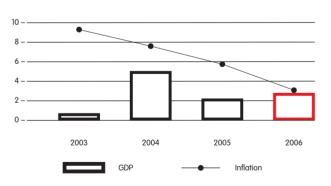
trend seen in 2005: inflation and exchange rates under control, falling interest rates and moderate economic arowth.

The value of the Brazilian real continued in the upward trend observed in 2004 and 2005, rising against the dollar to end the year at 2.14 BRL/USD. Its rate of appreciation reached 8.7% in 2006 as a result of continued strength in Brazil's external accounts. Inflation (measured by the Brazilian IPCA index), achieved a variation of 3.1%, the lowest rate since the country adopted an inflation target regime in 1999 and below the 4.5% centre of the target spread established by the CMN (National Monetary Council). The favourable scenario for inflation in 2006 was primarily due to the appreciation of the Brazilian real, a fall in agricultural prices and small variation in the prices practised.

The economic performance continued at the same rate as the previous year, with an expected increase of around 2.7% in the country's GDP.

The outlook for the coming years is one of sustained macroeconomic stability, through calls will continue for Brazil to adopt an agenda that accelerates its economic growth rate. This agenda is based around reforms allowing private investment in the country to increase, particularly in relation to infrastructures.

Evolution of GDP and Inflation (%)



Source: Central Bank of Brazil

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5. STRATEGIC PLAN

In London, 19 July 2006, EDP presented its **strategic guidelines** to the market for the 2006-2008 three-year period. In these guidelines the company pledged its commitment to leading the Iberian market in the creation of value:

- Controlled risk, with a low-risk portfolio and a low risk of regulatory exposure compared to its Iberian colleagues;
- Greater effectiveness through the streamlining of operations, investment discipline and a stronger performance culture;
- Profitable growth, with selective investments designed to create a position of leadership in the renewable energy sector and in the Brazilian and Iberian markets.

In order to execute these guidelines, EDP outlined the following **strategic agenda**:

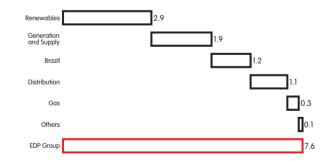
- · Controlled risk
 - Active management of regulatory challenges to maintain the low-risk profile;
 - Strategy of lucrative supply as normal coverage for the generation business;
 - Reduction of CO₂ emissions through "clean" generation capacity.
- Greater Efficiency
 - Introduction of a new and ambitious cost efficiency programme;
 - Strict investment discipline that promotes internal competition for resources;
 - Divestiture of non-strategic assets and an increased focus on "core business";
- Guided growth
 - Entrance of new high-quality wind farms in the Iberian Peninsula and the introduction of international expansion;

- In Brazil, growth in generation, maintaining a limited exposure;
- Construction of new combined cycle power stations in the Iberian Peninsula through 2008;
- Development of an integrated strategy for natural gas, ensuring a competitive gas supply.

At the end of 2006, EDP approved its **2007-2010 Business Plan**, which was presented to the market in January 2007. This anticipates an investment plan for the period of around EUR 7.6 billion (of which EUR 2.9 billion are in renewable energies) and which has the following objectives:

- Consolidate EDP as a top, world-wide player in renewable energies in the Iberian Peninsula and other markets;
- Strengthen the position that EDP currently holds in Brazil as regards generation and distribution;
- Strengthen EDP's position in the Iberian Peninsula, namely in electricity generation and gas.

Operating Investment 2007 - 2010



Implementation of this investment plan, part of an ambitious cost-cutting programme totalling EUR 150 million, allowed the following **targets for 2010** to be defined:

- Combined annual growth in EBITDA up to 2010 of more than 11% against the 2005 value;
- Reduction of the share of the net debt component of EBITDA from 4.6x in 2005 to 3.0x in 2010;
- Increase in dividends distributed to shareholders greater than 11% per year until 2010.



As part of EDP's strategic agenda, **12 transversal strategic programmes** were introduced along with the creation of a Value-Creation Office responsible for monitoring these programmes:

- Opex design and implement a transversal costcutting programme;
- Capex optimise capital allocation;
- · Lean define and implement Lean methodologies;
- Portfolio redefine EDP's strategic priorities to guarantee profitable growth;
- Cliente [Customer] strengthen the ability to retain customers and their loyalty;
- Hedge implement an integrated strategy of electricity sales in the wholesale market and to end customers;
- Marca [Brand] develop a coordinated strategy with the objective of increasing brand equity;
- Talent redefine policies of attraction, development and retention of talent within human resources;
- Inovação [Innovation] define and implement a new model of research, development and innovation;
- PR.O.S. review and optimise organisational and system procedures;
- SOX meet the requirements of the Sarbanes-Oxley Act:
- LEX define and implement an action plan for the resolution of regulatory matters;

Company activity for 2006 was shaped by the activities that were essential to these projects, some of which were completed during the year and others initiated the implementation phase.





6. SUMMARY OF ACTIVITY

6.1. ELECTRICITY BUSINESS IN THE IBERIAN PENINSULA

6.1.1. Regulatory framework

The process of integrating the Portuguese and Spanish electricity markets continued throughout 2006, constituting an intermediate step in the development of an internal electricity market within the European Union

In both countries, significant stages were implemented in 2006 as the market fully opened up, thus allowing domestic businesses and consumers to have the freedom to choose their provider. In this regard, progress has been observed in legislative and regulatory harmonisation, strengthening interconnections and the end of the "costs of transition to a competitive environment" scheme in Spain. The integrated start-up of the two "poles" of the Iberian Market Operator was also witnessed in 2006.

As a result of the competitive mechanisms operating in an integrated and liberalised market, it is expected that MIBEL will lead to gains in efficiency, improved quality of service, convergence and transparency of prices and a positive effect on increased business competitiveness.

Creation of MIBEL

The Iberian Electricity Market (MIBEL) is the result of a joint initiative by the Spanish and Portuguese governments. As a regional market, it constitutes an important transitional step in the creation of an internal electricity market.

As MIBEL comes into force, it will be possible for every consumer in the Iberian Peninsula to obtain electricity within a regime of free competition from any producer or seller that operates in both countries.

The legal framework under which MIBEL operates is based on the memorandum of understanding signed by the Portuguese and Spanish governments in Madrid in 1998. Following this agreement, further memoranda were signed which focused on certain aspects of the Iberian Electricity Market in greater detail. Of particular importance are the memorandum of understanding signed at the Luso-Spanish Summit in Figueira da Foz,

November 2003, the international agreement signed in Lisbon on 20 January 2004, the "Agreement between the Portuguese Republic and the Kingdom of Spain to create an Iberian Electricity Market", signed in Santiago de Compostela on 1 October 2004 and ratified by the Portuguese Parliament in March 2006 (Resolution no. 23/2006) and by the Spanish Parliament (the international agreement was published in the Spanish Official State Gazette [BOE] on 22 May 2006) and the conclusions of the Luso-Spanish Summit held in Evora, November 2005

At the 22nd Luso-Spanish Summit held in Badajoz in November 2006, both governments reaffirmed their commitment to the further development of MIBEL. Within this context, the following guidelines were agreed upon for the electricity sector:

- Cross-border interconnections Continue to create
 a definitive plan for new interconnections in the
 south ("Algarve-TransAndalusia") and in the north
 ("North-west International Axis"), which should be
 finished in 2010 when a cross-border
 interconnection capacity of approximately 3,000
 MW between the two countries is achieved.
 Continue to study the development of a "North-east
 Axis", which is fundamental to bringing renewable
 energy to the north-east region of the Iberian
 Peninsula;
- Plan for regulatory compatibility Presentation by the Portuguese and Spanish Directorate-Generals for Energy, by 28 February 2007, which will include a common model for contracting energy in the spot and forward markets for distributors or sellers of last resort in both countries; this will take place within the context of the Iberian Market Operator (OMI);
- Implementation of an Iberian Peninsula spot market - By the end of the first quarter of 2007, made possible by a coordinated interconnection management system based on market splitting and explicit auctions;
- Review of the proposed interconnection management system and a proposed system of guaranteed power - To be presented by the Iberian Council of Regulators by the end of May 2007;



- General principles of organisation and management of the OMI - To be presented by the Directorate-Generals for Energy by 28 February 2007; the OMIP and OMIE implementation model should be scheduled and described in detail by 31 May 2007 and completed by the end of 2007;
- Acquisition of 10% of the energy held by OMIP -Obligatory for distributors or regulated sellers in 2007

Development of a competitive environment

In June 2005, the European Commission's Directorate-General for Competition began an inquiry into the energy sector to assess the conditions for competition within the electricity and gas markets. In February 2006, the European Commission (EC) formally published its preliminary conclusions of that inquiry.

Overall, five major obstacles common to the electric and gas sectors were found which prevented competitive energy markets from functioning: high market concentration; excessive vertical integration; lack of market integration; lack of transparency and mistrust in price-setting mechanisms.

The EC has already confirmed these conclusions in a report published in early 2007, containing a broad range of policies and measures to eliminate the main barriers to competitive market operation which the Commission intends to implement during 2007.

No significant changes were made to the institutional and legal framework for competition in Portugal during 2006. With regard to Spain, the publication of Royal Decree no. 4/2006, of 24 February, establishes that acquisitions of 10% of share capital held in Spanish companies that carry out regulated activities or activities subject to special administrative control must be authorised beforehand by the Comisión Nacional de Energía (National Energy Commission). The European Commission initiated infringement proceedings against Spain because the Royal Decree may restrict the free movement of capital and the right of establishment with eventual consequences for market competition.

6.1.1.1. Regulatory framework in Portugal

Domestic energy policy

In October 2005, the Portuguese government approved Council of Ministers Resolution no. 169/2005. This established a new national energy strategy, encouraging the review of both legislative and regulatory frameworks with the aim of liberalising the electricity and gas markets, strengthening renewable energies and promoting energy efficiency. This new resolution repealed the previous national energy strategy approved by Council of Ministers Resolution no. 63/2003, of 28 April.

As a strategic guideline for the energy sector, the Portuguese government extended the scope of activities conducted by energy companies so that, in the spirit of competition, more than one integrated operator is present in the electricity and natural gas sectors. It also encouraged the creation of a company that would own the electricity and natural gas transport networks as well as all other regulated assets in both systems, thus guaranteeing independence from operators.

As a result of the new national energy strategy defined by the government in 2005 and against the background of the national electricity sector's progressive liberalisation, the creation of MIBEL and the early termination of power purchase agreements (PPAs), the legal framework of the National Electricity System (SEN) was significantly amended in 2006 through the publication of two Decree Laws. The first Decree Law, no. 29/2006 of 15 February, established new foundations for the organisation and operation of the energy sector. Its legislative counterpart, published in Decree Law 172/2006, of 23 August, defined these foundations, establishing the legal procedures for the generation, transmission, distribution and supply of electricity. It also set forth the procedures for the logistics operation of switching supplier.

The new model adopted in 2006 replaces the organisational framework approved in 1995 and includes subsequent amendments. It also seeks to transpose European Parliament and Council Directive



no. 2003/54/EC of 26 June into national legislation and keep the principles of rationality and efficiency of methods to be used throughout the entire value chain. In doing so, the model aims to improve competitiveness and efficiency of the SEN without compromising public service obligations.

Defining this strategy for the electricity sector thus modified the structure of the previous SEN organisational model. This had been based on the division between a public service electricity system (SEP) and an independent electricity system (SEI). Whereas the SEP brought together producers and distributors holding bound licences and the concession holder of the national electricity grid (REN), the SEI consisted of the non-binding electricity system (SENV), which included unbound producers and distributors as well as sellers, and the special regime generation (SRG), which encompassed energy generated from renewable sources, by cogeneration power stations and by mini-hydroelectric power stations.

In a similar fashion, relationships between the various SEN stakeholders were revised. In particular, the exclusive relationship between bound producers and distributors and REN was abolished, thus abandoning the idea of centralised planning and management.

This new and more integrated legislation establishes a system in which generation, supply and the management of organised markets are performed in a context of free competition, subject only to authorisation or licence. All transmission and distribution activities are now performed through the award of a public service concession.

Electricity producers, the transmission grid operator, the medium, high and low-voltage distribution network operators, sellers (including sellers of last resort), electricity market operators, the logistics operator for switching supplier and the electricity consumers all become SEN stakeholders.

New organisation

Having done away with the distinction between the SEP and the SEI and the co-existence of binding and non-binding producers and distributors, the new electricity system is now organised around six activities:

- Electricity generation;
- Electricity transmission;
- Electricity distribution;
- Electricity supply;
- Operation of the electricity markets;
- Logistics operations for switching electricity supplier;

Activities of the SEN

• Electricity generation

The idea of centralised planning for electricity generation power stations has been abandoned and its initiative now lies with the interested parties. In a liberalised framework, the Portuguese government only intervenes in addition to private initiative in order to compensate for possible market failures, thus guaranteeing a secure electricity supply through public invitations to tender.

Electricity generation now encompasses ordinary regime generation (ORG) and special regime generation (SRG). Ordinary regime generation includes electricity generation that is not subject to a special legal framework for generation providing incentives to use endogenous and renewable resources or combined heat and electricity generation. It is governed by the principle of freedom to exercise an activity, being subject only to the award of a licence.

Special regime generation covers generation at minihydroelectric power stations (up to 10 MW), cogeneration and energy generated from renewable sources. The new legal framework applicable to special regime producers has not yet been published. Under the terms of the legislation in force, these producers may make deliveries to the grid by means of bilateral contracts signed with the seller of last resort. They continue to be paid according to the principle of costs avoided by the system supplemented by an environmental premium that reflects the benefits derived from using renewable energy.



• Electricity transmission

Electricity transmission is ensured by the National Transmission Grid (RNT) and is performed through an exclusive public service concession by Rede Eléctrica Nacional, S.A (National Electricity Network). REN continues to hold the current concession contract for transmission for a term of 50 years, although it has to be adapted to incorporate new bases.

In addition to providing a continuous, secure supply of electricity and an integrated and efficiently functioning system, the operation of the RNT includes the overall technical management of the system, thus ensuring the co-ordination of transmission and distribution infrastructures.

On a legal and financial level, the RNT operator is independent of all other business activities performed in the SEN. Minimum criteria to be followed are defined for that purpose, namely that no person or entity may hold, either directly or indirectly, more than 5% of the share capital of the RNT operator or its controlling company.

• Electricity distribution

Electricity distribution takes place through the exploitation of the National Distribution Grid (RND) and is made up of a medium and high-voltage network and low-voltage distribution networks. Distribution is carried out via an exclusive public service concession. In this regard, the current licence for medium and high-voltage electricity distribution held by EDP Distribuição - Energia, S.A, has to be converted into a concession by signing a 35-year contract, though the principle of equilibrium of commercial use remains intact.

The low-voltage distribution networks continue to be operated through municipal concessions which also must be adapted as a result of the changes brought about by the new legislation. However, the term of the contracts currently in effect will be observed.

The distribution grid operator is independent on a legal level from the remaining activities; this limitation is not applicable to low-voltage distributors that supply fewer than 100,000 customers.

Electricity supply

The activity of supplying electricity is unrestricted, subject only to a licensing regime and sellers may buy and sell electricity freely. For this purpose, they have the right to access the transmission and distribution grids based on tariffs defined by the Energy Service Regulating Body (ERSE).

In order to guarantee a universal supply of electricity to all customers who request it and to guarantee the last-resort supply business, the Portuguese government assigned this responsibility to EDP Serviço Universal, S.A., a company created for this purpose by EDP Distribuição - Energia, S.A and legally independent from other businesses. This new company, which had to be established by 1 January 2007, is operating temporarily until the market is completely liberalised or until the expiry of the respective concession contracts for medium and high-voltage distribution grids and low-voltage distribution, in the corresponding areas.

To guarantee a supply at reasonable, easily and clearly verifiable and transparent prices, the seller of last resort should acquire special regime-generated electricity. The supplier should also give priority to acquiring electricity sourced from electricity generation plants for which the current PPAs are still in effect, by means of bilateral contracts signed with the RNT concession holder or with the entity that will replace it. The seller of last resort may still acquire electricity from other entities through bilateral contracts.

The seller of last resort is further required to buy forward energy in the market managed by OMIP and OMIClear, in the quantities and at auctions defined by the Directorate-General of Geology and Energy (DGGE), for OMIP listed annual, quarterly and monthly electricity futures contracts, at base-load and with physical delivery. The purchases are recognised for the purpose of regulated costs whenever they reach maturity.

The seller of last resort should manage the different forms of contracting in order to acquire energy at the lowest possible cost. All unneeded surplus electricity acquired by the seller of last resort should be resold on the organised market.



• Operation of the electricity markets

The organised market corresponds to a system with different methods of contracting which allow supply and demand of electricity to meet, encompassing the forward, daily and intradaily markets.

The management of organised markets in Portugal is open, subject to authorisation and comes under the responsibility of the market operators.

The Portuguese operator OMIP - Operador do Mercado Ibérico de Energia (pólo Português), S.A, and OMIClear are the entities responsible for the functioning of the MIBEL forward market. Specifically, this covers transactions of bulk energy to be delivered on the day following the contracting, settled either by physical delivery or by differences.

The daily markets (which comprise bulk energy transactions to be delivered on the day following the contracting date and which must be physically settled) and the intradaily markets (comprising transactions which must be physically settled) are guaranteed by OMEL.

In order to allow the physical delivery of electricity inherent to positions held on the forward market and to allow the exchange of information between markets, an interconnection agreement between OMIP and OMEL was signed in April 2006.

The non-organised markets are made up of bilateral contracts between the entities of MIBEL, settled either by physical delivery or by differences and subject to approval by the ERSE in Portugal.

• Logistics operation of switching electricity supplier

Under market conditions, consumers are free to choose their electricity supplier and are exempt from any payment when they switch suppliers. In order to manage the process of switching suppliers, the creation of a Logistics Operator for Switching Suppliers (OLMC) is anticipated. This entity, which has not yet been named, will have to be legally independent from other entities carrying out business in this sector. It will also have to be independent in its organisational and decision-making structures. Legislation applicable to this activity has yet to be developed.

Transmission, distribution and last-resort supply as well as logistics operations for switching supplier and for managing organised markets are therefore subject to regulation.

The opening up of markets

In accordance with Directive 2003/54/EC on the Internal Electricity Market, by 1 July 2007 Member States must ensure that their markets are open to all customers, permitting them to freely choose their electricity supplier.

In Portugal as in most European countries, deregulation has been a gradual process, starting with the consumers with greater energy consumption at higher voltages and progressively extending to all electricity consumers.

The final phase of the process was approved in Decree-Law no. 192/2004, of 17 August 2004, and resulted in the total opening up of the market, embodied by the extension of applicability to standard low voltage (BTN) consumers. This category includes domestic consumers and public lighting, corresponding to a potential customer base of 6,035,860 individuals with an annual consumption of 45,376 GWh.

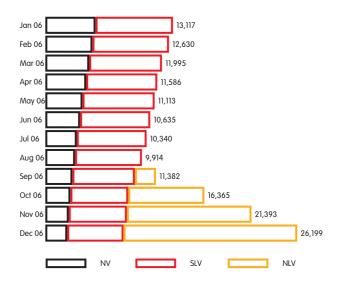
For standard low-voltage customers, the ability to choose a provider was made possible on 4 September 2006 after the ERSE issued Order no. 7/2006, of 17 July. This document approved the initial 2006 profiles applicable to BTN customers and the rules to be observed by distribution grid operators when selecting the initial profile to apply to each BTN installation.

In December 2006, there were 26,199 customers in the free market, which corresponds to approximately 7,161 GWh of consumption and represents about 16% of the total market.

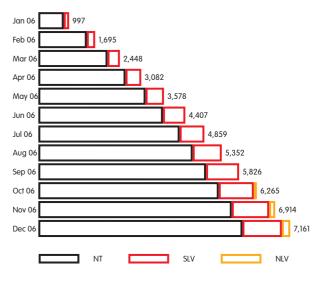
Of these 26,199 customers present at the end of December, 18,141 were standard low-voltage customers, which represents 69% of the total number of free market customers. In terms of consumption, free market customers are those which have the greatest weight against total consumption, representing around 81% of the total free market consumption.



Customers on the Free Market as per Voltage Group



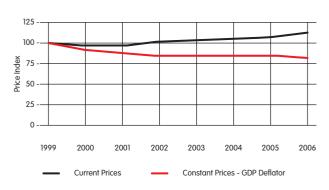
Customers on the Free Market by Voltage Group in GWh



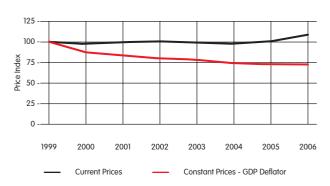
Tariff changes over time

In the past seven years, average electricity sales' prices have shown a mean annual decrease, in real terms, of around 2.7% in low-voltage and 4.4% for the other voltage levels.

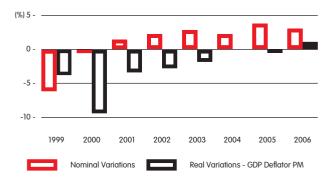
Change in Mean Price of Low-Voltage Electricity



Change in Mean Price of Very-High, High and Medium-Voltage Electricity



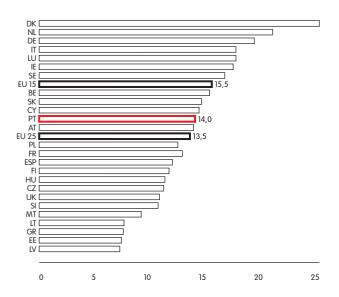
Real and Nominal Variation of Mean Electricity Prices





When compared with other countries, electricity prices for domestic consumers in Portugal as of 1 January 2006 were 9.7% below the average for the 15-member European Union and 3.4% above the 25-member EU average.

Mean Electricity prices



These data are based on a Eurostat survey of the average prices paid by five typical domestic consumers in various EU Member States. With the aim of adapting this methodology to the current realities of an open market, work is in progress to update Council Directive 90/377/EEC, of 29 June 1990, on the transparency of gas and electricity prices charged to end-users.

In accordance with the level of costs of the electricity system in 2006, disclosed by ERSE in 2005, the sales tariffs to end customers of low-voltage electricity should have risen by 14.7% in 2006. However, Decree Law no. 187/95 of 27 July (now repealed but in force at that time) established that "the overall value resulting from the application of tariffs and prices (established in the terms of the previous Decree Law) to low-voltage end customers may not undergo annual increases above the inflation rate expected for that year."

The 2005 forecast increase in the price index relative to private consumption in 2006 was 2.3%, which was the maximum increase allowed by law for sales tariffs to end customers of low-voltage electricity.

This created a tariff deficit of EUR 368.9 million, due essentially to the costs of energy acquisition, temporarily supported by the regulated companies (REN: EUR 253.5 million and EDP Distribuição: EUR 115.4 million), and which would be recovered, with interest, through the tariffs in the following five years.

In addition, Decree Law no. 90/2006, of 24 May, established new rules regarding the assignment to electricity consumers of the differential between the cost of ordinary regime electricity generation and the cost of generation from renewable sources.

As a result, tariffs for very-high, high, medium and special low voltage customers decreased by 1.8% compared to the values initially set for 2006 tariffs. Standard low voltage tariffs should increase by 2.5%, though this cannot be put into effect due to the previously mentioned legal cap. An additional deficit of FUR 30.3 million was therefore created in 2006 which was divided between RFN (FUR 20 8 million and EDP Distribuição (EUR 9.4 million).

The total tariff deficit produced by the setting of tariffs for 2006 and in Decree Law 90/2006 equalled EUR 399.2 million, divided between REN (EUR 274.3 million) and EDP Distribuição (EUR 124.9 million).

On 18 December 2006, Decree Law no. 237-B/2006 was published, which approved the rules for recovering the amounts corresponding to the tariff deficits and adjustments. It also established the mechanisms to allow the transmissibility of these amounts, which is a necessary condition for their securitisation.

The same Decree Law also set a 6% cap on increases in standard low voltage tariffs for 2007, relative to the tariffs in force for 2006. This created an additional deficit with regard to the 2007 tariffs, estimated at around EUR 79 million, of which EDP Distribuição will temporarily accept EUR 49 million.

Legal framework

In 2006, new Decree Laws were published in Portugal with the fundamental objective of creating a systematised and coherent legislative framework in harmony with European Community legislation. These laws sought to adapt the structure and operation of the SEN to a regime of market liberalisation and free competition.



In addition to the Decree Laws already mentioned which define the electricity sector's general structure and principles, a series of laws concerning its creation and regulation were also published:

- Ministerial Order no. 169/2006 of the Directorate-General for Geology and Energy of 11 January: sets the maximum amount of eligible investment for projects related to electricity produced from renewable sources;
- Ministerial Order no. 2438 A/2006, of 30 January: extends the deadline of the invitation to tender for the award of power injection capacity into the public service electricity system and associated input points for electricity generated from wind farms.
- Decree Law no. 1/2006, of 2 February: establishes rules for using labels to demonstrate electricity consumption in refrigerators, freezers and combinations thereof, transposing EC Directive no. 2003/66/EC, of 3 July, into national law;
- Decree Law no. 29/2006 of 15 February: creates
 the general foundations for the organisation and
 operation of the National Electric System (SEN) and
 the foundations for the generation, transmission,
 distribution and supply of electricity and the
 organisation of electricity markets. This transposes
 into national law the principles of Directive no.
 2003/54/EC of the European Parliament and
 Council, of 26 June, which creates common rules
 for the internal electricity market and repeals
 Directive no. 96/92/EC of the European Parliament
 and Council, of 19 December;
- Ordinance no. 1074/2006, of 3 March: creates a reserve of 800 MW allotted for electricity generated from coal with reduced levels of greenhouse gas emissions;
- Council of Ministers Resolution no. 23/2006, of 23
 March: approves the agreement between the
 Republic of Portugal and the Kingdom of Spain to
 create an Iberian Electricity Market, signed in
 Santiago de Compostela on 1 October 2004;

- Decree Law no. 78/2006, of 4 April: approves the national certification system for energy and air quality in buildings; this partially transposes into national law Directive no. 2002/91/EC of the European Parliament and Council, of 16 December, on the energy performance of buildings;
- Decree Law no. 79/2006, of 4 April: approves the regulation of HVAC systems in buildings;
- Decree Law no. 80/2006, of 4 April: approves regulations for thermal characteristics of buildings (RCCTE):
- Order no. 324/2006, of 10 April: creates a working party to propose the creation of a pilot zone to install renewable energy power stations and study regulatory legislation concerning licences and concessions;
- Decree Law no. 172/2006, of 23 April: develops the principles set forth in Decree Law 29/2006, of 15 February, which approves the organisation and operation of the national electricity system. It also establishes the legal framework for electricity generation (with the exception of special regime generation), transmission, distribution and supply, as well as for the logistics operation of switching electricity supplier and the procedures regarding the award of licences and concessions. This therefore completes the transposition into national law of Directive no. 2003/54/EC of the European Parliament and Council, of 26 June.
- Decree Law no. 90/2006, of 24 May: establishes the principles of assigning costs derived from the payment made to special regime producers for electricity generation;
- Ordinance no. 643/2006, of 26 June: amends
 Ordinance no. 139/2005, of 3 February, which
 authorises the award of electricity supply licences
 to external agents;



- Ordinance no. 949 A/2006, of 11 September: approves the technical rules for low-voltage electrical installations
- Decree Law no. 192/2006, of 26 September: transposes into national law Directive no. 2004/22/EC of the European Parliament and Council, of 31 May, concerning measuring devices;
- Decree Law no. 228/2006, of 22 November: approves the reprivatisation process for part of the share capital of REN - Rede Eléctrica Nacional, SGPS, S.A;
- Parliamentary Resolution no. 66/2006, of 6
 December: approves the creation of an energy policy commission;
- Decree Law no. 237 B/2006, of 18 December: defines the rules for recovery and transmissibility of the tariff deficit and adjustments.

Given the profound legislative changes that started to be published right at the start of 2006, ERSE reviewed the tariff regulations for the electricity sector in December of the same year. This was done in order to accelerate the development and implementation of the conditions required for liberalisation and operation of MIBEL and to create mechanisms that would provide system agents and customers with a coherent and secure regulatory framework. Similar modifications and harmonisation have yet to occur for the regulation of trade relations, service quality and grid access and interconnections

6.1.1.2. Regulatory framework in Spain

Regulation of electricity and tariffs

2006 was a year marked by high generation prices resulting from the increase in fuel prices. Similar to that observed in previous years, a significant deficit in system revenues was observed, due to the fact that the real energy prices are not fully taken into account in the calculation of electricity tariffs for consumers.

In early 2006, Royal Decree 1556/2006 was approved, which increased the average tariff by 4.48% compared to the previous year and also established the possibility of a possible tariff revision during 2006, depending on circumstances.

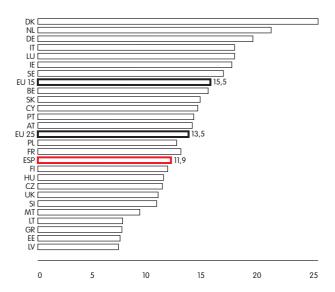
Change in Mean Electricity Prices



When compared to other countries, electricity prices for Spanish domestic consumers as of 1 January 2006 were 23% below the average for the 15-member European Union and 12% above the 25-member EU average.

Mean Electricity prices

(domestic consumers) Euro Cents/KWh





Given the high system deficit seen in the first few months of 2006, Royal Decree Law 3/2006, approved in February, reduced the tariff deficit by changing the way in which energy supply is converged and withdrawing from energy producers a portion of the emission allowances allocated free of charge. This Royal Decree introduced a large amount of regulatory uncertainty into the market as it did not deal directly with the deficit's main cause, that is, the difference between the market energy price and the price of energy reflected in the tariff.

By the end of the year, a definitive methodology had not yet been developed to apply this Royal Decree Law, though the Spanish government began to take measures designed to set tariffs reflecting the real cost of energy.

Considering the need to adopt urgent measures within the energy sector, Royal Decree Law was approved on 23 June which put an end to the Costs for Transition to a Competitive Environment (CTC) scheme without affecting generation revenues. This legislation also set the time limit to establish a new State aid scheme for special regime generation power stations, modified the regulatory scheme for cogeneration (making it possible for these plants to sell on the market all the energy generated) and it partly repealed the caps on average or benchmark tariff variations that were in force

Following the passage of these laws, Royal Decree 809/2006 was approved, which reviewed electricity tariffs from 1 July and established an increase of approximately 1.38% in the average tariff. In practice, this signifies an increase of 0.8% for domestic consumers and 6% for high voltage consumers.

The 2005 settlement deficit for the system is now included in the costs to be recovered through the tariffs.

Bearing in mind the transposition of Community directives which establish common rules for the internal electricity and natural gas markets (Directives 2003/54/EC and 2003/55/EC), draft legislation was presented in September to amend Law 54/1997 of the electricity sector and Law 34/1998 of the hydrocarbons sector, respectively. These laws were still being debated in Parliament at the end of the year.

Lastly, Royal Decree 1634/2006 was approved on 31 December, which determined the electricity tariff to be applied from 1 January 2007. This law substantially changed the tariff structure and set the average tariff increase at 4.3%, with an increase of about 2.8% for domestic tariffs and 6.4% for medium and high voltage tariffs. It also set a new deadline for the creation of a new method for special regime compensation and it significantly increases distribution compensation (+28% compared to 2005 for HC Energia).



6.1.2. Generation

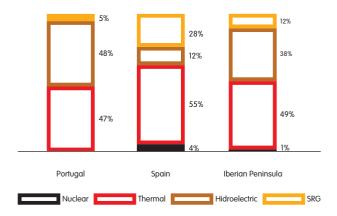
At present, EDP Group has an electricity generation infrastructure in the Iberian Peninsula with an installed capacity of 12,545 MW.

Maximum capacity as at 31 Dec.				Iberian P	eninsula
MW	2006	2005	2004	2003	2002
Ordinary Regime	11,075	11,073	10,586	10,167	9,860
Portugal Spain	8,584 2,492	8,584 2,488	8,080 2,488	7,699 2,468	7,438 2,422
Special Regime	1,469	951	668	383	262
Portugal Spain	499 970	337 614	322 346	241 143	216 46
Total Iberian Peninsula	12,545	12,024	11,236	10,550	10,122

Installed capacity for special regime generation increased from 2005 as a result of EDP Group's investment in renewable energies, namely through the acquisition of CEASA, CEASA Promociones and Agrupación Eólica in late 2006.

This infrastructure represents a balanced portfolio of generation technologies, combining the largest hydroelectric capacity in Portugal with the largest thermal capacity in Spain.

Generation Portfolio for the Iberian Peninsula



EDP Group's generation business is characterised by its controlled risk, with 7,164 MW (57%) of the generating capacity not exposed to market risks through PPAs and 1,469 MW (12%) of special regime

generating capacity protected by regulated tariffs. The remaining 31% of capacity are exposed to market risks with a policy in place to hedge volume and price risks through supply.

Generation in 2006 was also characterised by the implementation of the Lean programme, a programme designed to optimise operations from the bottom up by: 1) increasing efficiency and quality of operation, maintenance and other working areas and 2) increasing employee motivation, involvement and sense of belonging. The programme promotes change and betterment by directly gathering ideas for improvement in a structured and consistent manner from all levels of the organisation, capitalising on the experience and knowledge within the company.

After introducing the programme in Sines, its roll-out was planned for all generation centres and main areas in the Iberian Peninsula. The roll-out was designed according to criteria of geographic proximity and technological similarity so that each power station involved can contribute to the development of subsequent stations. In this way, the programme expanded from Sines to Setúbal (the nearest power station) and Soto de Ribeira (also coal-fired power station).

By January 2007, the programme had been introduced in Ribatejo (gas), Carregado (fuel) and hydroelectric (Tejo-Mondego) power stations. In Spain, the Aboño power station (coal-fired) participated in the programme.

By December 2006, 92 Lean initiatives had been created, 23% of which were implemented and 8% partially implemented.

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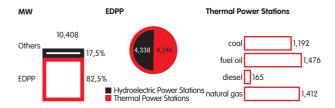




6.1.2.1. Ordinary regime generation in Portugal

Through its company EDP Produção, EDP Group has a strong presence in ordinary regime generation, whether through its power stations operating under PPAs or within the context of the liberalised market. The other two companies operating under PPAs, Tejo Energia and Turbogás, also participate in ordinary regime generation. EDP has shareholdings in these companies of 11.1% and 40%, respectively.

At the end of 2006, the total installed capacity for ordinary regime generation in Portugal was 10,408 MW, of which 8,584 MW (82.5% of the total) belonged to EDP Produção. Of these, 4,338 MW were produced in hydroelectric power stations and 4,246 MW in thermal power stations.



The following charts show the installed capacity and net generation in Portugal over the past five years. Following the publication of Decree Law 29/2006, power stations now designated as stations operating under PPAs are those which previously belonged to the now-defunct SEP and those stations operating on the market are those which belonged to the former SENV.

Maximum Capacity as at 31 Dec					Portugal
MW	2006	2005	2004	2003	2002
Power Stations with PPA	7,164	7,164	7,052	7,052	7,183
Hydroelectric Power Stations Thermal Power Stations	4,094 3,070	4,095 3,070	3,903 3,149	3,903 3,149	3,903 3,280
Power Stations on the Market	1,420	1,420	1,028	647	255
Hydroelectric Power Stations Thermal Power Stations	244 1,176	244 1,176	244 784	255 392	255 0
Total Ordinary Regime	8,584	8,584	8,080	7,699	7,438

Net Generation					Portugal
GWh	2006	2005	2004	2003	2002
Power Stations with PPA	20,888	18,824	20,475	26,583	24,201
Hydroelectric Power Stations Thermal Power Stations	9,574 11,314	4,279 14,545	8,718 11,756	13,964 12,619	6,764 17,437
Power Stations on the Market	6,224	5,252	3,817	908	497
Hydroelectric Power Stations Thermal Power Stations	496 5,728	164 5,088	398 3,419	705 203	497 0
Total Ordinary Regime	27,112	24,076	24,291	27,491	24,698

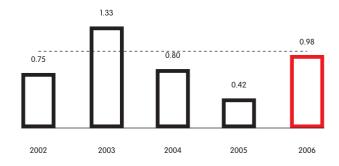
In terms of increased installed capacity for EDP Produção, Group 3 of Ribatejo power station (392 MW), which had already begun commercial generation in 2005, entered into industrial service in March.

EDP Produção's hydroelectric infrastructure is located in northern and central Portugal. It consists of 65 generating sets in power stations operating under PPAs and 26 sets operating on the open market. In operational terms they are aggregated into three generation centres and controlled from a single remote control centre in Régua.

The thermal infrastructure is located in southern Portugal and consists of six power stations, five of them operating under PPAs (the most important of these being the coal-fired power stations in Sines and the oil-fired power stations in Setúbal) and the Ribatejo power stations at Carregado, which operates on the market.

In terms of hydrology, inflows at hydroelectric power stations were very irregular throughout 2006. The year began with very low levels of precipitation, though this improved considerably in the final quarter to the extent that October and November could be considered the wettest period ever recorded. Overall, water levels for the year were very close to the average value, with a hydraulicity coefficient of 0.98.

Hydroelectric Productivity Index in Portugal

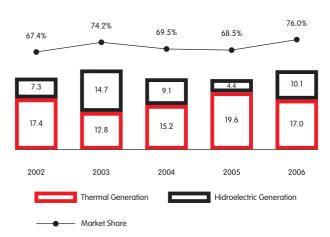


Net ordinary regime generation for EDP Produção totalled 27,112 GWh, 12.6% up on 2005 (24,076 GWh). This resulted from the contribution made by hydroelectric generation which more than doubled the amount of electricity generated the previous year:



- Hydroelectricity generation equalled 10,070 GWh, some 127% more than in 2005, reflecting the more favourable hydrological year;
- Thermal generation totalled 17,043 GWh, around 13% less than 2005, due to a decrease in the use of oil-fired power stations.

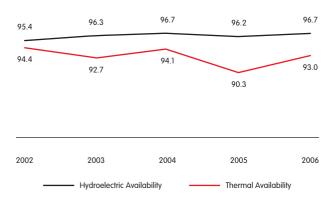
Net Generation and Market Share of Ordinary Regime Generation - ORG (TWh)



Increase in hydroelectric generation caused the market share of EDP Produção to rise from 68.5% to 76.0% in 2006.

In terms of availability, EDP Produção power stations continue to maintain high performance levels. For ordinary regime generation in 2006, this figure reached 96.7% for the hydroelectric infrastructure and 93% for the thermal infrastructure.

Ordinary Regime Generation (ORG) - Availability



Market performance in 2006 was essentially determined by high volatility in fuel costs (gas and coal) and by the drop in OMEL electricity prices (caused by high water availability in the final quarter of the year, the reduction in CO₂ emissions prices and regulatory changes in Spain which affected the behaviour of the market players). Market activity was further affected by a decrease in demand for thermal generation due to wind power's increased share in electricity generation, the start-up of the Iberian forward market operator - OMIP, increased generating capacity through the entry into service of Group 3 at Ribatejo power station, a significant improvement in power station availability and a significant decrease in the volume of energy sold to non-binding customers.

In this context, exposure to OMEL prices increased considerably on the one hand, whilst a decrease and high variability in market margins were noted on the other. Despite this, EDP followed a risk coverage strategy that produced very positive results, maintaining overall exposure to risk limits at levels much lower than those defined for this business activity.

The following significant events in generation also occurred:

- In February, Companhia Portuguesa de Produção de Electricidade, S.A. was renamed by public deed as EDP - Gestão da Produção de Energia, S.A, as part of the generation sector restructuring process.
- Award of the contract to implement additional NOx primary reduction measures for Groups 1, 2 and 3 of the Sines power station to adapt it to the new environmental requirements by 2008. In the case of the desulphurisation installations (for which the contract was awarded in 2005), the assembly of equipment and construction of diverse structures are currently underway.



- Authorisation and licensing procedures for the combined cycle power station at Lares are underway. In addition to a positive response from the Directorate-General for Geology and Energy (DGGE) regarding the connection of two groups in the Lavos region to the grid, a favourable decision was issued after performing an environmental impact assessment. An environmental licence and a greenhouse gas emissions permit were obtained on 20 December and a production licence is expected to be issued soon. Contracting work has also continued; on 31 October, bids were received for the power station's collective protection equipment tender;
- Background studies have concluded for the project to increase capacity at Picote, which is currently in the environmental impact assessment phase. International invitations to tender for the general construction contract and equipment supply contract have already been published;
- Work and research continues on the Baixo Sabor hydroelectric power station, whose environmental compliance report for the proposed project design (RECAPE) has already received a favourable ruling from the Impact Assessment Board in late December. The progress of this project is subject to clarification to be provided by the Portuguese government to the European Union in response to environmental questions arising from the complaint lodged by environmental NGOs;
- Other hydroelectric schemes are in development, such as the capacity increase at Bemposta and the Foz Tua power stations. Several projects, environmental studies and licensing procedures are in progress at these stations;
- A memorandum of understanding was signed with REN to begin the phased decommissioning of the Carregado power stations in late 2008 (two groups), continuing in late 2010 (two more groups) and in late 2012 (the remaining two groups of the station);
- The Portuguese Carbon Fund was created through Decree Law 71/2006 of 24 March, which aims to fulfil the commitments quantified by Portugal when it ratified the Kyoto Protocol to reduce greenhouse gas emissions.

Engineering and O&M services

In 2006, the field of engineering was characterised by studies, projects and management and supervisory activities for EDP Produção and other Group companies. These included the construction of new power stations and capacity increases as well as the technological adaptation and reconstruction and environmental improvement of existing installations. Examples of note include the initiatives at Baixo Sabor, Picote, Bemposta, Foz Tua and Lares.

In Operation and Maintenance, O&M Serviços, a company in which the EDP Group holds a majority stake, continued in business. At the end of 2006, it had a total of 39 valid contracts to provide services to a range of EDP Group companies and external customers. 2006 can be considered as a year of good operational performance in regard to all contracts and the fulfilment of the established operational objectives.

Energy balance

In mainland Portugal, consumption referenced to output reached some 49.3 TWh, which corresponds to an annual increase of 2.7%, around half the increase recorded in 2005 (5.4%). This reflects a slowdown in the impact of Ordinance 399/2002, which allowed cogenerators to sell energy to the grid.

In terms of the contribution made to the public grid by ordinary regime generation (PRO), coal continued to lead with 28.6%, hydroelectric energy reaching close to 20.5% and natural gas contributing 19.9%.

The contribution made by special regime generation (PRE) rose from 14% in 2005 to 18% in 2006, largely due to the influence of wind power generation, which represented close to 6% of the overall grid consumption in 2006.

The balance of exchanges with Spain favoured importation, ensuring supply for 11% of energy consumption.

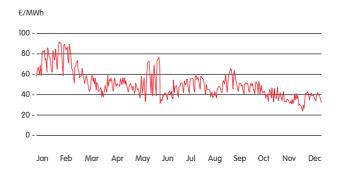


Energy Balance				
		2006	2005	Var. %
Hydrological Index		0.98	0.42	0.56%
EDP Group Power Stations Hydroelectric Output Thermal Output Hydroelectric Output Thermal Output Mini-hydroelectric Output Wind Power Output Biomass Output Cogeneration Output	ORG ORG ORG ORG SRG SRG SRG SRG	9,574 11,314 496 5,728 193 482 57 726	4,279 14,545 164 5,088 90 348 51 671	GWh 123.7% -22.2% 202.9% 12.6% 114.3% 38.5% 11.8% 8.2%
Net Generation by the EDP Group Direct Sales to Industrial Customers		28,571 -255	25,237 -251	13.2% -1.6%
Output to grid (EDP Group) Other SEP Producers Self-generators Import / (Export) Balance Pumped Hydroelectric Storage	ORG SRG	28,316 8,570 7,563 5,441 -622	24,986 11,069 5,643 6,820 -568	13.3% -22.6% 34.0% -20.2% -9.4%
Consumption expressed as output Synchronic compensation Own consumption in generation		49,269 -17 -5	47,950 -29 5	2.8% 42.1%
Energy delivered to distribution		49,247	47,926	2.8%

6.1.2.2. Ordinary regime generation in Spain

Throughout 2006, the price of energy on the liberalised market (pool) reached EUR 55.7/MWh, a value very similar to that of the previous year due to the continuation of high fuel prices, low water availability and an increase in demand. In the first two months, prices exceeded EUR 70/MWh, whereas prices fell below EUR 40/MWh in the final two months when water availability was very high.

Growth in the Base Load Price for the Spanish Pool



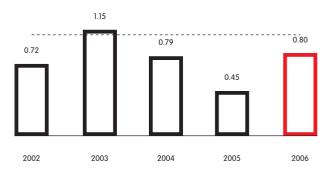
Installed power in mainland Spain increased by 4,213 MW to 78,290 MW at the end of 2006, signifying a year-on-year increase of 5.7%. Of note was the inclusion of six new combined cycle groups totalling 3,132 MW and new wind farms totalling 1,210 MW.

The oldest nuclear power station (160 MW) in the country was also closed down. After nearly 40 years

of activity, the José Cabrera nuclear power station (also known as Zorita) in Guadalajara was shut down on 30 April, without having completed its expected life cycle.

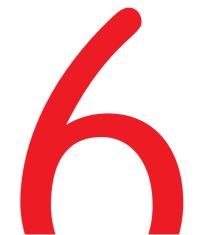
In hydrological terms, inflows at hydroelectric power stations provided a hydraulicity coefficient of 0.8, which, despite being lower than those of an average year, were nevertheless much higher than in 2005, which had been a very dry year. The first nine months of 2006 were also dry, but precipitation increased in the final three months which allowed reservoir storage to increase by the end of the year, reaching 61.6% of its maximum capacity and around 20 percentage points above the value registered for 2005.

Hydroelectric Energy Capability Factor in Spain



Net ordinary regime generation for HC Energía in 2006 reached 13,584 GWh, about 11.6% lower than in 2005. This was essentially due to the general maintenance work carried out at Aboño 2 and at the Castejón combined cycle group.

Net Ordinary Regime Generation		н	C Energía
GWh	2006	2005	Var. %
Hydroelectric Thermal - Coal Nuclear Combined Cycle	846 9,854 1,192 1,692	847 11,164 1,252 2,109	-0.1% -11.7% -4.8% -19.8%
Total Ordinary Regime	13,584	15,372	-11.6%





Despite the above-mentioned hydraulicity value, hydroelectric generation was similar to that of 2005 and 13.7% above the average rate due to increased generation at the Tanes pumped storage power station. If the power generated from pumped storage is discounted, then hydroelectric generation was similar to that for a year with average hydraulicity.

Coal-fired generation was 11.7% lower than in 2005 (a year which saw the highest levels of coal-fired generation ever), as a result of general maintenance work at Aboño 2 and, to a lesser degree, the increased hydraulicity recorded in the year's last quarter.

The Aboño coal-fired power station ran at 93% availability due to the already mentioned stoppage of Unit 2. Plant non-availability due to fault totalled only 2%, significantly lower than in 2005 (4.5%). Plant availability at Aboño 1 ran at an excellent figure of 99.1% despite its intensive operational schedule (8,596 operational hours).

Nuclear generation (based on HC Energia's 15.5% stake in the Trillo nuclear power station) was around 4.8% less than the 2005 value due to the plant's annual shutdown for fuel recharging. Total availability for the plant was 88.6% and non-availability due to fault equalled 1.7%

Generation at the Castejón combined cycle group was also lower than the 2005 value, around 19.8% lower, due to the limited availability of natural gas recorded in January as well as general maintenance work (type C inspection) performed at the power station. This maintenance, carried out after more than 24,000 equivalent operating hours, included a retrofitting of the gas turbine compressor which will allow the power station's net power to increase by 24 MW.

The following events in generation are also worth noting:

- Construction continues on the desulphurisation facilities at Aboño 2 and Soto 3 and these are already at an advanced stage. This equipment is expected to become operational in 2007, thereby enabling these power stations to comply with new environmental regulations;
- New low-NOx burners have been installed in the second unit of Aboño 2 with very satisfactory results in emission reduction:

- Construction has begun on the second group at Castejón (Navarra) power station and the work is on schedule; operational start-up is expected to start in late 2007:
- Administrative formalities for the installation of two combined cycle power stations at Soto Ribera (Asturias) have been concluded successfully. The works relative to the first group began at the end of 2006 and they are expected to become operational in 2008.
- Royal Decree 1634/2006 of 29 December was published, which included a ruling requiring the Spanish National Energy Commission (CNE) to present a series of proposals by 1 June 2007 regarding the creation of new handling mechanisms and payment and collection procedures in regard to guaranteeing capacity in order to ensure an adequate margin of coverage for demand. The CNE must also encourage availability and stimulate investment in new energy generation centres.

Energy balance

The demand for electricity in the Spanish mainland reached 253,476 GWh, about 2.5% higher than in 2005. This growth rate for demand was the lowest since the sector was liberalised in 1998.

The following chart shows the energy balance in 2006 compared to 2005:

Energy Balance			Spain
GWh	2006	2005	Var. %
Hydroelectric Energy Capability Factor	0.80	0.45	0.38
			GWh
Hydroelectric Nuclear Coal Fuel oil + Gas Combined cycle Special Regime	25,530 60,126 66,006 5,905 63,506 50,051	19,169 57,536 77,394 10,013 48,886 50,553	32.1% 4.5% -14.7% -41.0% 29.9% -1.0%
Consumption tied to Generation	-8,907	-9,081	1.9%
Net Generation	262,017	254,458	3.0%

Coal continues to be the principal source of energy (25% of net generation) despite output being lower than usual as a result of increased hydroelectric and combined cycle generation.



Also of note is the increased contribution of combined cycle power stations, which represented 24% of net generation in 2006.

Nuclear production underwent a year-on-year increase of around 4%, and it continues to account for an important share of generation in Spain.

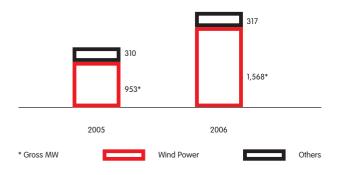
Special regime generation reached 49,335 GWh, equivalent to a year-on-year decrease of 2.4%. This reduction, the first in recent years, was due largely to a decline in the use of cogeneration power stations as a result of high natural gas prices.

6.1.2.3. Special Regime Generation in the Iberian Peninsula

Special regime generation for the EDP Group in the Iberian Peninsula is carried out by Neo Energía, which holds the Group's wind farm assets and is responsible for the development of solar and wave technologies, by EDP Produção, which holds the mini hydroelectric power stations and cogeneration power stations of Soporgen and Energin, and by EDP Produção Bioeléctrica, which is responsible for biomass power station development. Through its shareholding in Genesa, Neo Energía also has 144 MW of biomass power, cogeneration, waste and mini-hydroelectric power stations currently in operation. Lastly, it also has 4 MW of waste-generated electricity through HC Energía.

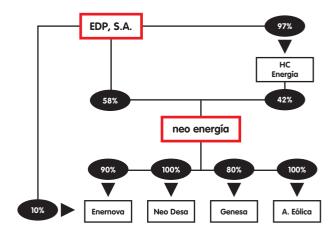
In 2006, EDP solidified its position as one of the market leaders for renewable energies in the Iberian Peninsula with a gross installed capacity of 1,539 MW in wind energy (plus 29 MW in France) and 317 MW in other energies.

Installed Capacity under Special Regime (MW)



In 2006, Neo Energía added to its portfolio the companies CEASA, CEASA Promociones and Agrupación Eólica, with assets in Spain and France.

The following figure shows the simplified organisational chart of Neo Energía as at 31 December 2006:



At the end of 2006, Neo Energía was the third largest operator in the Iberian Peninsula, with 1,568 gross MW in operation for wind energy, of which 28.5 MW are in France. A portfolio of projects totalling 2,645 gross MW is currently being developed, of these, 493 gross MW are already under construction, 965 MW are in the advanced planning stage and the rest are waiting licensing.

NEO Energía has defined a strategy based on strengthening its position in the Iberian market. To implement this strategy, the company will develop its project portfolio and acquire the controlling stakes in companies already active in the market by actively participating in mergers and acquisitions processes throughout the Iberian Peninsula. It will also take advantage of the licences it has received through public invitations to tender for new wind energy farms in Portugal and by exploiting opportunities arising from Spain's revised energy plan.





In 2006, Neo Energía began its plan for international expansion. In France, the company put two wind farms into operation (representing 19.5 gross MW) and began construction of another wind farm with an installed capacity of 10.4 MW. In addition to these two wind farms in operation, there is another wind farm with 9 MW capacity belonging to Agrupación Eólica, which was fully acquired in December 2006, thus giving Neo Energía a total of 28.5 gross MW operating in France by the end of the year. At present, the company has over 200 gross MW of capacity in various stages of development in France.

Neo Energía is also strengthening its presence in Belgium through partnerships with local companies. It is also examining its entry into other countries, as part of its international expansion plan.

In addition to wind energy, Neo Energía is increasing its investment in other renewable energies such as thermoelectric solar energy and wave energy. As regards thermoelectric solar energy, construction of a 50 MW power station is expected to begin in 2007 and become operational in 2010. Wave energy projects are still in an early phase and are being developed in partnership with EDP Inovação.

6.1.2.3.1. Wind energy

At the close of 2006, NEO Energía's total installed capacity for wind generation was as follows:

MW of Wind Power in Operation	2006 ⁽¹⁾		20	05 ⁽²⁾	
	Gross ⁽³⁾	EBITDA	Gross ⁽³⁾	EBITDA	
Portugal Spain	326 1,213	313 839	215 738	151 266	
Total Iberian Peninsula	1,539	1,152	953	418	
France	29	29	0	0	
Total Wind Power	1,568	1,181	953	418	

Notes:

(1) - Figures for 2006 include Agrupación Eólica

(2) - Figures for Spain in 2005 only include Genesa and Neo Desc (3) - Total Gross MW, irrespective of shareholding percentage

Of the wind farms in operation, under construction and awaiting licensing, Neo Energía's own portfolio, together with the acquisitions previously mentioned, constitutes a total wind generation capacity of 4,200 gross MW already installed or to be installed. This makes Neo Energía the third largest company in the Iberian Peninsula's renewable energy sector and one of the largest companies worldwide.

Portugal

In 2006, Enernova continued to implement the EDP Group' strategy of expansion in wind power through the following measures:

- Development of its existing portfolio, with an increase of 138.79 MW of installed wind capacity on the 2005 figure, thereby nearly doubling Enernova's installed capacity. This was achieved by:
 - Developing its proprietary portfolio (88.49 MW) by the entry into service of the Ortiga (11.69 MW), Abogalheira (3.34 MW), Serra d'El Rei (21.71 MW), Madrinha (10 MW) and Coentral-Safra (41.75 MW) wind farms;
 - Transferring ownership to Enernova of the following wind farms owned by Bolores, S.A. and Eneraltius, S.A., companies acquired from Tecneira (50.3 MW): Bolores (5.2 MW), Mosteiro (9.1 MW), Amaral 1 (10 MW), Caldas 1 (10 MW), Fanhões 1 (12 MW) and Fanhões 2, phases 1 and 2 (4 MW);
- The Eólicas de Portugal consortium (in which EDP holds a 40% stake) was successful in its bid to win the Phase A public invitation to tender of the Portuguese government to assign power injection capacity into the Portuguese electricity system and associated input points for wind-generated electricity. In addition to being awarded an injection capacity of 800 MVA, the consortium's final score of 80.6 points resulted in the award of a contract for an additional 200 MVA in recognition of the exceptional merit of its bid. In addition, 20% of excess equipment was added to the total power awarded, making a total wind capacity to be installed by Eólicas de Portugal S.A. of around 1,200 MW.

At the close of the year, Enernova had twenty-one wind farms in service, owning 298 MW of the 303.4 gross MW of installed capacity. This also comprises the acquisition, approved by the Competition Authority in 2007, of more than 20% of the share capital of Eólica de Alagoa, S.A. which owns the Alagoa de Cima wind farm (13.5 MW). This acquisition increased Enernova's stake in the company from 40% to 60%.

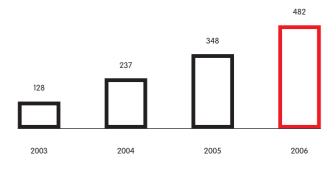


At the end of 2006, the situation of the wind farms belonging to the companies acquired from Tecneira (which continues to be in charge of the farms' development and construction) was as follows:

- Wind farms at Pó (9,1 MW), Arruda 1 (6 MW) and Sobral 2 - phase 1 (8 MW) are operational. Sobral 2, phases 1 and 2 (6 MW), is in an advanced stage of construction. It is expected that the owner company (Levante, Lda) will be transferred to Enernova in early 2007;
- The remaining wind farms belonging to the companies Malhadizes, S.A. and Cabeço Pedras, S.A., as well as the final phases of wind farms belonging to the Bolores and Eneraltius companies were in the licensing/contract award phase and totalled nearly 41.3 MW.

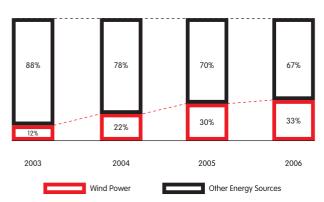
Electricity sales from wind farms amounted to 482 GWh, representing a year-on-year increase of around 39%.

Generation - Wind Power (GWh)



This growth increased wind energy's share of total special regime generation in Portugal from 12% to 33% in 2006.

Wind Power's Share of Special Regime (in GWh)



As to the development of new wind power projects for Enernova's own portfolio, the situation at the close of 2006 was as follows:

- Wind farms at Pedras Lavradas/Serra de Alvoaça (36,1 MW), Bordeira/Poldra (24 MW) and Testos (20 MW) are under construction and expected to begin operating in 2007;
- The Pico Alto wind farm (6 MW) is in the contract award phase and expected to begin operating in 2007;
- Six wind farms with a total installed capacity of 136 MW are in the licensing phase. Some of these are in partnership. Construction is expected to begin in 2007 with the entry into service planned for 2008. Three other portfolio projects with an expected capacity of around 20 MW are awaiting official approval to begin development.

Therefore, of the wind farms in operation, under construction and awaiting licensing, Enernova's own portfolio and the acquisitions previously mentioned will constitute a total wind generation capacity of around 610 MW already installed or to be installed. This corresponds to a market share of around 20 percent of the total capacity awarded in Portugal and planned for installation before 2008.

Excluded from this percentage are the wind farms belonging to Eólicas de Portugal, S.A. which are still in the tendering process mentioned above. These are scheduled to enter into service from 2009.

Spain

2006 was also a very important year for the promotion and operation of renewable energy sources in Spain. Construction continued at a steady pace on the wind farms in the Genesa and Neo Desa portfolio, whilst Neo Energía completed the purchase of various projects from other promoters present in the Spanish

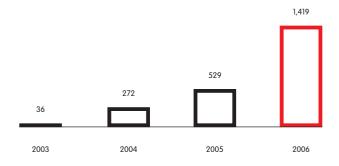




market. Of even greater importance was the acquisition of CEASA, CEASA Promociones and Agrupación Eólica, which have a portfolio of more than 700 MW. At the close of 2006, these companies had eight wind farms in operation between them, totalling 146 MW of gross installed capacity.

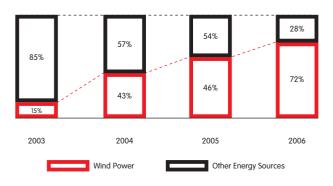
Development of this proprietary portfolio led to an increase over 2005 of more than 400 gross MW of installed wind capacity as more than ten new wind farms became operational. Consequently, Genesa and Neo Desa had 1,066 gross MW of total installed capacity operating at the end of 2006. Agrupación Eólica had at this time 146 gross MW in operation, giving Neo Energía a capacity of 1,213 gross MW in Spain at the year's end. Electricity sales for wind farms totalled 1,419 GWh^{III}, which represents an increase of 172% on the 2005 figure.

Generation - Wind Power (GWh)



This growth increased wind energy's share of total special regime generation in Spain from 15% to 72% in 2006.

Wind Power's Share of Special Regime (in GWh)



As to the development of new wind power projects in the portfolio for Spain, the situation at the close of 2006 was as follows:

- Ten more wind farms with an installed capacity of 360 gross MW are currently under construction and will begin operation in 2007;
- For the 2008-2010 period, wind farms with an installed capacity of 1,200 MW are at an advanced planning stage.

France

For Neo, 2006 was the year of international expansion as the first wind farms became operational in France.

The two farms, Le Gollot and Keranfouler, are located in the region of Brittany and possess an installed capacity of 19.5 MW.

The acquisition of Agrupación Eólica provided Neo Energía with another wind farm in the same region (with 9 gross MW of installed capacity), thus giving Neo Energía 28.5 MW operating in France at the end of 2006

As to the development of new wind power projects in Spain, Neo Energía finds itself in the following position at the end of 2006:

- Four wind farms with an installed capacity of 46 MW are under construction and are expected to enter into service in 2007;
- Four wind farms with an installed capacity of 48 gross MW are in an advanced stage of licensing;
- Around ten wind farms are in different phases of development.

It should also be mentioned that 2006 was a year of great endeavour in terms of organisation, as the process of integrating the various companies that make up the Neo Energía universe began. To achieve this goal several internal projects were implemented, the most significant of which were:

 The commencement of development of the remote control centre for the Iberian Peninsula (awarded to Edinfor Lógica CMG / Areva in November 2006);



- The design of management procedures and systems to be implemented in a multinational environment;
- The design of a new human resources policy for Neo Energía companies.

6.1.2.3.2. Other energy sources

The installed capacity and net generation for other non-wind energy sources in 2006 were as follows:

Maximum capacity as at 31 Dec			Iberian P	eninsula
MW	2006	2005	2004	2003
Portugal Mini-hydroelectric Plants Cogeneration Biomass	66 111 9	66 111 9	66 111 9	56 111 9
Spain Mini-hydroelectric Plants Cogeneration Biomass Waste	3 42 4 82	3 41 7 73	3 39 7 72	3 24 3 33
Total Other Energies	317	310	307	238

Net Generation			Iberian P	eninsula
GWh	2006	2005	2004	2003
Portugal Mini-hydroelectric Plants Cogeneration Biomass	193 726 57	90 671 51	141 656 49	196 679 38
Spain Mini-hydroelectric Plants Cogeneration Biomass Waste	2 176 13 351	5 212 20 387	12 129 15 198	12 87 12 86
Total Other Energies	1,519	1,436	1,200	1,110

Portugal

In this segment at the end of 2006, EDP Group held an installed capacity of 66 MW in hydroelectric power stations, 9 MW in biomass power stations and 111 MW in cogeneration power stations.

The hydroelectric power station belonging to EDP Produção which operates under special regime generation consists of 39 generating sets. Some projects are underway to remodel and reinforce these small stations. In addition, the Alto Lindoso energy recovery plant, which will have an installed capacity of 1.6 MW and a mean annual energy capability of 8 GWh, is in the licensing phase.

Cogeneration takes place at the natural gas power stations of Soporgen and Energin, companies in which EDP Produção has a majority stakeholding and which supply electricity and heat to the manufacturing premises of Soporcel and Solvay Portugal, respectively. These power stations operated under fairly constant conditions in 2006 and ensured the fulfilment of their contractual obligations with clients in terms of both electricity and heat. The Soporgen cogeneration power station was awarded an environmental licence by the Ministry of the Economy and Innovation, valid until 18 April 2016. EDP Produção also holds a 35% stake in the Carriço cogeneration power station, which has an installed capacity of 30 MW.

Bioeléctrica, S. A owns the forest biomass power station at Mortágua, which sold 57 GWh of electricity to the grid in 2006, an increase of 12% on the previous year.

Availability was slightly higher than 89%, equivalent to a year-on-year increase of 4.1%.

Approximately 109 ktonnes of biomass was consumed, 96.4% of which was residual forest biomass and the remaining part was composed of pine and eucalyptus bark

In 2006 Bioeléctrica began its plan for expansion, in accordance with the 108 MW of power from biomass it has been allocated. The second power station was completed in early 2007, which will put 23 MW into operation.

Meanwhile in 2006, the company submitted bids to three of the fifteen public invitations to tender for residual forest biomass collection points, with the objective of ensuring 26% of the total power put out to tender. The plan is for Portugal to guarantee a total of 134 MW of power derived from biomass.

Spain

Through its various companies, the EDP Group holds a stake in twenty thermal power stations in Spain, which together represent around 130 MW of installed capacity.





Net electricity generation by cogeneration power stations reached around 176 GWh, suggesting close to 4,000 operating hours. The thermal power stations operated satisfactorily, but the operating time was less than forecast due to the increase in the natural gas price.

The biomass power stations, which have approximately 4 MW of installed capacity, generated 13 GWh in 2006, and they have not been in operation since September.

62 MW of the total installed capacity of waste-fed power stations (82 MW) corresponded to 262 GWh of electricity generation, in addition to delivering on commitments to the waste treatment process. In 2006, progress was made in solving the problems related to the handling of animal biomass.

Of note amongst The Sidergas waste-fed power stations is noteworthy amongst such power stations. It uses the excess gases produced during the steel manufacturing process at the Arcelor-Mittal factory in Avilés to generate electricity to meet the steam requirements of the steel manufacturing process and exports the surplus electricity to the grid. In this way, the 20 MW installed capacity generates close to 110 GW of electricity.

6.1.3. Distribution

Due to its characteristics as a natural monopoly, electricity distribution in the Iberian Peninsula is a fully regulated activity, with parameters for technical and commercial quality of service and its conditions for remuneration defined according to regulations. EDP has a presence in this market through EDP Distribuição in Portugal and HC Energía in Spain.

6.1.3.1. Distribution in Portugal

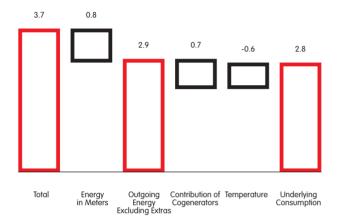
Energy Balance

In 2006, the overall volume of electricity distributed rose by 3.7 percent. Part of this increase is due to the change made to energy assessment criteria for meters and the recovery of invoices, factors which account for 0.8 percentage points (p.p) of this growth. Around 0.7 p.p. of overall growth is explained by cogenerators who continue to choose to sell to the grids all of the energy generated in their plants (as a result of Order no. 399/2002) On the other hand, climatic conditions

in 2006, with milder temperatures than in 2005, made a negative contribution of around -0.6 p.p. according to REN estimates. In this context, the underlying growth in consumption equalled approximately 2.8%.

Growth of Consumption in 2006

Outgoing Energy from Electricity Grid



Outgoing Energy from Electricity Grid			
GWh	2006	2005	Var. %
Energy Output to the Distribution Network Own consumption of distribution Sales to EDP Group Power Stations Distribution Losses Outgoing Energy from the Distribution Network Energy Sales on the Regulated Market Very High Voltage High Voltage Medium Voltage Special Low Voltage Low Voltage Public Lighting	48,634 -26 -25 -3,169 45,414 38,253 1,377 5,358 8,589 2,308 19,222 1,399	47,268 -25 -22 -3,437 43,784 34,164 1,265 5,148 5,091 2,347 19,013 1,299	2.9% 4.0% 13.3% -7.8% 3.7% 12.0% 8.9% 4.1% 68.7% -1.7% 1.1%
Energy Output to the Free Market Very High Voltage Medium Voltage Special Low Voltage Low Voltage Public Lighting	7,161 41 98 5,820 1,190 13	9,621 37 144 8,489 950 0	-25.6% 8.7% -31.7% -31.4% 25.2%

As regards the meeting of demand, electricity delivered to the distribution network increased by 2.9% in 2006. The amount destined for the regulated market increased significantly (10.9%) to the detriment of electricity designated for the free market (-26.6%).

Outgoing Energy from Electricity Grid			
GWh	2006	2005	Var. %
To the Regulated Market REN "Parcela Livre" PRE	41.228 31.755 7.012 2.461	37.178 29.961 902 6.314	10,9% 6,0% 677,2% -61,0%
To the Free Market REN	7.406 7.406	10.091 10.091	-26,6% -26,6%
Total	48.634	47.268	2,9%



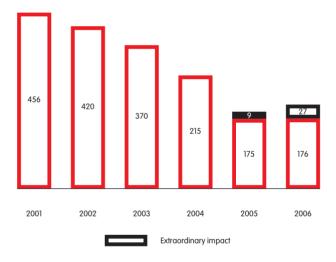
Service Quality

The application of increasingly demanding criteria to investment analysis along with great endeavours to optimize the exploitation and maintenance of the networks permitted investment in 2006 to diminish.

The quality of technical service, measured by the indicator "Interruption Time Equivalent to Installed Capacity" (TIEPI) reached a total of 203 minutes, higher than the value recorded for 2005 (184 minutes).

Interruption Time Equivalent to Installed Capacity-Medium Voltage

(in minutes



However, when discounting the figures arising from the power failure which occurred throughout Europe on 4 November, the storm which devastated Portugal on 24 November and the forest fires, then this indicator equals 176 minutes. Of further note is the significant improvement made in the internal TIEPI (interruption time over which the company can have an influence) from 142 minutes in 2005 to 125 minutes in 2006 which corresponds to a 12% reduction.

The remaining general indicators of service quality on the medium- and low-voltage networks followed the trend seen for the TIEPI.

The continued effort made in investment and maintenance works in recent years along with an expanded range of technical and organisational initiatives, which were commenced three years ago, made the performance of the grid still acceptable,

despite the extremely adverse climatic conditions experienced throughout the year.

Of particular note among these initiatives are the programme to improve the quality of technical service and the PROEDIS and "Productivity+" projects. These have mobilised nearly all of the technical area employees to seek out and implement best practices and efficient, effective ways to overcome the main problems and bottlenecks identified in both technical and organisational fields.

Regions of the country which recorded lower service quality levels were the subject of specific improvement plans comprising maintenance, restructuring and reinforcement of the grids involved, producing very positive results.

The voltage quality and reliability (QCT) of the EDP Distribuição network were assessed in 2006 according to the QCT monitoring plan as set forth in the Service Quality Regulations (RQS). During these assessments, emphasis was placed on the prolonged and concentrated observation of specific regions to characterise the voltage wave in areas with a higher concentration of a certain type of industry or economic activity, specifically the fabrication of micro-electronic components, semiconductors, glassware and other activities that use advanced-technology electronic equipment to control their working procedures.

This programme proceeded according to plan, with 219 installations monitored, six of which were monitored continuously throughout the year and 213 for three-month periods, representing a total of 512,640 hours of QCT monitoring of our installations and networks.

This approach is increasing the company's understanding of QCT in networks, with a view to ensuring that all customers benefit from an electricity supply with high quality levels.

During 2006, 53 new installations for special regime generators (SRG) were connected to the grid, which corresponds to an installed capacity of 503 MVA largely associated to wind power installations (415 MVA).



On the other hand, efforts undertaken by the company led to a sustained increase in the quality of customer service provided in relation to supply in the distribution grid, evident in the fulfilment of the supply service quality indicators set out in the Service Quality Regulations (RQS).

- Estimates for low-voltage lines and connections within 20 working days;
- Installation of low-voltage lines and connections within 20 working days;
- Customer low-voltage connections within two working days;
- Maximum waiting time of 20 minutes in stores;
- Maximum waiting time of 60 seconds for telephone callers;
- Reconnection after accidental interruption within four hours;
- Requests for information dealt with within 15 work days;
- Low-voltage meter reading, bearing in mind the additional standards of the Service Quality Regulations which state that "calculation of the indicator for meter-reading should not take into account second residences in which the meter is inaccessible to the supplier".

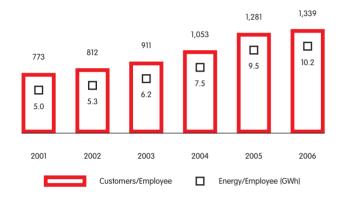
With the objective of further improving the quality of service provided, measures were adopted to optimise the use of equipment to gather readings (TPLs) and a pilot project for standard low-voltage telemetering, involving 120 customers, was begun.

Following the total liberalisation of the market and the announcement of new general conditions for contracts for network use, all of the particular conditions for those contracts were agreed to and signed by all suppliers.

Efficiency of operations

The increase in operational efficiency enabled more customers to be served and more energy distributed with fewer employees. The ratio of customers per employee, often used as a measure of productivity in distribution companies, increased from 773 in 2001 to 1,339 in 2006. On the other hand, the indicator for energy distributed per employee more than doubled between 2001 and 2006.

Operational Efficiency for EDP Distribuição (Regulated Market + Free Market



The following events in distribution are also worth noting:

- To demonstrate EDP's social responsibility and its principles of sustainability, the company agreed to renew the protocol signed between EDP Distribuição, the Portuguese Nature Conservation Institute (ICN), Quercus and the Portuguese Bird Society (SPEA). This agreement is aimed at studying and minimising the effects of high- and mediumvoltage lines on birdlife.
- A proposal was presented in 2007 to the Plan for Promoting Efficiency in Electricity Consumption (promoted by the ERSE) with a series of measures having been approved.
- During 2006, EDP maintained close and constructive relationship with the National Association of Portuguese Municipalities, whilst at the same time seeking solutions to the problems raised by numerous municipalities concerning institutional questions or their own concession contracts. The concession contract for low-voltage electricity signed with the municipality of Caldas da Rainha deserves special mention as it formalises grid use that had continued indefinitely since EDP began its distribution. Equally of note is the renewal of the low-voltage concession contract signed with the municipality of Porto. Both concessions were



- established in strict compliance with legislation in force, specifically with regard to the terms set forth in the respective contracts.
- Negotiations already in progress have intensified to formalise the renewal of concession contracts with the municipalities of Oeiras and Tomar, which are expected to take place shortly.
- In order to raise employee awareness about activity
 in the liberalised market, EDP provided training on
 the role of the grid operator in the sector's new
 organisational context. This activity was
 implemented through the so-called SOL project
 (Service, Operator, Liberalisation) and placed strong
 emphasis on transparency, non-discrimination and
 compliance with the Code of Conduct.
- After having obtained the necessary green light from the Energy Service Regulating Body, the logistics platform was implemented which allowed market liberalisation to be extended to standard low voltage customers from 4 September. This comprised a customer base of six million people and occurred in record time compared with international practices.

6.1.3.2. Distribution in Spain

In 2006, electricity was distributed to 603,181 Spanish customers. Of this total, 10.16% correspond to access tariff customers, a percentage that equalled 3.42% in 2005. This strong increase in customers on the liberalised market is due largely to the supply of electricity.

Electricity Distribution (T1+TA)			
Number of Customers	2006	2005	Var. %
High Voltage Medium Voltage Low Voltage Total	21 867 602,293 603,181	21 819 584,082 584,922	0.0% 5.9% 3.1% 3.1%

The amount of energy distributed totalled 9,550 GWh, which equals an increase of 3.3% from 2005. This growth is almost identical to that of the previous year and slightly below the national level.

Electricity Distribution			
GWh	2006	2005	Var. %
High Voltage Medium Voltage Low Voltage	5,874 1,215 2,461	5,788 1,116 2,343	1.5% 8.9% 5.0%
Total	9,550	9,247	3.3%

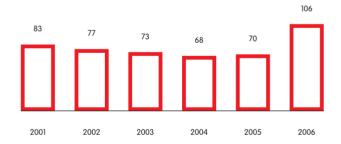
Distribution outside of Asturias increased 32% over 2005, with 9,509 customers reached in the distribution zones of Alicante, Madrid and Valencia.

The total energy distributed in these zones equalled 208 GWh, which indicates an increase of 12% over 2005, with a peak demand in the three zones equalling 45.5 MW and contracted power amounting to 115 MW.

Service Quality

The indicator for quality of electricity supplied from the distribution network (TIEPI) was 106 minutes, appreciably higher than in previous years as a result of two accidents which happened at two substations in September and October. Even so, this figure is below the national average in recent years, which exceeds 140 minutes.

Interruption Time Equivalent to Installed Capacity (in minutes)



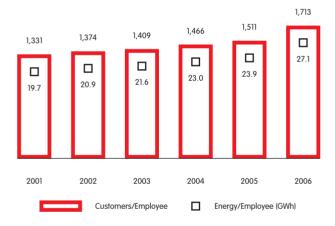


As regards the transmission grid for voltages greater than or equal to 220 KV, the availability index was calculated at 98.86%. No service interruption was recorded for clients connected to this network, resulting in zero values for the energy not supplied (ENS) and average interruption time (TIM) indicators.

Efficiency of operations

Projects and organisational development to optimise operation efficiency for electricity distribution continued in 2006. Reorganisation of employee numbers, investments carried out and new work order criteria enabled 21.7 GWh to be distributed per employee, around 37% more than in 2001. Likewise, the number of customers per employee reached 1,713 in 2006, 29% higher than the 2001 figure.

Operational Efficiency of Distribution in Spain



Note: Figures are calculated based on the allocation of employees per company in which employment performed. In the chapter on "Human Resources", allocation is made per employer.

6.1.4. Supply

The EDP Group performs its supply activities in Portugal and Spain on the regulated market, which ensures an electricity supply where the tariff is defined by regulation, and on the free market, which operates within a competitive regime with other Iberian players and where the sale price is defined by supply and demand.

In 2005, as part of the EDP Group's free-market supply, efforts began to transform a customer portfolio which had been contracted at lower prices (in line with production prices at the time of contracting) into a

portfolio with prices aligned with current production costs and wholesale market prices. This process was concluded in 2006. Many of these customers switched from the free market to the regulated market as a direct result of this action, which did not call into question the relationship of trust that has existed between the EDP Group and its customers.

On the other hand, the organisation concentrated a large part of its effort on the liberalisation of the standard low voltage market in Portugal, as its outstanding leadership in this segment had been guaranteed.

Conditions have been met to begin a new cycle of commercial activity for the EDP Group in 2007. Irrespective of country (Portugal or Spain) and market (free market or regulated market), this new cycle must include the development of an organisation of reference on the Iberian Peninsula, whose primary objective is to increase value for the customer whilst guaranteeing a positive contribution to the increase of the Group's profitability throughout the integrated value chain.

6.1.4.1. Supply in Portugal

The process which began in 1999 to completely liberalise the market concluded on 4 September 2006 with the liberalisation of standard low voltage, thus giving approximately six million consumers the ability to contract their supply on the free market.

The EDP Group, which has been actively committed to the liberalisation process, met this new challenge through its commercial platform EDP Comercial, which had already been used in the earlier phases of liberalisation. This was the first market agent to provide products for residential customers on the free market.

The trend toward the decreased volume of energy supplied on the free market, already noted at the end of 2005, became more prominent in 2006. In spite of this decrease in volume, the number of installations effectively supplied on the free market increased in



relation to what was seen in 2005, though this is only due to the characteristics of the standard low voltage segment which was liberalised in September.

Around 6.9 TWh (15% of the national consumption) were thus supplied during the year on the free market and by all of the suppliers on this market, which represented a decrease of 28% from the previous year. On the other hand, 26,200 installations (70% connected at standard low voltage) were supplied by free suppliers in December, representing an increase of 98% from the same period of the previous year.

Supply on the Free Market

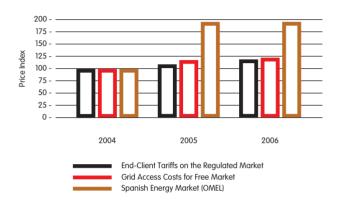


The decrease in energy supplied to the free market is explained by the return of many companies to the regulated market, that had chosen free suppliers in previous years. The increase in energy production costs is the primary reason for the decrease in free market competitiveness, since the suppliers of this market directly incorporate variations in production costs in real-time, in contrast with what happens on the regulated market.

Thus, whilst the tariffs for end-clients on the regulated market (medium-high, high, medium and special low voltage) rose by 17% on average between 2004 and 2006, the cost of energy on the free market has nearly doubled in the same period and the costs of accessing the network (transmission, distribution and system use costs) borne by free market suppliers have increased by around 22%.

Sale Price Changes on the Regulated Market vs.

Acquisition Costs for Electricity on the Free Market



Service Quality

In light of the non-binding market's expansion to include standard low voltage customers, which took place on 4 September 2006, the main objective throughout the financial year was to improve customer satisfaction and development of cost cutting initiatives. These were evident in the following actions:

- Implementation of bi-monthly billing;
- Increasing customer awareness of a monthly, fixedsum payment system known as "Conta Certa", to which 1.5 million customers have already signed up to.
- Significant reduction in customer waiting time at EDP stores;
- Adaptation of the triage system to total market liberalisation.
- Development of actions designed to improve the specialised service provided to institutional customers (local governments, official entities) and large businesses (banks, utilities, etc.) by means of the Customer Manager;





- Implementation of 43 in-store kiosks with internet connections;
- Increase in the number of automatic bill payment machines that allow payment in cash;
- Increase in the number of agents with a Virtual Store which allow a greater number of matters to be dealt with on-line;
- Continued expansion of the company website, with a new image, a new layout and different content organisation;
- Implementation of the Computer Telephone
 Integration (CTI) project which allows the integration
 between the telephone and the commercial system
 to enable rapid identification of the customer and
 the matter to be addressed, with evident gains in
 personalisation and cost reduction;
- Also worth noting is the effort made in the adequate and timely preparation of all customer interface channels (stores, agents, contact centres and internet) in terms of image, content and customer service procedures, representing an effective response by the company to the new market reality.

As regards the quality of service provided for regulated supply, the RQS indicators specific to this activity were met:

- Maximum waiting time of 20 minutes in stores;
- Maximum waiting time of 60 seconds for telephone callers;
- Requests for information dealt with within 15 working days.

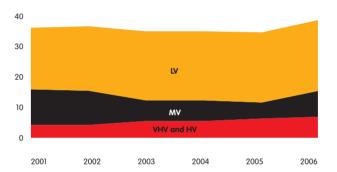
Supply on the Regulated Market

Supply on the regulated market was marked by a significant number of customers returning from the free market which, associated with natural growth, enabled an overall increase of 1.1% in regulated market customers, particularly in the medium-voltage sector.

In the same way, the energy distributed for regulated supply showed strong growth of around 12%, also particularly evident in the medium-voltage category.

	Number of Customers		Electricity (GWh)			
	2006	2005	Var. %	2006	2005	Var. %
Total	5,961,697	5,894,139	1.1%	38,253	34,164	12.0%
Very High Voltage	20	16	25.0%	1,377	1,265	8.9%
High Voltage	182	157	15.9%	5,358	5,148	4.1%
Medium Voltage	19,955	16,600	20.2%	8,589	5,091	68.7%
Special Low Voltage	25,118	22,036	14.0%	2,308	2,347	-1.7%
Low Voltage	5,869,451	5,809,699	1.0%	19,222	19,013	1.1%
Public Lighting	46,971	45,631	2.9%	1,399	1,299	7.7%

Electricity Sales on the Regulated Market by Voltage Group (TWh)



As regards regulated supply, the publication of Decree Law no. 29/2006 of 15 February is significant. This law establishes the principles for the organisation and functioning of the National Electric System and creates the concept of the seller of last resort (CUR), an entity which holds an electricity supply licence subject to obligations of universal service and in which the business activity is legally separated. Article 73 of that law temporarily assigned the role of last-resort seller to the company to be created by EDP Distribuição - Energia, S.A for this purpose. This company was created on 1 January 2007 in accordance with Article 52 of Decree Law no. 172/2006, of 23 August.

Supply on the Free Market

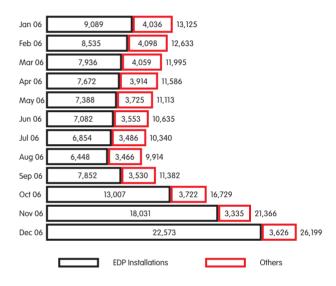
EDP Group's presence on the free market in Portugal is provided through EDP Comercial by means of two distinct commercial operations:

- One dedicated to companies and institutions (B2B), which operates on the market under the brand EDP Corporate,
- The other is responsible for supply to the residential and small business segment (B2C).



Through these two operations, EDP Comercial has continued to ensure its leadership on the free market, with a 56% market share in energy sold for the year and a share of 85% in the installations supplied in December.

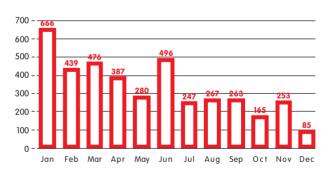
Installations on the Free Market



Companies and institutions (B2B)

At the close of 2006, the B2B operation of EDP Comercial supplied 4,446 installations (half the amount at the end of 2005), having supplied 4 TWh for that year, a year-on-year decrease of 36%.

Energy Sold - EDP Comercial B2B (GWh)



EDP Comercial B2B					
	200	2006		2005	
Free Market Sales (GWh)	7,148	100%	9,620 6,314 3,306	100%	
EDP Comercial	4,024	56%		66%	
Other	3,124	44%		34%	
Free Market Installations	8,072	100%	13,226	100%	
EDP Comercial	4,446	55%	9,212	70%	
Other	3,626	45%	4,014	30%	

In its approach to the companies and institutions segment (B2B), EDP Comercial implemented a strategy throughout 2006 which was designed to significantly improve the company's results. In line with this strategy and following the disruption to energy acquisition costs, EDP Comercial used price references which, for many customers, made the regulated market more competitive. Consequently, a progressive reduction in the size of the customer portfolio was observed as (annual) supply contracts to customers ended and customers shifted to the regulated market or, to a much lesser degree, to competitors.

Against this scenario, it was necessary to make the organisation more flexible and adapt it to the new framework by intensifying its risk management, improving control and optimising operational procedures. For this segment, 2006 was therefore a year of realignment.

Residential and small business customers (B2C)

The standard low voltage segment was definitively opened to the free market in 2006, marking the final stage in the liberalisation of the electricity market. From 4 September, around six million customers⁽²⁾ were given the freedom to choose their supplier. Consequently, the consumption of energy eligible for the free market rose by around 20 TWh (about 46% of the national consumption).

As the standard low voltage segment consists predominantly of domestic and small business customers whose needs and characteristics naturally differ from the other voltage levels, EDP had already performed the groundwork in preparing its approach to this segment in a free market context.

The environment for free market development in 2006 was relatively unfavourable at both the regulatory level (uncertainty over the change in access tariffs) and the competitive level (sales tariffs for the regulated markets which were "subsidised" and therefore



artificially competitive). Consequently, the great challenge for this business unit aimed at the domestic and small business segment consisted of developing an offer which simultaneously reflected the value proposal that segment customers value most and the position that EDP wants to take in the liberalisation of the standard low voltage market.

Within this framework, five objectives were established around which the value proposal for the free market was constructed:

- Provide the customer with savings in its use of an essential commodity;
- Make life easier for customers, contributing to their comfort;
- Make their relationship with EDP even simpler by increasing the proximity between the company and its customers;
- 4. Provide innovative solutions, in relation to both tariffs and the services provided;
- Strengthen EDP's association with the efficient management of environmental resources and enable customers to participate in this management.



These five dimensions formed the basis for edp5D - energy adjusted to you, which has the following characteristics:

- Savings: "edp5D Tariff", which will benefit a significant number of customers; "edp5D Efficiency", advice on how to save through reduced consumption;
- Comfort: "edp5D Assistance", technical assistance insurance for electricity, gas, electric appliances and air conditioning;
- Proximity: "edp5D Contact Line": 808 5D5D5D (808 535353), for specialised support. Additionally, any EDP store throughout the country or the EDP website, www.edp.pt, may be used by customers;
- Innovation: Electronic billing and other new features such as telemetering will soon be available;
- Environment: "edp5Dverde Tariff" which ensures
 that the energy consumed is generated from
 renewable energy sources. EDP will also invest 15
 euros per year per "edp5D" customer in a clean
 technology research and development fund.

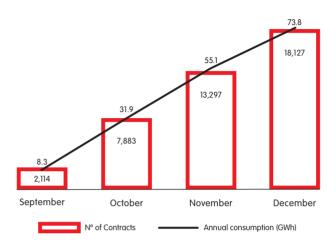




At the end of 2006, after four months of marketing, the edp5D product already had more than 18,000 registered customers, a customer portfolio which represents an annual consumption of approximately 74 GWh.



Contracts and Consumption - EDP Comercial B2C

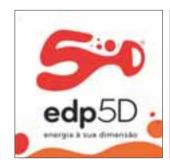


Essential to the success of the new edp5D product (which had a daily average of 206 subscribers), besides the development of a value proposal suited to the target segments, was the guarantee of a successful commercial performance. For this purpose, four priority lines of action were identified, which involved a large number of EDP Group nuclei, continuously coordinating and intensively monitoring the product in order to guarantee successful implementation:

- The creation of a personalised objectives and incentives plan (nicknamed the "awards chain") that is consistent with the expected intensification of competitiveness in the free market;
- The design and implementation of new service and sales processes and procedures in order to adapt EDP's channels to the new regulatory regime and best business practices;
- The implementation of a new IT system for sales management which is integrated, quick and capable of meeting the new challenges and demands of the free market;
- The development and execution of a sales training scheme which included more than 700 employees and comprised not only all of the customer contact points but also the backoffice areas.

In 2007, EDP Comercial intends to continue developing its products around these five dimensions of value for the customer (savings, comfort, proximity, innovation

and environment), therefore ensuring the continuation of its significant growth in this segment as well as guaranteeing the company's leadership in the liberalisation process.











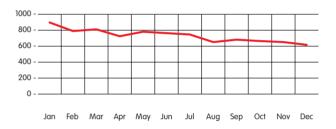




6.1.4.2. Supply in Spain

In Spain, supply on the free market decreased by 25% as a result of high generation prices, which have not been accompanied by tariffs on the regulated market. Energy supplied on the free market (suppliers and customers) totalled 62,570 GWh in 2006.

Energy Sold on the Free Market in Spain



In just one year, the new brand - HC Energía - achieved a level of recognition of more than 80% in its area of influence.

Supply on the Regulated Market

In November 2006, HC Energía had more than 600,000 electricity customers supplied on the regulated market in its distribution zones (Asturias, Madrid, Valencia and Alicante), representing a consumption of 9,550 GWh.

Loyalty schemes were promoted for domestic customers through "Serviço Funciona" ("Service Works"), which consists of checking and maintaining electric and gas installations and equipment (75,000 contracts) and the HC Points Programme (which 130,000 customers have already joined).

Supply on the Free Market

As regards supply on the free market, 6,671 GWh were supplied to 62,173 customers at the end of 2006, which represents an increase of 40% over the previous year and corresponds to a 13% market share. The commercial effort centred on obtaining efficient coverage for the Group's generation and optimisation of its customer portfolio.

Free Market Sales (GWh)	2006	2005	Var. %
Total Market	62,571	106,583	-41.3%
HC Energía B2B B2C	6,671 6,425 246	5,926 5,822 104	12.6% 10.4% 136.6%

The B2B segment recorded sales of 6,425 GWh, up 39%. The fact that HC Energía is the largest supplier to the Spanish railway company Adif (with 1,500 GWh) contributed significantly to this figure. On the other hand, the structure of its customer portfolio was improved as the segment margin for Large Accounts and Businesses increased.

Supply on the free market has acted as a natural form of protection for generation, specifically against regulatory uncertainties such as the publication of Royal Decree RD-L 3-2006.

Within the B2C operation, sales of 246 GWh were achieved with an increase of 137%. The strategy in this segment has been focused on portfolio analysis in order to attract profitable clients and gain their loyalty. On the other hand, a campaign was carried out to protect the dual domestic customer segment by means of the "Fórmula Ahorro" ("Savings Formula") plan.





This offer included electricity and gas supply, maintenance service through the "Funciona" programme and the HC Points programme.





At the conclusion of this campaign, around 60,000 dual customers on the free market had been contracted.

Changes were also made to the HC Energía website - new graphics and improved navigation. The Customer Area was also created, which allows customers to consult data, contracts and bills. More than 250,000 page visits to the "www.hcenergia.com" website were recorded in 2006.



The Customer Service Centre, which served more than 200,000 customers, received the Call Center Gold Award in the "utilities" category (organised by IFAES) for the second consecutive year.





6.2. GAS BUSINESS IN THE IBERIAN PENINSULA

6.2.1. Evolution of the Sector

Portugal's natural gas sector was created in the 1990s, commencing with the construction of the gas pipeline network in 1994. However, natural gas only effectively arrived in 1997. The natural gas is supplied by Algeria. Portugal is completely dependent upon foreign countries for its supply of natural gas. For this reason, the infrastructure system was complemented by a regasification terminal in Sines (2003), which allowed the country to be supplied with LNG (liquefied natural gas), mostly from Nigeria. The Portuguese natural gas market has recorded high growth rates in recent years as a result of the country's continued infrastructure development of distribution networks and the increased role of natural gas-fired electricity generation. However, the sector still has significant growth potential, as illustrated by the low penetration rates seen thus far in some market segments. EDP intends to tap into this potential for very high market growth by harmonising efforts to invest in the expansion of distribution networks and in capturing new clients.

Spain began infrastructure development of the natural gas sector at an early stage, at the start of the 1960s, with the construction of a regasification terminal to process liquefied natural gas imported from Algeria



and Libya. The natural gas market has grown significantly in the last two decades, accompanied by the important development of import, transport and distribution infrastructures. The Spanish market demonstrates two relevant characteristics: (i) strong growth in the demand for natural gas, greater than that for any other energy source; (ii) high dependency on supply from abroad, as relatively little natural gas is produced in Spain in terms of the size of the internal market

The two markets share a common feature resulting from the fact that the natural gas market's expansion is largely motivated by the growing demand for this energy source to generate electricity. Increased growth in demand is expected to continue for both countries in the coming years, with more combined cycle plants that have received licences from the Portuguese and Spanish governments already under construction.

6.2.2. Positioning of EDP

Creation of a Business Unit for Gas and EDP Gás

EDP has a position of reference in the Iberian Peninsula's natural gas market: it is the majority shareholder in Naturgas (Spain) and Portgás (Portugal) and the minority shareholder in Setgás (Portugal), making it one of the market's largest consumers of natural gas.

	Portugal	Spain
Transport	n.a.	
Distribution		
Supply		
Regulated		
Free	n.a.	



Given the growing size of these operations and their strategic character, the group's natural gas business was restructured, involving the creation of a specific business unit with the following objectives:

- Guarantee the integrated management of EDP's
 gas market strategy by consolidating the
 coordination of the group's various activities in this
 area into one single business unit, ranging from
 procurement/trading to supply and distribution,
 and also including the coordination of EDP's
 shareholdings in the sector;
- Add to the value of the group's investments in this sector by increasing visibility in the capital markets of EDP's accomplishments and the potential of the capacities, assets and resources of the Group's natural gas business;
- Stimulate the exchange of best practices in the natural gas business amongst group companies and encourage the achievement of synergies resulting from integration of this business within the Iberian Peninsula;

This business unit was created in April and was converted into the company EDP Gás SGPS, SA, in December.

6.2.3. Management of Subsidiaries

EDP Gás initiated several transversal optimisation projects in 2006 for companies in which the EDP Group has a shareholding. These sought to guarantee the sharing of best practices and the capture of synergies between these companies involved in the transport, distribution and supply of natural gas.

For shareholders, 2006 was a year marked by the acquisition of 100% of the capital of the gas distributors Bilbogas (gas distributor for the city of Bilbao) and Gasnalsa (natural gas distributor for the province of Álava). These acquisitions combined with the positions already held in Portugal and Spain, allow EDP to strengthen its position as the second-largest player of the natural gas distribution market in the Iberian Peninsula, with more than 800,000 consumption points.

The following chart shows the key figures for the gas business in the Iberian Peninsula in 2006:

Principal Indicators 2006		'	EDP Gás
	2006	2005	Var. %
Number of Customers (thousand)	754.3 506.2 248.1	700.0	7.8%
Regulated distribution		605.5	-16.4%
Supply		94.5	162.6
Kms of Network (Km)	7,662	<mark>7,218</mark>	6.2%
Transmission Network	250	216	1.6%
Distribution Network	7,412	6,972	6.3%
Volume of Natural Gas (million m³)	3.1	3.0	0. <mark>7%</mark>
Distributed	1.9	2.0	-7.3%
Supllied	1.2	1.0	16.7%
Volume of Natural Gas (TWh)	35.7	35.5	0.6%
Distributed	21.9	23.7	-7.4%
Supllied	13.8	11.8	16.7%
Number of Employees	434	444	-2.3%

6.2.4. Procurement of gas

The creation of the business unit meant that the procurement of natural gas and the management of the portfolio of gas purchase contracts for the various group companies are now performed centrally by EDP Gás

This enabled the portfolio's optimisation by transferring surpluses between the group's internal consumers with important savings compared to the alternative of outside acquisition. The volume of natural gas transferred under these terms was 80 million m³.

In conjunction with the group's energy management unit, the business unit also carried out a first transaction on the LNG spot market in partnership with one of the gas suppliers of the EDP Group. This resulted in a profit of more than EUR 2.7 million for the group.

As regards the long-term portfolio, a rigorous reassessment of the group's procurement needs was performed within the current context of the Iberian Peninsula energy markets. Along with the integrated management of its portfolio and some timely logistics agreements, this reassessment guarantees coverage of EDP's forecast procurement needs up to 2008. Market prospecting and contacts with potential suppliers have begun for long-term supply after this date.



On another level, EDP Gás has been actively collaborating with HC Energía and Naturgas Energía in managing the problems of regulated infrastructure access in Spain, which is becoming more difficult given the change in market structure, increased natural gasfired electricity generation, low storage capacity and a restrictive regulatory framework.

6.2.5. Portgás

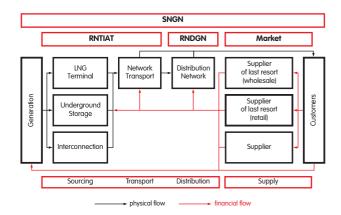
Organisation and regulation of the gas sector in Portugal

The organisation and regulation of the gas sector were developed within the context of Community directives, particularly the most recent one, Directive no. 2003/55/EC. The principle of fully opening up the market, which recognises a gradual process of liberalisation that is embodied in the Directive, has also been transposed into national law by the Portuguese government. The market was opened for ordinary regime electricity producers on 1 January 2007. This process will be concluded for all natural gas customers on 1 January 2010.

On 15 February 2006, Decree Law 30/2006 was approved, establishing the general foundations for the organisation and operation of the Portuguese Natural Gas System (SNGN).

Decree Law 140/2006 was subsequently published on 26 July 2006. It concerns the general principles of the SNGN's organisation and regulates the legal framework for related business activities, completing the transposition of Directive no. 2003/55/EC.

The structure of the natural gas sector was based on the Portuguese Natural Gas System, which integrates the National Transport Network, LNG Underground Storage and Terminal Infrastructures (RNTIAT) and the Portuguese Natural Gas Distribution Network (RNDGN). The SNGN receives, stores, transports and distributes natural gas through the RNTIAT and RNDGN systems. Global management of the system is ensured by the concession holder of the Portuguese Natural Gas Transport Network (RNTGN). In organisational terms, exploitation of the RNTIAT and the RNDGN comprises the following concessions: (i) concession for the RNTGN; (ii) concession for underground storage; (iii) concession for reception, storage and regasification of LNG; (iv) concessions and licences for the RNDGN.



Following public discussion in July 2006 of the proposal for regulations (in which Portgás was represented by EDP), ERSE published a set of regulations in September 2006 specific to the natural gas sector, which included regulations for tariffs, trade relations, service quality and access to natural gas networks, infrastructures and interconnections.

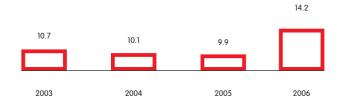
New image

In October 2006, Portgás launched its new image whilst maintaining its brand. This change had a dual objective: (i) internally align the company with the EDP Group's corporate image to leverage the enormous repute attached to that image; (ii) modernise an image that was outdated and not very representative of the new phase of development that had begun.

Regulated activities

For Portgás, 2006 was a year characterised by a new impulse in the company's business resulting from the new definition of shareholders and the subsequent redefinition of strategies with a clear focus on growth and value creation through attaining new clients (40% more than in 2005). This trend should become more prominent in the coming years.

New Customers - Portgás

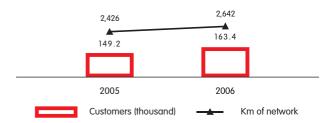




Marketing efforts were thus resumed in the existing domestic market which enabled the number of new clients in this market to triple from the previous year. In addition to this core aspect, a series of activities have been developed to strengthen the position of Portgás as a point of reference in terms of service quality and value creation:

- Supplying the municipality of Fafe through the construction of a new primary network between Fafe and Guimarães;
- As part of the investments scheduled for 2007 the first two autonomous gas units (UAGs) were installed in the concession zone to supply three new municipalities - Paredes, Penafiel and Viana do Castelo, as a way of making this activity economically optimal;
- Reduction of risks associated with natural gas metering/measuring, specifically through the installation of systems to register and correct consumption for all customers whose estimated consumption is above 200,000 m³ per year;
- Introduction of mobility solutions in field services management;
- Continued improvement of operational procedures for distribution, namely in relations with official entities and suppliers by using electronic means to save time and resources;
- Development of a scheme to implement the geographical information system, as a relevant number of municipalities were already in operation at the close of 2006;
- Development of an environmental certification programme that concluded at the end of the year having achieved this certification.

Portgås - Customers and Network



Principal Indicators 2006			Portgás
	2006	2005	Var. %
Number of Customers (thousand)	163.4	149.2	9.5%
Kms of Network (Km)	2,641.9	2,425.9	8.9%
Volume of Natural Gas (million de m³)	0.2	0.2	3.4%
Volume of Natural Gas (TWh)	2.2	2.2	3.4%
Number of Employees	110	110	0.0%

6.2.6. Naturgas Energia

Organisation and regulation of the gas sector in Spain

The Spanish natural gas market has been liberalised since 1 January 2003. However, this market makes a distinction between eligible customers on the liberalised market who receive their gas from sellers and tariff customers who are supplied by distribution companies.

In Spain, eligible customers may individually contract services for the purchase of natural gas or LNG, regasification, transport, storage and distribution.

The regulatory framework has been extremely volatile in trying to accommodate the chronic lack of operational storage capacity for the Spanish natural gas system. This limitation has been managed so that the suppliers assume the necessary part of the risk resulting from the variations in gas consumption associated with electricity generation, over which they have little influence. The seller business was thus strongly exposed in 2006 as successive regulatory amendments presented unexpected operational difficulties for companies of the sector, particularly smaller ones.

This regulatory framework featured two relevant changes that took the form of various Royal Decrees and Ministerial Orders, which had a significant impact on two key areas:





- In August 2006, new rules for LNG storage and logistics made the importation of LNG even more complex and potentially burdensome for small and medium-sized businesses in particular, with the resulting impact on free market supply;
- The end of 2006 was characterised by the establishment of rules for the remuneration of regulated activities in the natural gas sector in 2007. These rules underwent modifications that do not have a significant impact on the business activities currently implemented by companies controlled by the EDP Group.

Regulated activities

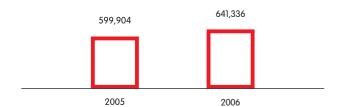
Market liberalisation led to a reduction in the number of tariff clients (regulated market) and in the amount of energy distributed under this regime. As a result of the network development in the areas of influence and expansion, the number of supply points increased by 10%, thus consolidating the company's position as the second largest distributor in Spain.

Specific activities were developed for the Spanish gas market in 2006 to strengthen the company's position as a vehicle for EDP:

- The construction contract for the Bilbao-Treto gas pipelines (Transcantábrico) and for the supply of the HC Energía combined cycle power station at Soto (Asturias) were awarded;
- All the administrative permits to begin construction of the Serinyá-Figueres (Catalonia) and Bergara-Villabona (Basque Country) pipelines were obtained;
- Start of operations on the Sória-Agreda pipeline (Castile and León) and the Euskadour pipeline linking France and Spain;
- Start of operations on the Mar Menor network (Múrcia);
- Award of the competitive concession for infrastructure development at Villarejo de Salvanes (Madrid);
- Operational start-up and supply to the municipalities of Tapia y Orozco (Basque Country);

- Introduction of mobility solutions in field services management;
- Participation in national and European research and development programmes concerning new energy distribution technologies.

Supply Points - Naturgas Energia

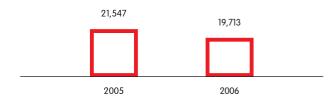


Gas Distribution (TI+TA)		Naturgas Energia	
Supply Points	2006	2005	Var. %
Total n° of points: TI (full tariff)	342,770	456,269	-24.9%
P<= 4 Bar P>= 4 Bar	342,390 380	456,086 183	-24.9% 107.7%
Total n° of points: TA (access tariff)	298,566	143,635	107.9%
P<= 4 Bar P>= 4 Bar	298,247 319	143,125 510	108.4% -37.5%
Total TI+TA (1)	641,336	599,904	6.9%

(1) Number of supply points, including 100% of subsidiary holdings

The decrease seen in the amount of energy distributed in 2006 was primarily caused by the transition of Santurtzi thermal power station to the free market with direct distribution to the transport network.

Energy Distributed (GWh) - Naturgas Energia



Gas Distribution (TI+TA)		Naturgas	Energia
GWh distributed	2006	2005	Var. %
Total GWh TI (full tariff)	6,349	6,998	-9.3%
P<= 4 Bar P>= 4 Bar	3,767 2,582	5,214 1,784	-27.8% 44.7%
Total GWh TA (access tariff)	13,364	14,549	-8.1%
P<= 4 Bar P>= 4 Bar	1,825 11,539	619 13,930	194.9% -17.2%
Total TI+TA (1)	19,713	21,547	-8.5%

(1) Gas distributed including 100% of subsidiary holdings



Liberalised activities

As previously mentioned, these activities were strongly determined by unfavourable regulatory changes. Meanwhile, market liberalisation continued and Naturgas Energia Comercializadora intensified its commercial activity.

Consequently, the number of free market customers rose dramatically in 2006 as did the energy sold on the free market. This extraordinary increase led to enormous stress being placed on the demand side of the equation, which can only be satisfied through the energy management transactions of EDP Gás. These seek to utilise the portfolio flexibility of EDP's contracts to procure gas from both sides of the border, thus anticipating the emergence of a single Iberian gas market and validating the EDP Group's strategy of peninsular integration.

The most significant events of this year can be highlighted accordingly:

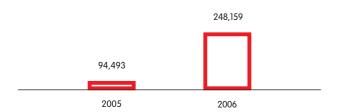
- Implementation of new internal control mechanisms for supply and demand in order to respond efficiently to market volatility;
- Renegotiation of the shipping contract related to the gas supply contract from Trinidad and Tobago;
- Improvement of operating margins for international trading resulting from a new contractual formula which came into force for gas imported from Trinidad and Tobago;
- Renegotiation of all B2B contracts based on a new contractual benchmark that substantially reduces the risk margin;
- Migration of 150,000 new customers from the regulated market to the liberalised market within a context of customer loyalty and margin management.

Energy Supplied (GWh) - Naturgas Energia



The process to create a Customer Value Management (CVM) model commenced in 2006. This model allows existing contracts to be managed management and new contracts integrating the "downstream" and "midstream" strategy. Marketing to electricity customers continues within the same context. The impact of a dual fuel strategy was under constant study for control purposes, coordinating the supply of the two EDP operators on the Spanish market (HC and Naturgas).

Gas Customers - Naturgas Energia



It was a positive year overall for Naturgas which saw substantial increases in its turnover (53%) due to the considerable rise in the price of oil and the quantities supplied, which occurred, in particular, in an adverse regulatory environment.

The principal consolidated indicators of Naturgas Energia for 2006 are:

Principal Indicators 2006		Naturgas	Energia
	2006	2005	Var. %
Number of Customers (thousand) Regulated distribution Supply	590,884 342,770 248,159	550,762 456,269 94,493	7.3% -24.9% 162.6%
Kms of Network (Km) Transmission Network Distribution Network Volume of Natural Gas (million m³)	5,020 250 4,756	4,792 246 4,546	4.8% 1.6% 4.6%
Distributed Supllied	2.9 1.7 1.2	2.9 1.8 1.0	0.6% -8.3% 16.9%
Volume of Natural Gas (TWh) Distributed Supllied	33.5 19.7 13.8	33.3 21.5 11.8	0.4% -8.5% 16.7%
Number of Employees	319	334	-4.5%



6.3. ELECTRICITY BUSINESS IN BRAZIL

6.3.1. Summary of Energias do Brasil and its performance on the capital market

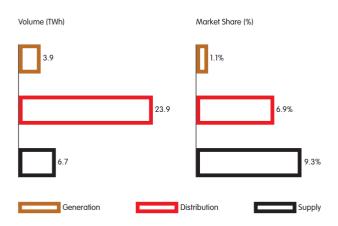
Energias do Brasil, a subsidiary of the EDP Group in Brazil, acts as a sub-holding, involved in the electricity generation, distribution and supply business fields. It has a presence in the south-east, central-west and northern regions, more specifically in the states of São Paulo, Espírito Santo, Mato Grosso do Sul and Tocantins. Since July 2005, Energias do Brasil has been listed on the São Paulo Stock Exchange (Bovespa), an exchange that brings together companies with the best corporate governance practices.

In terms of generation, Energias do Brasil had 1,018 MW of installed capacity at the close of 2006, providing 3.9 TWh of generated energy.

In distribution, the company has full control of the companies Bandeirante Energia S.A. (Alto Tietê, Vale do Paraíba and Litoral Norte districts of São Paulo state), Espírito Santo Centrais Elétricas - Escelsa (Espírito Santo state) and Empresa Energética de Mato Grosso do Sul S.A. - Enersul (for the state of Mato Grosso do Sul), serving more than 3.1 million customers and distributing 23.9 TWh in 2006.

In the electricity supply segment, it operates through Enertrade, which supplied 6.7 TWh to customers on the liberalised market in 2006, giving a market share of 9.3%.

Market Share of Energias do Brasil



Change in Energias do Brasil Share Price



As regards its performance on the capital market in 2006, Energias do Brasil's share price rose by 24%, which was essentially due to the performance of the Brazilian stock market as a whole. Although the share value was below the Bovespa Electric Energy Index (IEE) in 2006, since the shares were first listed they have appreciated by 83.3%, compared with the IEE's 80.2% increase.

Other noteworthy events in 2006 include:

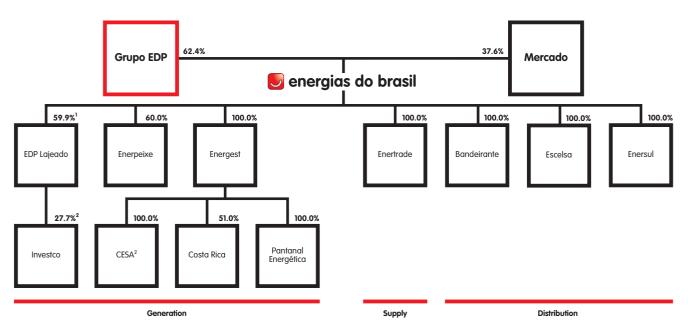
- Receiving the IBGC Prize for Corporate Governance, awarded by the Brazilian Institute of Corporate Governance;
- Winning the Abamec Prize for the Best Open Company in 2005 and an Honourable Mention at the 2006 IR Magazine Awards;
- Entry of Energias do Brasil shares on the Corporate Sustainability Index (ISE) of the São Paulo Stock Exchange; The shares also entered the Electric Energy Index (IEE) and the Valor Bovespa Index (IVBX-2);
- Bonds totalling BRL 851.5 million were issued by the distributors Bandeirante, Escelsa and Enersul in order to extend their indebtedness profile and reduce the average cost of debt.

As regards sustainability, two significant events occurred in relation to Energias do Brasil in 2006:

The Sustainability and Corporate Governance
Committee was created, which is responsible for
watching over the company's perpetuity and
ensuring that the company is governed by ethical
principles and sustainable development practices;



Organisational Chart of Energias do Brasil Group



(1) Voting Capital (100%) - (2) Voting capital and represents the percentage held by Energias do Brasil in the generated energy.

 Adherence to the principles of the Global Compact, an initiative of the United Nations which proposes corporate civic engagement as a way of contributing to the advancement of a more sustainable global economy.

6.3.2. Background to the Brazilian electricity market

In recent years, the Brazilian electricity sector has undergone important structural and institutional changes, shifting from a configuration centred on the State monopoly as a service provider and sole investor to a market model in which multiple agents participate and investments are shared with private capital.

According to the ANEEL report of November 2006, the installed capacity for energy generation in Brazil totalled 96,197 MW derived largely from hydroelectric power stations (74.7%).

Around 1,200 agents currently invest in the energy generation market, though the ten biggest agents own around 67% of the total installed capacity. The majority of investment still comes from the Brazilian government with only three private agents amongst the top ten and the largest of these accounting for only 6.8%.

Energias do Brasil, with 1,018 MW of installed capacity, has 1.1% of the country's total installed generation capacity.

The generation market is based on a structure that consists largely of long-term supply contracts (PPAs) between producers and distributors, with A5, A3 and A1 auctions to supply long-term demand and medium and short-term adjustments, respectively, and a matching/day trade market where adjustments are made for the differences between forecasts and real consumption.

In most of the Brazilian states (primarily in the north and north-eastern regions) the concession area for distribution companies corresponds to the geographical state boundaries. In other states, namely São Paulo and Rio Grande do Sul, there are concession holders with smaller areas of scope. According to the





2004 ANEEL report, this situation has resulted in the existence of 64 energy distributors, 48 of which are under private control. This activity operates under a completely regulated concession scheme and is remunerated according to its operational costs and its asset base. Electricity acquisition costs as defined in the contracts with producers are passed on entirely to the consumer through end-client sales tariffs.

In accordance with the report published by the Energy Research Company (EPE), electricity consumption by captive and free customers served by the Brazilian electricity system totalled 347,371 GWh in 2006, representing a 3.8% increase over the previous year. Based on this fact, the volume of energy distributed by EDP Group distributors represents 6.9% of the total for Brazil.

Electricity seller agents are companies that do not own electricity systems and are authorised to act exclusively in the market to buy and sell electricity to authorised concession holders or consumers who may freely choose their supplier (free consumers).

6.3.3. Energias do Brasil

Focus on operational efficiency

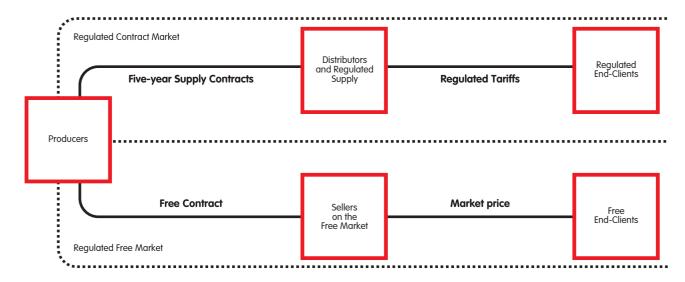
2006 was characterised by the implementation and operation of the Vanguarda (Vanguard) and Aliança (Alliance) projects. Despite their success, the constant quest to improve operations and maximise synergies in the Group determined that operational efficiency schemes should continue with the start-up of the

Vanguarda OPEX, Integração (Integration) and Capex projects.

Vanguarda and Vanguarda Opex: The process redesign phase of the Vanguarda project involved more than 350 people organised into 30 teams who were responsible for mapping more than 120 processes divided into 460 sub-processes. Once these processes were redesigned, the project was implemented with the announcement in June 2006 of the Voluntary Severance Programme (PDV) in which 651 employees participated and will represent a saving of BRL 68.4 million by the time the programme concludes.

Once this structure is reduced, it will be necessary to continue optimisation efforts with the introduction of the Vanguarda Opex project, in line with the EDP Group's Opex project, which will comprise an estimated saving of BRL 23 million in operational costs from 2009.

Integração: The administrative and financial modules were concluded in early 2006 for the Aliança project, which was designed to improve procedures and internal decision-making. The Integração project began in the same year as a continuation of Aliança, to unify the technical modules (management of electricity networks, management of the company's own telecommunication networks, technical assistance for customers and environmental monitoring) and commercial modules (billing, meter reading, measuring and client management) in order to reduce costs and increase productivity. This project shall be finished at the end of 2007.







Hidroelectric Power Stations



Hidroelectric Power Stations (under construction)



Distributors

Distributors' Co



Generation

Energy generation, which comprises the management of the hydroelectric power stations (UHE) and the minihydroelectric power stations in the states of Espírito Santo, Mato Grosso do Sul and Tocantins, practically doubled Energias do Brasil's installed capacity from 531 MW in December 2005 to 1,018 MW in December 2006. This increase results from the operational startup of the Peixe Angical hydroelectric power station and the fourth turbine at Mascarenhas. This increase in capacity embodied one of the company's strategic arowth vectors.

Energias do Brasil	2006	2005
MW Lajeado (1) Peixe Angical (2) Energest (3) Pantanal Cesa Costa Rica Enersul Maximum Power as at 31 Dec (MW)	250 452 211 31 59 17 0	250 0 16 41 59 17 5 531
GWh Lajeado (1) Peixe Angical (2) Energest (3) Pantanal Cesa Costa Rica Enersul Net Generation (GWh)	1,236 1,196 984 226 252 86 0 3,980	1,203 0 991 199 275 76 12 2,756

(1) EDP has a 27.65% shareholding of the enterprise
12) Entered into service in 2006 (first group in June, second group in July, third group in September).
23) Sub-holding of Energias do Brasil, which controls generation assets originating from the deverticalisation process of Escelsa and Enersul up to May 2005.

Continuing its expansion strategy for generation, Energias do Brasil announced investment in the Santa-Fé hydroelectric power station in the state of Espírito Santo, which has an installed capacity of 29 MW and is expected to begin operating in the second half of 2008.

The Luís Eduardo Magalhães hydroelectric power station located on River Tocantins has a total installed capacity of 902.5 MW. Energias do Brasil's stake in the enterprise is 27.65 percent, which corresponds to the 250 MW of EDP Lajeado. In 2006, the power station generated 1,236 GWh.

The Peixe Angical hydroelectric enterprise began operating in the fourth quarter of 2006, 15 days earlier than initially scheduled, and added an installed capacity of 452 MW to the Brazilian electricity system. With a guaranteed energy production of 2,374 GWh contracted with Energias do Brasil distributors, Peixe Angical generates enough energy to supply a city of

4 million inhabitants. The enterprise is controlled by Enerpeixe, 60% of which is held by Energias do Brasil, with the remaining 40% held by Furnas Centrais Fléctricas S A

The investment carried out in 2006 amounted to BRL 243.6 million with 13% of the total investment appropriated for the alleviation of social and environmental consequences associated with a project of this scale. These socio-environmental programmes involved the relocation of the affected rural and urban populations, reconstruction of the road infrastructure. health centres and schools, rescue of wild and domestic animals in the reservoir area, environmental education and restoration of degraded areas, amongst others

Energest's assets result from the deverticalisation process which took place in June 2005, such that 2006 corresponds to the first full business year for the company. Energest holds an installed capacity of 316.8 MW and is responsible for management of the Mascarenhas and Suiça hydroelectric power stations in addition to the three companies Cesa, Costa Rica and Pantanal Energética. In October 2006, the fourth turbine at Mascarenhas commercially came on-line with an installed capacity of 50 MW and a 30-year energy contract.

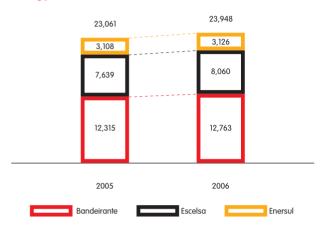
Work on the Couto Magalhães hydroelectric power station, with an installed capacity of 150 MW, remains suspended following the request made to ANEEL by the EnerRede Couto Magalhães Consortium (in which Energias do Brasil has a 49% shareholding) to formalise the amicable annulment of the concession contract

Distribution

Energias do Brasil saw the amount of energy distributed increase by 3.8% from 2005 to 23.9 TWh. About 3.1 million customers were served, a year-onyear increase of 4.7%, and equivalent to a supply to nearly 10 million inhabitants.



Energy Sales - Brazil (GWh)



Energias do Brasil	2006	2005	Var. %
Bandeirante	1,364,738	1,283,449	6.3%
Escelsa	1,058,915	1,030,868	2.7%
Enersul	689,951	658,141	4.8%
Total Customers	3,113,604	2,972,458	4.7%

Bandeirante

The total electricity distributed by the Bandeirante system in 2006 amounted to 12,763 GWh, which represented an increase of 3.6% over the previous year. Electricity distributed to end customers totalled 7,861 GWh, which represented a decrease of 1.8% on 2005. This reduction was caused by the migration of captive customers (primarily industrial customers) to the free-customer category. In terms of customer numbers, the company ended 2006 with a customer base of 1,365,000, 6.3% more than in 2005. In 2006, the electricity distributed by Bandeirante to the free market and concession holders totalled 4,898 GWh, a year-on-year increase of 13.7%.

Energy Sales - Bandeirante (GWh)



Bandeirante	2006	2005	Var. %
Domestic	1,252,268	1,175,375	6.5%
Industrial	8,633	8,256	4.6%
Business	86,629	83,476	3.8%
Other	17,208	16,342	5.3%
Total Customers	1,364,738	1,283,449	6.3%
		'	

The periodical tariff review of Bandeirante relative to 2003 ended in 2006. In 2005, the Brazilian Electricity Regulatory Agency (ANEEL) reduced the value of the regulatory remuneration baseline (BRR) relative to September 2003 from BRL 1.092 billion to BRL 998 million. As a result of this adjustment, the tariff readjustment index (IRT) was also amended from 18.08%, provisionally applied from 2003, down to 10.51%.

Energias do Brasil requested that ANEEL reconsider and on 19 October 2006 it granted a preliminary increase in the BRR to BRL 1.026 billion with the possibility of revision. During that period, the agency would conduct an inspection before making a definitive decision in regard to the BRR of 30 September 2003. By the end of 2006, ANEEL had not issued a judgement on this aspect.



On 19 October, ANEEL approved a mean readjustment of 13.44% for the period between October 2006 and September 2007 for all consumption categories (residential, industrial, commercial, rural, etc). The tariff readjustment index (IRT) includes ANEEL's decision on the request submitted by Bandeirante to reconsider the first periodical tariff review of 2003 for the concession holder and, by extension, its effects on the IRT for 2005. Taking into consideration the combined effects of the BRR revision and the financial adjustments (already included in Bandeirante's tariffs) for the recovery of deficits of previous periods, the effective mean tariff adjustment in electricity bills equalled 15.41%.

Bandeirante invested around BRL 150 million in 2006, 27.6% more than in 2005. These investments were directed toward the improvement of the distribution network, modernisation and loss reduction, thus giving the company greater speed and operational efficiency and improving the quality of service provided to its customers.

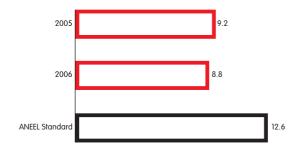
With the intensification of Bandeirante's efforts in the Commercial Loss Reduction Programme in 2006, 160,004 field inspections were performed, 55,476 obsolete, damaged and electromechanical meters were replaced with electronic meters and 4,101 clandestine customers were discovered and regularised.

Losses - Bandeirante



The company met the quality requirements imposed by ANEEL. As a result of its investments in the networks, implementation of projects to modernise and automate the electricity system and the sensible use of resources in management and maintenance terms, the company is able to demonstrate better quality standards than those established by the regulatory agency.

DEC - Equivalent Duration of interruption per Customer - Bandeirante (hours)



FEC - Equivalent Frequency of interruption per Customer - Bandeirante (times)

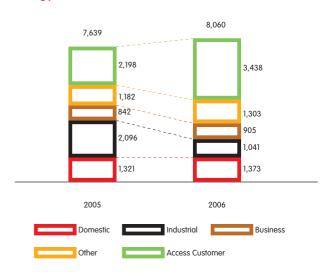


Escelsa

Escelsa distributed 8,060 GWh in 2006, 5.5% growth on 2005, and its customer based reached 1,059,000, up 2.7% from the previous year. In the captive market, the company sold a total of 4,276 GWh in 2006, 16.7% less than in 2005. This decrease is explained largely by the migration of clients from the captive market to the free market, which included a 50.3% reduction in the industrial category. Electricity supplied by Escelsa to the open market and other concession holders in 2006 equalled 3,438 GWh, a year-on-year increase of 56.4%.



Energy Sales - Escelsa (GWh)



Escelsa	2006	2005	Var. %
Domestic	827,193	812,000	1.9%
Industrial	10,602	10,617	-0.1%
Business	89,923	89,049	1.0%
Other	131,197	119,202	10.1%
Total Customers	1,058,915	1,030,868	2.7%

Escelsa's periodical review of 2004 was ratified by ANEEL in August 2005 with the establishment of final values for the BRR, the depreciation rate and operational costs of the reference company. The tariff was adjusted from the provisional figure of 6.33% to the definitive figure of 8.58%, which corresponds to a revenue increase of BRL 17.2 million, financially compensating the concession holder for the tariff period of 7 August 2005 to 6 August 2006.

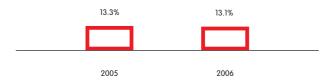
The mean tariff adjustment for Escelsa was set by ANEEL at 16.67% for the period comprising August 2006 to July 2007 for all consumer categories. Considering the financial adjustments already included in Escelsa's tariffs, associated to deficit recovery from previous periods, the effective mean tariff adjustment in electricity bills equalled 11.40%. The tariff adjustment granted on 3 August 2006 included the positive net recognition of BRL 34.4 million primarily related to ANEEL's revision of the criteria used in 2005 to manage the impact of the deverticalisation of Escelsa's assets.

The company invested BRL 191 million in 2006 to extend, improve and modernise its electricity distribution installations, substations and line

upgrades. Other investments were made IT and in universalisation. Investments in the latter totalled BRL 58.8 million and benefited 11,908 customers.

As regards commercial losses, a vigorous programme was developed to combat fraud in which 323,798 field inspections were carried out and 170,619 clandestine connections were suspended in addition to investments in technology to meter and protect the network, thereby recovering 47.4 GWh. Despite this, commercial losses increased from 5.1% in 2005 to 5.4% in 2006.

Losses - Escelsa

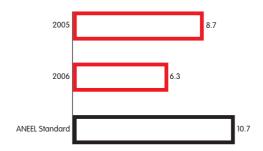


Escelsa also met the quality requirements imposed by ANEEL and the growth in the indicators compared to the previous year was caused largely by the high incidence of storms.

DEC - Equivalent Duration of interruption per Customer - Escelsa (hours)



FEC - Equivalent Frequency of interruption per Customer - Escelsa (times)

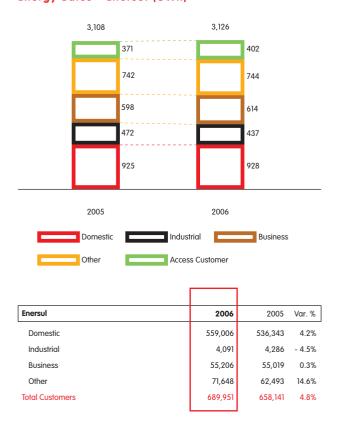




Enersul

Enersul achieved a slight increase (0.6%) in the energy distributed in 2006, from 3,108 GWh in 2005 to 3,126 GWh in 2006. The number of customers equalled 690,000, up 4.8% on 2005. Within the captive market, the volume of energy sold in 2006 reached a total of 2,717 GWh, down 0.5% from 2005. This decrease is linked to the migration of captive customers who opted to switch to being free customers, meaning that they become distribution system users only, and to the weak economic performance of the state of Mato Grosso do Sul. Electricity supplied by Enersul to the open market and other concession holders in 2006 totalled 402.4 GWh, an increase of 8.6% on the previous year.

Energy Sales - Enersul (GWh)



In 2005, ANEEL definitively established the basis for calculating remuneration (BRR) in 2003 for Enersul. This increased the percentage of the 2003 tariff review to 50.81%, representing a positive impact of BRL 74.8 million in net revenue for the first quarter of 2005.

Enersul's mean tariffs were adjusted on 6 April to 16.75% for the April 2006-March 2007 period. The real mean tariff adjustment in electricity bills equalled 10.33% considering the financial adjustments already included in the company's tariffs associated to the recovery of tariff differences from previous periods.

In 2006 Enersul invested BRL 195 million to extend, upgrade and modernise its electricity system in order to meet market demand at the quality levels required by legislation. Other projects were carried out to incorporate private networks and modernise energy metering technology. As part of Enersul's universalisation process, the company joined the "Luz para Todos" (Light for All) programme, which seeks to provide universal access to the electricity grid in rural areas and promote economic and social development in deprived communities. The amount invested in 2006 totalled BRL 76.5 million and benefited 9,860 customers.

As regards commercial losses, an important increase of 1.7% was seen in 2006, due above all to the elevenmonth delay in carrying out power cuts to defaulters or clandestine networks whilst the company awaited the legal decision by the state of Mato Grosso. This delay ended in November, allowing that indicator to decrease over the coming years. Even within this unfavourable environment Enersul continued its loss reduction programme through various activities, including 219,997 field inspections, suspension of 43,872 clandestine connections and replacement of 2,803 obsolete, damaged and electromechanical meters with electronic meters. Several schemes were also enacted to install new technology to meter and protect the low voltage network.

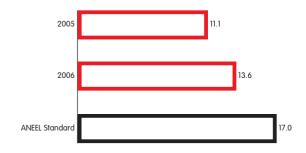
Losses - Enersul



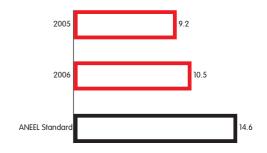
Enersul also met the quality requirements imposed by ANEEL. Once more, the growth in the indicators compared to the previous year are due largely to the high incidence of storms.



DEC - Equivalent Duration of interruption per Customer - Enersul (horas)



FEC - Equivalent Frequency of interruption per Customer - Enersul (times)



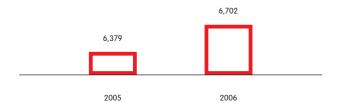
Supply

Enertrade, the EDP Group company which operates on the Brazilian free energy market, supplied 6,702 GWh in 2006, representing an increase of 5.1% compared to 2005.

In 2006, Enertrade saw significant improvements in its management and commercial strategy model. Its range of services on offer to customers included evaluation of its relationship with the Brazilian Chamber of Electrical Energy Commercialisation (CCEE), market simulations, energy portfolio management and remote, on-line meter reading, amongst others. An energy risk management tool was also developed to optimise customer profitability.

The most customer growth occurred with consumers in the intervention area of Energias do Brasil distributors, which shows the seller's importance in serving large customers who migrate to the free market. Those consumers continue to be served by an EDP Group company without losing the customer relationship.

Energy Sales - Enertrade (GWh)



Acting in the interest of its customers, Enertrade took the pioneering step of holding an on-line auction to purchase energy for the 2007-2014 period. This was the first time that a supplier had ever held an auction at the same time as the Chamber of Electrical Energy Commercialisation (CCEE). The aim was to offer producers the alternative of also selling energy to the free market and not just to the regulated market. At the same time the company sought to encourage the debate over the convenience of auctions for both environments in a single market.

The migration of captive clients to the free market was less intense than in the previous year. This behaviour is essentially explained by the fact that the largest consumers are already part of that market segment, which is restricted to the use of high voltage and minimum consumption of 3.0 MW.

New rules which should come into force from 2007 will extend this possibility to consumers of any voltage who exceed a 500 kW load and acquire energy from alternative sources (such as mini hydroelectric stations or wind, solar or biomass energy). The change anticipates that the loads from various units of a single company can be added together. This applies to banks, hotel and store chains as well as large residential condominiums. The energy tariff will be more expensive due to the smaller scale of these alternative sources, although ANEEL plans compensation through a partial discount of 50% in the tariff for distribution system usage.

For these customers, Enertrade will be able to purchase energy in a centralised manner, identifying the best alternative sources to complement supply.



6.4. TELECOMMUNICATIONS

6.4.1. Telecommunications in Portugal

2006 was characterised by significant movement in the Portuguese telecommunications market. In February, Sonaecom announced a takeover bid for Portugal Telecom of EUR 10.7 billion and in June the Canadian cable operator Cogeco bought Cabovisão Portugal for EUR 465 million.

The convergence underlying Sonaecom's takeover bid for Portugal Telecom will change the structure of the telecommunications market in Portugal. In its final decision not to oppose the merger, the Competition Authority imposed conditions on the landline network business which include the following:

- A model for the horizontal separation of the landline networks and a working model for the vertical separation I of the basic network. This should be followed by the horizontal separation of the landline networks and divestiture of the copper or cable-based landline network;
- Extend the obligations to grant access to third
 parties currently arising from ORAC PT (system
 access basic offer) to all telecommunication lines
 that are owned or rightfully used (now or in the
 future) by companies controlled by Sonaecom.

6.4.2. EDP's divestiture of ONI, SGPS

Within this context of sector movement, a contract was also signed on 9 November 2006 in which EDP agreed to sell the entire capital of ONI SGPS to Win Reason, S.A, a company then owned entirely by The Riverside Company and in Gestmin SGPS also now has a stake.

In January 2007 the Competition Authority released its final decision not to oppose Win Reason's purchase of all of ONI's share capital, allowing the transaction to be concluded and ONI to be brought under full ownership of Win Reason.

6.4.3. ONI in 2006

At the corporate level, the following activities in 2006 deserve mention:

- Rebalancing the financial structure: In addition to improving operating conditions for the companies in which ONI has a shareholding, the company formalised the restructuring of its financial debt in the first quarter of 2006. This ensured the adjustment of the financial debt's maturity to the ability to generate funds by contracting around EUR 255 million in medium and long-term debt to replace short-term debts.
- Rationalisation of financial shareholdings: This
 year saw the conclusion of the rationalisation plan
 for financial shareholdings through the divestiture
 of shares held in Ucall and ONI Multimédia. ONI
 Web was also wound up and the company agreed
 to divest its share held in Gastroni, which took
 effect in January 2007.
- Outsourcing policy: Continuing its policy which began in 2005, ONI outsourced a series of support roles in 2006: accounting and treasury services were contracted to Deloitte/SGG; the operation of the Contact Centre was contracted out to Edinfor/Lógica and the technical management of customers and the private voice network (SRPV) was contracted to NextiraOne, amongst others.
- Rescaling of staffing: In 2006 ONI continued its
 effort to make adjustments to its staff based on
 changes made to working methods and the
 organisation of labour. This permitted substantial
 gains in efficiency and made it possible to reduce
 the number of employees by around 20% from 492
 in 2005 to about 395 at the end of the year.

For ONI, 2006 confirmed the dynamic of recovery introduced in the second half of 2005 and is characterised by the following fundamental aspects.

• Consolidation of the corporate business:

Affirmation of ONI Telecom amongst the large companies: ONI's positioning in this market has enabled sustained growth of its market share in the Corporate and Operators segment which is currently estimated to be around 20%. In 2006, Oni Telecom focused on the development of a strategy to expand its business portfolio by offering a series of value-added services, thus anticipating the response to the more complex needs of this market segment;



• Increased penetration in the public sector: Despite the delay in opening the public sector up to the telecommunications services market, specifically through the postponement of public invitations to tender which are dependent on larger government ministries, ONI Telecom is affirming its position in this market segment by entering into contracts with public entities. In this matter, it must be mentioned that ONI Telecom was awarded the biggest public invitation to tender held to date (Ministry of the Economy). This tender was subsequently contested by Portugal Telecom and the decision of the relevant judicial authorities is still pending.

• Expansion of the broadband customer base:

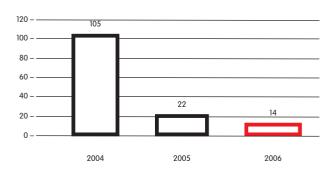
Enhanced capillarity in distribution: In 2006 ONI
Telecom maintained its effort to build its
distribution network, which began in 2005. This
task is replicated in the sustained growth of the
number of points of sale, which from a point
close to zero in 2004 has grown to almost 1400
company points in 2005 and close on 2000
points at the end of 2006.

Within this context, commercial activity for the current year has centred around developing the channel of retail distribution agents. National coverage has been ensured through ONI Telecom's presence on the shelves of all relevant retail distribution chains.

2006 also saw the consolidation of the innovative scheme to sell telecommunications services through the Millennium BCP banking network and in EDP stores.

 Continued development of the direct access network for broadband: Efforts to unbundle the OLL exchanges (direct customer access) continued in 2006 with projects started to introduce 31 new exchanges. This will provide ONI Telecom with its own coverage area comprising nearly 90% of Lisbon and Porto and around half of mainland Portugal. More than 90% of these exchanges are prepared for ADSL 2+, a technology which can provide greater bandwidth and allows voice, Internet and video services to be accessed simultaneously (triple play); Decrease in installation time: Despite the pace of growth in capturing new customers, ONI Telecom maintained its efforts to improve its internal methods and processes. This was reflected in the reduction of the time required to provide a customer with broadband service to 14 days (counting from the date ONI receives the contract).

Broadband service availability to customers (days)



 Acquisition of broadband customers: As a result of these initiatives, broadband penetration continues to develop positively. In 2006, ONI registered around 68,000 new customers, which represents an increase of more than 100% compared to the 2005 figure - 32,000 new customers - and a 460% increase on the 2004 figure - around 12,000 new customers





ONI has conquered a growing share of the volume of new broadband users in Portugal. According to the latest market data available, the company had achieved a share of more than 20% in new ADSL customers in the third quarter. According to the latest data available from ANACOM, the market share of the ADSL customer base in the residential segment has grown favourably, moving from a marginal position in 2004 to around 4% in 2005 and close to 10% by the third quarter of 2006.

At the end of 2006, the primary operational highlights were as follows:

Operating Highlights			ONI
	2006	2005	Var. %
New Broadband Customers (retail segment) (customers)	68	32	114.2%
Total Voice Traffic (million minutes) Direct Access Voice Traffic (million minutes)	1,121 300	978 244	14.6% 23%
Human Resources	395	492	-19.7%







1. QUALITY

Quality is encompassed in the strategic guidelines that the EDP Group presented to the market in 2006 and upholds the stated vision that EDP is a supplier of reference and a leader in the creation of value in the markets where it operates. Firstly, because it is fundamental for the risk management of the business and for meeting the needs of customers. Secondly, because it contributes to efficiency through a strategy of excellence in process performance. Thirdly, because sustained growth involves adequate procedures to manage innovation and the improvement of processes and knowledge, characteristics of systematic approaches to quality.

In this respect, significant activity occurred in 2006 as regards the consolidation of management systems, improved process performance and increased focus on internal and external customers. This resulted in a greater number of projects and initiatives adapted to the specific needs and circumstances of the various businesses and their locations.

In 2007, the Organisational Development Directive was created within the Corporate Centre with the responsibility of promoting and coordinating quality and excellence within the group in general and, more specifically, the themes of organisation and management by processes.

1.1. Consolidation of Management Systems

Management by Processes

Management by Processes constitutes a structural approach in organisational management and during 2006 this was developed to a remarkable extent within the EDP Group. The PR.O.S. project (Processes, Organisation and Systems) should be highlighted, as the results of this scheme are already evident in 2007 with respect to systematising and integrating approaches and management support tools and in the rationalisation of EDP Group procedures of greater critical nature and transversality.

Important projects were implemented in 2006 to map, classify, (re)design and standardise processes, of which the following deserve mention:

- The PROEDIS Project at EDP Distribution, which concluded the redesign of primary operational procedures and began their implementation;
- Project Quality at EDP Produção which placed particular emphasis on the organisational restructuring of the company;
- At EDP Valor, the project "Management by Processes" and the scheme "Valer+" ("Value+") aimed to define and establish a system to manage and improve processes and to create a manual containing a repository of information about EDP Valor's business procedures;
- The organisational manual of Energias do Brasil companies which includes the company's organisational chart with graphical representations of reports and the names of the senior office-holders; a list of acronyms for the organisational units; the duties manual which contains a complete list of the functional roles also listed by organisational unit and by position; the procedural manual with written and graphical information about each one of the redesigned processes and the skills manual.

Quality certification

In order to maintain EN ISO 9001:2000 certification, audits were conducted by the certification entities of the generation, distribution and supply areas at HC Energía as well as the engineering and maintenance projects areas at EDP Produção.

At EDP Valor and Labelec, work continued on implementing management systems certified according to the EN ISO 9001:2000, EN ISO 14001:2004 and OSHAS 18001:1999 standards for quality management, environmental management and the management of occupational health and safety, respectively.

Labelec also received accreditation from the Portuguese Accreditation Institute (IPAC) for its energy metering and heat chamber testing laboratories. Procedures are underway to extend the accreditation to the insulating materials and environmental laboratories for a considerable number of new tests.



1.2. Performance improvement

With specific goals of creating value through achieving gains in efficiency and/or effectiveness, several projects were developed or continued in 2006 to improve processes, amongst which the following deserve mention:

- As regards generation, the first phase of the Lean programme was executed at EDP Produção and HC Energía. By the end of the year, this methodology for controlling and improving processes had already been implemented at the Sines, Setúbal and Soto power stations;
- EDP Distribuição enacted its programme to improve the quality of technical service, which aims to achieve service quality standards that correspond to company objectives and customer expectations. It also implemented the Data Quality programme to improve the quality of data in the company's information systems. "Produtividade+" ("Productivity+") aims to improve productivity in grid areas and conduction centres, targeting the company's own resources and the resources of service providers and mobility management providers included in the Lean Distribution programme;
- At HC Energía, 12 new Six Sigma projects were initiated, leading to accumulated savings of around EUR 3 million. Another 47 smaller-scale improvement projects were developed as part of the IMAS programme for managing employee suggestions;
- The "Efficient Value" project at EDP Valor involved a series of improvements made to the SAP R/3 technological platform. Specifically, these included the implementation of auto-invoicing and electronic invoicing of suppliers, the creation of a specialisation module, improved functionality in supporting HR management procedures, strengthening internal control mechanisms for the procedures in question. An investment of around EUR 383,000 with a three-year NPV of EUR 3.9 million has been estimated for these improvements.

Internal and external benchmarking activities were also extensively developed in the quest to improve process performance. Of note amongst these are those

implemented in EDP Valor concerning the performance of the group's primary support procedures, the results of which formed the basis for a variety of improvement initiatives.

1.3. Focus on customers

The focus on customers was consolidated indirectly in 2006 through the strategy of management by processes already mentioned, the corollary of which is to focus directly on the customer through specific marketing and customer relations management initiatives (described in other chapters of this report).

In this area, two projects focusing on external customers were concluded at HC Energía: the SIGLO project, which sought to create a new management system for free market customers and the "Voice of the Customer" project which was developed to manage customer-based knowledge. As regards internal customers, the "Customer Relationship Model" was begun in 2006 by EDP Valor to review and improve the processes and tools associated to the various phases of the customer relationship cycle: contracting of services and defining service agreements; managing service provision; handling complaints and suggestions; assessing customer satisfaction; billing and reporting on services provided.





2. HUMAN RESOURCES

2006 was a year of strong growth in the areas of human resources organisation and development. Additional projects were developed which contributed significantly to the increased awareness of human capital and core competencies for necessary management processes and changes, all within a multi-national context and in line with the group's strategic guidelines.

2.1. Strategic management of human resources

A series of projects were developed in the course of the year designed to further develop human resources in the EDP Group:

- Management appraisal: This project aims to evaluate and strengthen competencies, knowledge and professional development of managers and directors according to a framework of national and international benchmarking concepts. It continued in 2006 and involved 78 more employees for a total of 621 participants in Portugal. It was also extended to companies based in Spain, where 151 employees participated and to Brazil, where the project had a participant base of 180 senior managers;
- External and internal coaching: This was begun for senior management and executives with potential and comprised a total of 50 employees in Portugal and Spain. Several external and internal coaching programmes were conducted by leading international and national coaches and focused on the development of behavioural skills where larger gaps had been recognised;
- Mentoring: Mentoring programmes were initiated for two employees with the objective of monitoring and developing their careers, aligning them with the EDP Group strategy;
- Restructuring of career plans and salaries: This
 project involved around 180 Energias do Brasil
 employees from senior and other positions. Its main
 objectives were to rationalise structures, promote
 the level of company competitiveness compared to
 the market, encourage national mobility, enable
 the identification and retention of "talent", define
 remuneration strategies, strengthen the corporate
 culture and improve the organisational climate;

- Y-shaped careers: Following the development of the "Y-shaped careers" project, its results were applied at the beginning of 2006, resulting in salary increases and the awarding of benefits to around 50% of the senior management involved (408 employees);
- Mobility management: Conceived in 2005 with a focus on the response to the internal mobility needs of employees as well as companies, the internal management of mobility project began in 2006, putting into practice its basic principles:
 - Identify and develop the individual capabilities of employees, thus leading to a deeper knowledge of individual and personal skills;
 - Effectively meet the organisation's mobility needs, ensuring awareness of the company's roles and structures;
 - Promote the internal mobility needed for succession plans.

In this context, a space was created in the company intranet which allows any employee to register his or her interest in new roles and activities whilst simultaneously learning about opportunities for mobility that may arise within the EDP Group.

By the end of 2006, 58 requests for mobility had been received from different EDP Group companies. These employees went on to have their skills rated and be interviewed in order to analyse and adapt them to other roles and placement elsewhere.

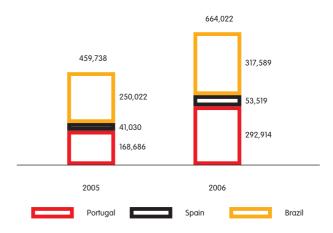
As regards international mobility and based on international labour regulations adapted to the mobility demands of more diversified professional groups, 18 employees were placed in different countries where EDP is present, namely Spain, Brazil and Cape Verde.

Training

Throughout the EDP Group, more than 664,000 hours of training time were recorded in 2006, 44% more than in 2005.

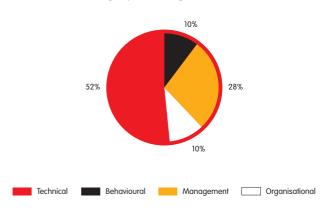


Hours of Training



Technical and management training continued to be the most notable training areas in the EDP Group (Portugal), involving 71% of the trainees and 232,163 training hours.

Hours of Training by Training Area



Training in sustainable development was provided in 2006 through 389 initiatives attended by 6,263 employees for a total of 25,082 training hours.

Management Training

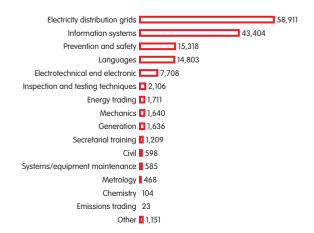
n.º of hours



As regards technical training, the electricity distribution grids' training area accounted for 8,212 trainees, the prevention and safety area for 2,784 trainees and the information systems area for 2,524 trainees, giving a total of 117,633 training hours.

Technical Training

(n.º of hours)







In organisational training, 363 training initiatives were held for 7,795 trainees in the corporate project/culture and quality areas.

The investment in employee development in the EDP Group in Portugal encompassed 8,046 people and a total of 292,914 training hours divided amongst 2,722 training initiatives, at a total direct cost of EUR 5.98 million.

The development of key management staff and their adaptation to the constant demands of the market guided training in the following areas:

- The "Managing Change" training programme: This
 programme in strategic leadership was developed
 in partnership with the Universidade Nova de Lisboa
 and constituted an instrument of change for the
 group. Ten training courses were held for 269
 managers in which the following themes were
 addressed: strategy and value creation, process
 management and quality in services, organisational
 culture, people management and change
 management.
- Advanced training: This component included advanced training programmes held at higher education schools in Portugal and abroad with the objective of developing the management skills and specific competencies of 24 employees. Events featuring highly respected, international consultants were attended by more than 200 EDP Group employees. The scheme also offered behavioural training designed to promote the professional development of managers, encouraging them to continuously adapt to the group's strategic needs. Of particular note are the "Effective Communication" and "Behavioural Feedback" training programmes directed at senior management and managers with potential.

In Spain, a total of 53,519 training hours were undertaken at HC Energía and Naturgas. Of these, 36,260 hours formed part of 701 initiatives carried out by HC Energía in which 1,200 employees participated. These initiatives essentially covered the specific technical areas of generation and distribution (62%) and occupational safety (20%);

More than 1,100 training initiatives in predominantly technical and commercial areas were held in Brazil for a total of 317,589 hours, 27% up on 2005. This also included the Official Education Incentive programme, in which the company subsidises 50% of undergraduate education costs and 80% of post-graduate education in order to increase the education level of employees.

Energias do Brasil was also involved in the "Junior Apprentice" social inclusion programme which seeks to provide professional training to youths aged from 16 to 18 years from less privileged social backgrounds.

EDP also participated in the following initiatives in 2006:

- Various collaborations and traineeships were held with directors from Empresa de Electricidade de Angola (ENE). These were based on the protocol agreed between companies to exchange knowledge and experiences and culminated in a visit by the ENE directors to a working session of the EDP Executive Board of Directors;
- Senior managers from Electricidade de Moçambique attended a traineeship and directors from Société Tunisiene de Electricité et du Gaz (STEG) were welcomed for a week-long visit to learn about processes related to the company's organisation;
- Affiliation with Junior Achievement (JA) and the "Aprender a Empreender" ("Learn to Endeavour") association, challenging all employees to volunteer with the "Economy for Success" programme;
- Global Management, a competition in which EDP participated not only by sending its representative teams but also played host to the national finals which involved 300 competitors.



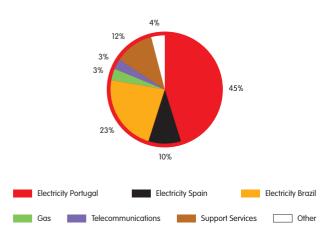
2.2. Employee composition breakdown

Number of Emplyees			
	2006	2005	Var. %
Iberian Energy Market			
Electricity Ordinary Regime Generation (ORG) Portugal Spain Special Regime Generation (SRG) Portugal Spain Distribution Portugal Spain Supply Portugal Spain Gas Portugal Spain	7,455 2,160 1,571 589 246 25 221 4,869 4,474 395 180 88 92 434 115	7,693 2,276 1,672 604 229 18 211 5,016 4,615 401 172 91 81 444 110 334	-3.1% -5.1% -6.0% -2.5% 7.4% 38.9% 4.7% -2.9% -3.1% -1.5% -3.3% 13.6% -2.3% 4.5% -4.5%
Brazil Generation Bandeirante Escelsa Enersul Supply	3,076 242 1,081 1,003 734 16	3,528 282 1,203 1,162 866 15	-12.8% -14.2% -10.1% -13.7% -15.2% 6.7%
Support Services Telecommunications Other (1)	1,627 395 588	1,654 492 506	-1.6% -19.7% 16.2%
Total	13,575	14,317	-5.2%

Note: Includes company officers and corresponds to 100% of the employees regardless of the EDP Group Shareholding.

(I) Includes holdings and other companies in which a shareholding is owned.

Employee Composition Breakdown



EDP's employee base comprised 13,575 employees at the end of 2006, a decrease of 742 from 31 December 2005. This change was strongly influenced by staff adjustment schemes, namely the Staff Adjustment Plan in Portugal and the Voluntary Severance Programme in Brazil, which forecast a net outflow of 637 employees by the end of 2007.

The 2006/2008 Staff Adjustment Plan which began in 2006 has the following objectives:

- Execute a plan designed to make workers redundant once there are no more possibilities for internal relocation;
- Ensure, under EDP's direction and with the help of a specialised company, that support measures are implemented for employees are made redundant under this plan;
- Guarantee that more socially complex cases are monitored.

This programme is part of a process to simplify the organisation and is essentially designed to speed up support procedures and technologies. Eligible employees are those whose activities can be performed with fewer resources and who cannot be reassigned to another task or location. Also eligible are employees who are assigned to companies in which a minority shareholding is held, have a guaranteed continuation of their contract at the assigned company and for whom there is "no possibility" of relocation within the Group.

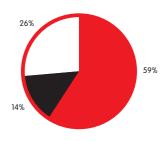
As part of this plan, socio-professional reorientation measures have been intensified for employees who leave EDP with an emphasis on practices that facilitate the search for a new job or create one's own business. Examples of these measures include the evaluation of market alternatives against the employee's work preferences and profile, CV and interview preparation, negotiating and personal marketing, entrepreneurial profile evaluation, brainstorming ideas and analysing their feasibility and preparing the project to present at the employment centre.

The Active Retirement programmes also constitute an area of concern within the present Staff Adjustment Plan in progress, as they seek to consider occupational interests and provide guidance for former employees in various aspects of their lives such as health, leisure, training and volunteer work.



The new staff adjustment scheme is thus supported by the same type of support as the previous plan, which had the following results:

Employees according to programme completed



"Active Retirement" Scheme (212 people)

"Own Business" Scheme (52 pessoas)

Jobseeker Scheme (95 people)

The last 29 recipients of support from the previous restructuring plan were recorded in 2006. These comprised 26 under active retirement, two jobseekers and one own-business start-up.

In terms of recruitment and selection:

- One hundred and two employees were hired in Portugal, 58% of whom were under 30 years of age, which represents a continued effort to rejuvenate staff:
- The company participated in job fairs, with special emphasis placed on the Instituto Superior Técnico's Electrotechnical and Computer Engineering Fairs;
- Several traineeships were offered, including:
 - Two hundred and twelve professional traineeships for young workers from Portugal and Spain;
 - Ninety-three work experience placements;
 - Fifteen work experience placements with the International Association for the Exchange of Student for Technical Experience (IAESTE);

- Twenty-one work placements with the Fundação da Juventude (Youth Foundation) through the Company Work Placement Programme for Young Students in Higher Education (PEJENE) as well as work placement schemes for recent graduates at the Companhia de Electricidade de Macau as part of that company's "Young Employees" programme;
- Eighty-one work placement schemes for students at Energias do Brasil with an average duration of six to twenty-four months.

2.3. Occupational health and safety

For EDP, health and safety in the workplace are imperative conditions for the normal evolution of its business activities. For this reason, they constitute an essential strategic objective in the group's sustainable development. EDP intends to maintain its status as a national point of reference for safety management and achieve international best practices, having achieved the following in 2006:

- The EDP safety policy was revised and updated, demonstrating a commitment to managing safety in the workplace. This was done from a perspective of continuous improvement and in the belief that development of employment in a safe and healthy environment is a determining factor in employee satisfaction and an added value for successful results;
- The alcohol prevention and control policy was approved, which has the fundamental aim of contributing to the health of individuals and improving safety conditions relative to job performance. Its objective is one of prevention, recognising that the (excessive) consumption of alcohol is harmful to health, that the presence of alcohol in the blood affects the safety and quality of work and that it is each person's responsibility to consume in moderation

In Portugal, EDP has 104 elected employee representatives for occupational safety, hygiene and health, who make up the various safety committees and sub-committees of the organisational units. In 2006, 97 safety committee and sub-committee



meetings were held. Programmes and action plans for safety activities as well as the results of occupational accident studies and recommended corrective measures were presented and discussed.

The annual EDP Awards for Occupational Prevention and Safety were created for three categories: employees, teams and external service provider companies. These awards were developed to recognise those who, during the year, have developed initiatives or activities related to occupational safety and who have made relevant contributions to strengthen and consolidate EDP's philosophy of prevention.

The following events in 2006 deserve special mention:

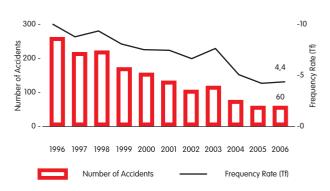
- EDP signed the World Safety Declaration (WSD) as a founding member, thus joining a worldwide commitment to improving safety conditions in the workplace;
- EDP continued to implement and consolidate its management system for occupational safety, hygiene and health (SHST) throughout the group, using the OHSAS 18001:1999 specification and the ILO-OSH 2001 system recommended by the International Labour Organisation as references;
- Activities relating to the safe use of electricity were held in collaboration with schools in order to teach young children about the risks of electricity and its correct usage;
- Seventeen simulation exercises for accident response scenarios were carried out in various industrial and administrative facilities. These were designed to test the effectiveness of the respective internal emergency plans and involved the fire department, police and civil protection units;
- The company agreed to a protocol with the
 Universidade Nova de Lisboa's National School for
 Public Health to participate in "Scenarios against
 the Flu Pandemic" project in order to contribute to
 the study of this problem as well as develop a
 contingency plan to respond to the threat of an
 eventual flu pandemic;

 The Shell Lubricants Prize was awarded for the work carried out at the Tejo-Mondego power station on the theme of "PHTM Management System for Prevention and Safety and Specific Activities Related to Lubricants."

Accidents in the workplace and their frequency at EDP

Despite efforts made in the area of safety, the principal indicators remained at the same levels as in 2005.

Accidents and their Frequency



The frequency index in the Portuguese electricity sector equalled 4.43 accidents per million hours worked, which increased to 5.75 when the service providers for industrial generation and distribution activities are included. For the EDP Group as a whole, the frequency rate equalled 4.61 accidents per million hours worked.

The gravity index for the Portuguese electricity sector was 345 calendar days lost per million hours worked, whilst this indicator equalled 252 days for the EDP Group as a whole.





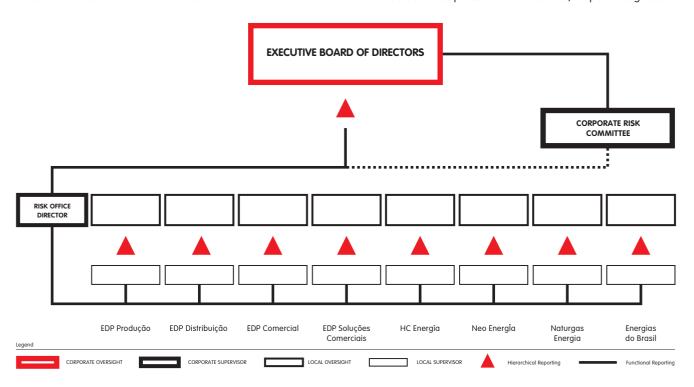
3. RISK MANAGEMENT

Structure of risk management.

The Group business strategy is based on the creation of benefits for customers through a balanced cost - risk relationship, whilst seeking to provide value for interested parties and protecting the performance and reputation of the Group through prudent management of the risks inherent to the sector.

- To ensure that the most significant risks are monitored;
- To establish reporting mechanisms;
- To produce recommendations on policies, procedures and risk thresholds for the Group.

At a corporate level, the Risk Management Office exercises independent risk control, supervising and



The Executive Board of Directors decides on the level of exposure to be assumed by the EDP Group in its different areas of business, defines the overall risk thresholds and ensures that risk management policies and procedures are followed.

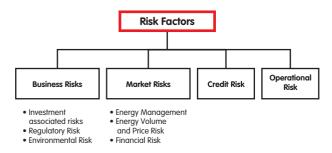
It is supported by a Corporate Risk Committee, headed by the Chairman of the Board of Directors and comprising the Chief Financial Officer and Director of the Board for Energy Management, as well as the managers of the Risk Management and Finance Offices and the Energy Management Unit and other senior managers, invited according to the agenda in question. Its main tasks are:

reporting continuously on overall compliance with the established procedures and limits. It is also responsible for developing specific models and methods for risk management.

The business units manage their own risks within the established criteria and delegated areas, There is double reporting by the Risk Officer of each Business Unit and the Manager of the Risk Management Office, to ensure that the activities, reporting and control are in harmony with each other.



The main risk factors identified by the EDP Group are structured as follows:



Risks associated to investment: In addition to the usual risks associated to the investment cycle, the liberalisation of the market presents new problems relating to decisions on growth - risk opportunities, bearing in mind the long-term positioning of competitors. With regard to growth through new investments, in 2006 an investment assessment and decision-making procedure was implemented which allowed for greater standardisation and control over quantifying the expected return on investments, by homogenizing cash-flow discount rates and modelling scenarios (incorporating different sensitivities to, for example, price risk, amount of energy, regulation). The creation of investment committees (in the business units and at corporate level) enabled these mechanisms to be implemented effectively in the investment assessment and surveillance phase, by monitoring operating risks during this phase and their potential impact on expected returns.

Regulated risks: Political and regulatory decisions pertaining to the energy sector can give rise to risks that are difficult to anticipate and mitigate.

The Group therefore plays an active role in analysing and studying alternatives that may help decision-makers to take Group perspectives into account. Some uncertainty remains with regard to regulation of the energy sector, both in Portugal and in Spain, leading, on the one hand, to a need for uniform regulation between the two countries and, on the other hand, to a need to minimise tariff deficits in the electricity sector in both countries, in particular the securitization of the 2005 tariff deficit in Spain.

The decision by the regulator to attribute CO, emission rights and the volatility of the price of these on the market has created a risk for the EDP Group, particularly with regard to the power stations operating in the market. This risk has been mitigated, as any other regulated risk would be. This mitigation has been further aided by strong investment in energy from renewable sources, new thermoelectric power stations with low CO, emissions and investment in carbon stocks and CO, sink projects. The agro-forestry project at Quinta da França is an example of the latter, and is expected to produce a carbon stock equivalent to 7,000 tonnes of CO, per year between 2006 and 2012, thus reducing the national emissions balance by this amount each year and demonstrating the viability of expanding this initiative on a much wider scale nationwide.

In the distribution business in Brazil the methodology for tariff reviews has been refined, after regulatory bodies experienced a period of uncertainty regarding the result of the first cycle of reviews. The start of the new cycle of tariff reviews in 2007, including new methodology, obliges Energias do Brasil to take an active stance in relation to the actions of the regulatory body in order to ensure gains that can be forecast.

Environmental risk: The environmental obligations of the Group are strictly managed and controlled, ensuring that legislative requirements are fulfilled and the risk of environmental accidents is minimised.

It should be noted that by 30 April 2007 the DRA - Directive on Environmental Liability - (EC Directive 2004/35) will be transposed into Portuguese law. This legislation relating to a public system for environmental liability is distinct from the already existing - civil liability - regime based on the "polluter pays" principle, and aims to ensure that liability for damage to the environment, or any threat of such damage, fall on the entity responsible for the damage. It envisages recourse by operators to insurance or



other forms of financial guarantee and the development of instruments and financial guarantee markets to provide effective cover for the financial obligations arising out of this directive (the Group already has industrial multiple-risk and civil liability insurance in this area, the appropriateness of which for the purposes of the aforementioned directive will have to be duly reviewed).

In order to ensure that existing policies and procedures are appropriate to the directive, the DRA Project was launched, coordinated by the Sustainability and Environment Office. It is being implemented via the Risk Portal as a tool to support the project activities. This tool comprises an inventory of risks in terms of environmental liability, both objective and subjective, and it is the responsibility of the business units to update environmental risk management plans so that immediate measures to contain any environmental damage, in addition to preventive measures aimed at minimising incidents related to this type of damage, are reinforced.

Energy management: Approximately 65% of the production portfolio for the Iberian Peninsula is not exposed to risk as a result of Power Purchase Agreements signed with REN. The remainder is managed on the market by the Energy Management Business Unit (UNGE), which makes use of a range of policies and operating procedures incorporating approved risk management policies and principles. On the liberalised Iberian market, the UNGE positions are divided into two management areas:

- Structural, which consolidates all positions established in bilateral contracts with electricity suppliers and those positions of active energy producers;
- Business, which focuses the (physical electricity and financial market) transactions aimed at: (i) effecting capital gains (e. g. positioning on the OMIP forward market); (ii) ensuring profit by totally or partially eliminating the market risk through a purchase or sale (e.g. arbitration in the Spain -France interconnection).

The level of exposure of positions arising from transactions in the trading area are defined by a specific control structure. Positions and operations in the structural area are organised by portfolio, each

corresponding to a risk cover policy, with the aim of: maximising profits, taking into account the budgeted sums and the established risk margins; and reducing uncontrollable risks

Trading activities are mainly designed to mitigate risks associated to margins, resulting from price fluctuations in the energy markets. The UNGE therefore employs a coverage policy specifically associated to the purchase of fuel for thermoelectric power stations on the open market in Portugal and Spain, Brent crude swaps, coal futures and Euro / USD forwards (the latter through the Financial Management Office).

In addition to the daily control effected by the UNGE middle-office, the corporate Risk Management Office also supervises compliance with trading margins and produces a brief monthly report assessing the situation. This assessment uses a simplified simulation model of the Iberian system which is in the process of being replaced by the MUR - the Unified Risk Model developed by the UNGE, which allows for a more sophisticated analysis of trading risks and verification of compliance with approved margins (MaR - "Margin at Risk" assessment and other indicators). This model is currently undergoing conformity assessment.

In Brazil, ENERTRADE altered the methodology used to assess trading risks, formerly based on spot price estimates available for future ENERTRADE closing positions. It will now use the estimated fixed term prices for energy, which has become the best reference for contract prices in that market. The risk policy will be adjusted accordingly.

Price and energy volume risk EDP is exposed to price and energy volume risks in the supply business on the Iberian Peninsula open market.

With regard to the risk associated to variations in the purchase price of energy and variations in tariffs for the use of networks, which may not always be automatically overcome or anticipated by customers, a regular assessment of the position of the appropriate commercial portfolio has been carried out. Once the initial phase of adjustment was complete and given the huge increase in fuel prices, the reformulation of the criteria adopted led to expectations, in the short term, of successive decreases in the amounts of energy contracted by this means, with a consequent improvement in the negative gross margin recorded.



The volume risk, deemed to be the deviation between the amount supplied as compared to the estimated amount (the incorrect forecast of the share of the open market, the influence of temperature and socioeconomic variables), was also mitigated by two measures: transactions on the organised market and improvements to consumption estimate procedures. This is one of the most important factors in internal contracts between UNGE and supply and plays a crucial role in the balanced and integrated management of the price-volume risk, both in terms of optimising commercial strategy and in terms of the hedging policy adopted by UNGE. To support these decisions, the Group has a broad-based Price and Volume Committee which holds quarterly meetings. There are also formally defined thresholds which govern the terms for contracts established with new customers and the renewal of existing contracts.

In the gas market in Spain, it is accepted that supply logistics is critical given the increase in consumption, which has not been matched by a similar expansion of infrastructures. Naturgas Energia constantly monitors the balance between supply and consumption, aiming to generate logistical flexibility in conjunction with local operators and the recently created EDP Gás. In addition, EDP is also exposed to price variations on the spot market which, coinciding with a period of need in excess of long-term contracted requirements, may create a risk that may, in part, be transferred to the end customer. Naturgas has a system for programming efficient purchaseconsumption, which closely adheres to the gas supply limits and, in order to calculate impact, takes into account past records as well as records of purchase costs and possible margin losses.

Financial risk: Group financial risks are primarily managed by the Financial Management Office, which manages the Group cash flow in Portugal, the debt portfolio and interest rate and exchange rate risks through market financial instruments.

With regard to debt risk (mainly the Euro interest rate) and exposure to counterparty credit risk in the hedging instruments used by Portugal and Spain, it may be observed that there is a low VaR (Value at Risk) / PV - (Present Value) relationship, developing over time, and diversified counterparty risk involving financial entities with appropriate ratings.

The liquidity risk is mitigated by the debt management policy and contracting new financing, the main objective of which is to manage, in a balanced way, the medium-term portfolio and smooth out maturity. This risk is also mitigated by the availability of (underwritten) credit facilities that are contracted and not used

In Brazil, the Risk Management Policy describing the thresholds and procedures to be adopted by Energias do Brasil has been formalised by the Financial Department and a new registration, risk measurement, accounting and planning system - Risk Control - has been implemented. A low VaR (Value at Risk) / PV (Present Value) relationship can also be observed, together with a diversified counterparty risk involving financial entities with satisfactory ratings.

Exposure to exchange rate differences arises mainly out of investments in Brazil. With regard to the impact of fluctuations in the price of shares held by the Group in Energias do Brasil, which are only reflected in the consolidated balance sheet, no form of hedging has been implemented, given the long-term nature of the investment and the fact that the short-term variations are considered acceptable. Concerning foreign currency debt fluctuations, which affect the consolidated statement of results, a policy of obtaining new loans only in local currencies and the use of swaps for existing loans has been adopted.

Liabilities arising out of the EDP Group Defined Benefits Pensions Fund and health care benefits in Portugal are fully covered by Pensions Fund assets and specific provisions within the EDP balance of accounts. These liabilities are calculated annually by an Independent Actuary on the basis of IFRS-IAS assumptions, taking various features into account including the performance of the Fund, demographic features, economic variables and the relevant requirements.





In 2006 a new governance model for the EDP Group Defined Benefits Pensions Plan was approved, which aims to ensure coordinated management of the Pensions Plan in terms of finance, human resources, planning and control and risk management.

Given the concern for the integrated and balanced management of assets and liabilities, an asset liability modelling study was carried out by an independent body. This study enabled the EDP Group to redefine its investment policy and make it better suited to the finance strategy of the Defined Benefits Pensions Plan, given its structure and liabilities.

With regard to the EDP Pension Fund (Portugal), studies were made of the composition of the portfolios and the overall and individual calculations of VaR and RAROC (Risk Adjusted Return on Capital) as well as the risk of certain structured products was assessed.

The same procedures were applied to the captive Group company - Energia RE - involving analysis of the composition of the Pension Fund portfolio and the VaR and RAROC calculations, with the results proving to be reasonable and stable.

Credit risk: This type of risk is understood to signify the risk of loss resulting from the failure of a counterparty to fulfil its obligations. Whenever possible an external form of rating is used to establish the credit quality of the counterparty (or, when unavailable, an in-house model is used). Counterparty limits and criteria for the diversification of the counterparty credit risk are established. Moreover, transactions with customers are also subject to this risk and an external rating is also employed for corporate clients, in addition to an internal performance index that is also applied to residential customers. The commercial unit uses the criteria of delegation of individual limits, segmentation and customer credit rating.

A specific study of this subject was commissioned in relation to customers, which revealed a need for improvement, specifically in the following areas: a database including credit ratings; a plan to reduce repayment terms; a new debt monitoring scheme; a plan of action to recover outstanding debts and the implementation of improved practices.

In Brazil the issue of credit risk was mainly dealt with under the risk policy for financial assets and involved the establishment of limits on company disposable assets. These limits to be taken into consideration were: rating, individual counterparty concentration, volume and length of application.

Operational risk: This involves potential losses resulting from incidents caused by faulty or inadequate procedures, staff, equipment or systems or resulting from external incidents (including the risk of failure to comply with legislation and ethical standards; operating losses including economic and non-economic effects and loss of reputation).

A review was carried out of crisis management procedures (interruption to supplies, accidents, natural disasters etc.) and the EDP Crisis Management Plan has been drawn up with the aim, in this phase, of covering the electricity sector in Portugal. The Plan liaises the Business Units' Emergency and Contingency Plans with the Communications Plan and a corporate governance model. It aims to grade interventions according to the scale of the crisis (very serious, serious or slight), both in terms of operational response and communications with interested parties, namely the media, and the decision-making and coordination policy (EDP Crisis Management Office, Company Crisis Management Office, Local/Regional Crisis Office).

In relation to information technology and commercial support services, a study was carried out leading to proposals to introduce redundancy in order to mitigate the risk of structural weakness. In particular, due to the risk of serious inability to attend to customers, EDP Soluções Comerciais was authorised to proceed with the launch and implementation of a project to create a suitable alternative. With regard to the risk of being unable to print and envelope bills and other documentation for Group clients ready for postage, in addition to the risk of the Data Processing Centre becoming inoperational, the Information Systems Office is responsible for contracting alternative services to ensure minimum operation of the system.

The most significant risks, which are transferable to the insurance market, pertain to industrial facilities. In order to optimise insurance costs and improve their control, EDP Valor implemented a new Insurable Risks Management Model, based on the establishment of



joint programmes for all Group companies in Spain and Portugal, direct contracts in the insurance market and the boosting of the role of the Group's own reinsurance company - Energia RE.

Distribution assets are also covered by this insurance programme, although in Portugal only self-insurance via the captive company is available for the overhead power lines. The Group makes use of maintenance programmes and adequate forms of intervention in order to minimise the vulnerability of these infrastructures. Moreover, this policy applies to all Group assets, and aims to employ accident and breakdown preventive measures together with appropriate maintenance and training programmes to minimise these risks.

The risk of claims from third parties for material or bodily damage and their consequences caused by the Group's activities is also duly covered by civil liability insurance

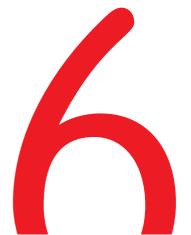
The Group does not expect any negative repercussions with regard to legal risks, either involving litigation or arbitration connected to operations involving both the licensing of new facilities or compliance with tax and accounting obligations.

The Risk Portal

This instrument was developed with the aim of providing the Group with a repository of all the relevant risks. The portal, which is periodically updated by those responsible and can be consulted by those with authorisation, serves as the main support tool for effective Enterprise-wide Risk Management (ERM) throughout the EDP organisation in accordance with international good practice in risk governance (COSO) and legal and regulatory requirements (the Sarbanes-Oxley Act).

The Portal enables the main Group risks and the risks involving each business unit to be known, directly and immediately. It also reveals their impact and the way in which they are being managed in order to reduce this impact at the appropriate levels, in line with the approved risk strategies. In addition, it is a very important driving force behind the dissemination and consolidation of a risk management culture throughout the Group.

The Risk Portal was implemented in 3 phases: Phase 1, which started at the beginning of June, consisted of identifying and registering on the Portal the main risks and mitigation measures for each of the principal group companies in Portugal, Spain and Brazil; Phase 2 consisted of setting up the normal operation ("self-service") for these main Group companies; Phase 3 will constitute the launch of the Portal in the remaining Group companies it is intended to serve. The Project is already underway in 24 of the 27 most important companies and it is expected to be completed by mid-2007. The success of this initiative is already evident, conferring on the Group an important role in the implementation of best international practices in the field.





4. INFORMATION SYSTEMS

4.1. Governance

In 2006 the management model for information technology, implemented in 2005, was consolidated, both in terms of the internal customer relations model and the management of outsourcing, and the following activities were of particular importance:

- Multi-annual planning of activities, with priorities defined in line with corporate strategy;
- Centralised management of business needs, technological solutions, relations with suppliers, financial control and execution of ongoing maintenance projects or activities;
- The definition and documentation of processes and interfaces involving businesses and outsourcers;
- The scheduling of activities according to business priorities and available capacity, both in terms of internal IT resources and the capacity to mobilise business resources to specify needs and take part in projects;
- Effective measurement of service quality indicators defined for outsourcing contracts;
- Acquisition and implementation of IT governance software to guarantee the viable implementation of the management model adopted.

4.2. Main projects / initiatives

The main aim of the 2006 information systems initiatives was to empower business with the tools required to deal with the major challenges faced by the Group. Various projects were launched with this purpose in mind, the most important of which involved:

- Support for initiatives to increase operational efficacy and efficiency in the different companies. business units and the Corporate Centre offices:
 - EDP Distribuição: workforce management, distribution productivity management system, Energy Purchases Office management procedures;

- EDP Produção: The SKIPPER Project, which
 consisted of developing a platform of tools for
 accessing real-time information on the
 performance of the generating plants, in order
 to support strategic decision-making, and
 optimise performance and operational
 management at each plant;
- EDP Valor: Valor Eficiente (a package of improvements for back office systems), insurance management;
- SIGMED II, involving the development of a new Săvida information system, with the aim of modernising applications supporting business requirements and situations;
- Corporate Centre Offices: Risk analyser, environmental information system, the adaptation of the SAP system to encompass environmental accounting rules, Risk Portal;
- Transversal projects: The corporate portal, restructuring of access authorisations for the EDP Group's Enterprise Resource Planning (ERP).
- Alterations to systems to be made in order to ensure compliance with new regulatory requirements:
 - Standard Low Voltage (BTN) liberalisation programme, including Switching;
 - Operational start-up of OMIP;
 - Adaptation of GAIA (Environmental Management) to new environmental regulations;
 - Creation of Last Resort Seller.

4.3. Outsourcing contracts

LogicaCMG was the strategic partner chosen in 2005 to hold a majority stake in EDINFOR share capital and manage the company, and consequently the outsourcing contracts for EDP.

A transitional period of nine months was set, ending in February 2006, to enable LogicaCMG to effect the alterations and improve levels of performance, in the

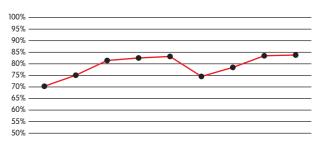


context of the changes to the IT control and management model. The proposed objectives were to achieve the required efficacy to meet the SLAs established in the contract and the required level of efficiency to do so profitably.

20 months after the contract came into force and 11 months after the transitional period ended, there has been a measurable positive development in all contracts. However, this development was not sufficient to meet all the service levels established in three of the five contract groups (CPD, WAN, SD+LAND Desktop, applications maintenance and printing and finishing).

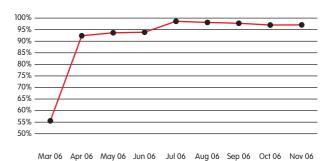
This non-compliance gave rise to some delays in projects and the established penalties were levied.

Global Performance Index - CPD

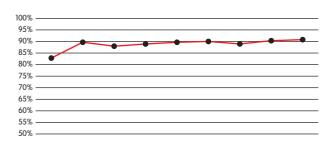


Mar 06 Apr 06 May 06 Jun 06 Jul 06 Aug 06 Sep 06 Oct 06 Nov 06

Global Performance Index - WAN



Global Performance Index - SD+Lan&Desktop



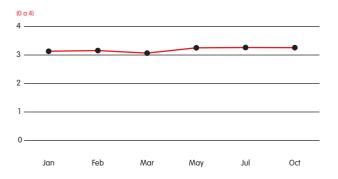
Mar 06 Apr 06 May 06 Jun 06 Jul 06 Aug 06 Sep 06 Oct 06 Nov 06

In terms of efficiency, all the objectives related to reducing information technology operating costs were met. Operating costs are fully in line with the objectives defined in the forecasts made at the time of the sale of 60% of EDINFOR's share capital.

4.4. Perceived Service Quality

Perceived service quality was regularly assessed by telephone surveys involving a universe of 400 users chosen at random from the EDP universe and showed satisfactory results with an upwards trend.

Satisfaction Index







4.5. Disaster Recovery

At the beginning of 2006, following on from work begun in 2005 on a proposal for disaster recovery for the Group information system in Portugal, the business requirements were clearly defined and the need for a three-sided approach was established, involving:

- The EDP Contact Centre, for which cost estimates have been completed for the installation of a second Contact Centre. EDP Soluções Comerciais has been authorised to proceed with this project;
- The Sacavém DPC, for which an RFP has been sent to the outsourcer for the implementation of Disaster Recovery relating to the vitally important IS based there. Detailed studies are underway involving the GSI and the outsourcer on the submission of technical solutions and their respective costs, which are expected to be completed by April 2007;
- The Sacavém Finishing Centre, for which there already exists a concrete proposal from the outsourcer for a Disaster Recovery solution.
 Negotiations are currently underway regarding its implementation.



5. RESEARCH, DEVELOPMENT AND INNOVATION

In 2006, the management of EDP Group Research, Development and Innovation (RDi) activities was reformulated, reinforcing its role as an instrument for creating value for the Group, acting on three fronts:

- The maintenance of a permanent observatory of new technologies to assist the Group in making the best decisions with regard to the choice of new solutions:
- The search for the best practices and procedures, helping to create the "EDP Way", as a means of recognising within the Group the best method for implementing each procedure;
- The consolidation of RDi activities in all Group companies in order to allow activities developed at the business unit level to be leveraged throughout the Group, and increase the visibility of the same.

EDP INOVAÇÃO

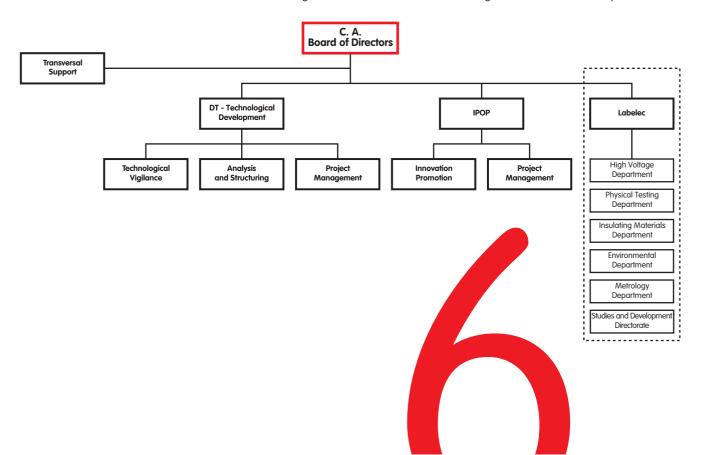
In order to implement this strategy, a new company, EDP Inovação, was created at the start of 2007. This new company was created from Labelec, so as to make use of the technical and human resources existing in

Labelec. Labelec, in turn, will continue to extend the range and depth of its work in the field of specialised assets management.

EDP Inovação will operate in the following areas:

- Technological Development It will function as an observatory for technologies that are of proven interest to business areas, seeking to identify opportunities and forms of investment. It will be responsible for managing specific projects in the technology field during the research and development phase, as well as the setting up of the respective funding structures;
- Innovation in Products, Organisation and Processes

 It will be responsible for fostering a culture of innovation within the EDP Group. It will function as a facilitator in defining transversal projects, through the use of multidisciplinary teams, and will be responsible for managing projects in liaison with the business areas;
- Transversal support for RDi Its main responsibility
 will be the transversal management of ideas and
 knowledge within the Group. It will develop and
 promote the use of methodologies and tools for
 knowledge management. It will also be responsible
 for consolidating RDi activities developed





throughout the Group, whilst also ensuring that communications and image management are centralised in this department.

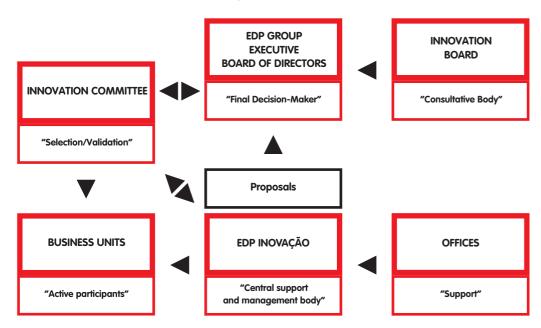
During the year, the governance model for EDP Group Innovation was also defined involving the creation of two specific organisations, the Innovation Council and the Innovation Committee. The Innovation Council provides consultancy support in the innovation area to the Group's Executive Board of Directors, and it is composed of outside figures with recognised authority in the field of innovation. The Innovation Committee, in turn, comprises the Business Units and Corporate Centre Offices and its duty is to establish priorities for investments, taking into consideration the conclusions reached by technological surveys.

Parallel to this restructuring of RDi activity, the Group continued to develop its considerable strengths in this area, with initiatives mainly undertaken through the business areas, in particular the following:

 The definition, by Labelec, of a strategy for activities in the area of wave energy, which included the definition of open architecture for wave energy enabling an off-shore substation to be shared by separate machinery, allowing for the coexistence

- of separately designed items of equipment in different stages of development;
- The CEODOURO BREAKWAVE Project, oscillating
 water column wave energy plant, for the
 development of which a consortium headed by
 Labelec has been formed. In 2006 the plans for
 this plant were completed and an International
 Invitation to Tender for the supply of the equipment
 was published. The project has applied for funding
 through the European Union's 6th R&TD Framework
 Programme and negotiations were concluded
 favourably;
- Studies have also been carried out into the photovoltaic, thermal and thermoelectric components of solar energy, and the latter study formed part of a project coordinated by the EPRI.
 Preliminary studies were carried out in the field of photovoltaic energy;
- An international project (Nanoglowa) was instituted at EDP Produção aimed at capturing CO₂ using membranes developed from nanotechnology;
- EDP is part of the national EDEN project, for the endogenisation of knowledge on fuel cells and the use of hydrogen;

Governance Model for Innovation in the EDP Group





- The WFM/GME Project launched by EDIS, which uses "Workforce management" methodologies to optimise the work of service teams and mobile units in handling failures and service orders;
- The Skipper Project launched by EDP Produção, which allows authorised users to access the technical details of the operational status of electricity generating plants on the Intranet and assess their individual impact;
- The "30 Ideas for the Future" competition launched by the Brands and Communications Department, for which employees throughout the Group submitted 183 ideas. This is considered an important action in terms of the creation of a culture of innovation within the EDP Group;
- In the area of knowledge management, the WikiEDP development was started. This involves an encyclopaedia of knowledge about the EDP Group which, through the use of open source software, aims to constitute one more step in the creation of a company networking culture within the Group to which all employees can, and should, contribute and access knowledge, regardless of their position within the company.

LABELEC

Parallel to the launch of EDP Inovação, Labelec is continuing with its usual business, which focuses on the provision of specialist services in the areas of electrical energy and the environment. This activity has been developed through five accredited and highly specialised laboratories and responds to the specific needs of the Electricity Sector (High Voltage, Metrology, Physical Testing, Insulation Materials and Environment). Labelec continues to extend the scope and depth of its activities. Its work has been carried out based around the following Departments:

 Studies and Development - The development of pilot projects and studies on electrical networks, specifically applied to the coordination of insulation, service quality and protection systems;

- High Voltage Technical and scientific work focusing on provision of services for quality control testing on high voltage equipment and systems, expert opinion and consultancy work and field tests of equipment and infrastructures;
- Physical Testing possesses the appropriate electromechanical and climatic means for quality control operations on the electrical materials and equipment of installations, including testing for accelerated ageing and the action of atmospheric agents. In the area of thermography, systematic hot-spot screening is carried out the distanceanalysis of temperature using infra-red technology;
- Metrology work in the field of energy metering / telemetry and in instrument calibration and diverse tests on testing and measuring apparatus;
- Insulation Materials Work dedicated to preventive surveillance of transformers and circuit breakers, provide expert opinions on the condition of transformers, bearing in mind their remaining estimated working life. New testing methods have been developed, namely techniques for chromatographic analysis of gases dissolved in oil and HPLC analysis of furanic compounds;
- Environment work essentially developed in the field of water and air. Various methods of analysis used, in particular conductometry, potentiometry, flame photometry, VIS-UV molecular absorption spectometry, flame, graphite tube and cold vapour atomic absorption spectometry and capillary electrophoresis.



6. SHARED AND SUPPORT SERVICES

The mission of EDP Valor is the creation of value for shareholders and for its customers by centralising the EDP Group shared and support services. The following have been outlined as strategic objectives:

- Consolidating the provision of services to EDP Group customers under highly competitive conditions, with an effective reduction in operating costs and investment:
- Implementing and adopting initiatives to improve procedures and efficiency in line with best market practices.

EDP Valor, as a corporate support services unit, is currently structured into eight areas of operation, or services platforms, which have been created over the years. At the start of 2006, these areas were in differing stages of maturity and during the year a process of consolidating the most recent platforms took place, with particular attention given to optimising the platforms that are already more stabilised.

In the former case, various actions or initiatives were implemented, in particular:

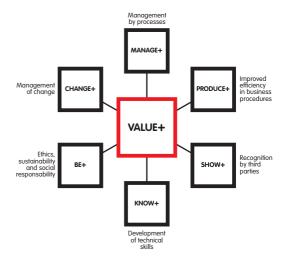
- The dynamisation of the Iberian Negotiation and Procurement Platform through weekly meetings of the Negotiation and Procurement Committee;
- The introduction of essential procurement tools, namely those associated with the geographical integration of negotiation procedures and the award of procurement contracts (Sinergie), the registration and classification of suppliers (Repro) and the creation of a Partners/Suppliers channel on the EDP site;
- The implementation of a new methodology for Quality Control, with the signing of Materials supply agreements with guaranteed quality levels;
- Organisational adjustments to concentrate procurement activities that had previously been dispersed in other platforms into one single platform.

With regard to the objective of optimising procedures and gains through efficient services, various management initiatives were implemented throughout 2006, including:

- The reorganisation of Group insurance activities, translating into the adoption of a new Iberian operational model with a broader notion of "management of insurable risks", for which purpose a new institutional structure was created to carry out these functions:
- The creation and implementation of a Recruitment & Selection service whose mission is to assist Group companies in their search for new staff and to manage the CV database;
- The reorganisation of other activities, namely the transfer of Spaces and Works activities from the Property business area to the Logistics Platform (PAL), providing closer links and gains from the associated synergies;
- The Quality Management programme (Valer +) continued to be developed along various project lines, as shown in the diagram, in 2006:
 - Implementing the management by processes project, with the aim of studying, designing and developing the QPR system;
 - Implementing the Service Management Model supporting the provision of an integrated service involving "Cataloguing Management " and "Service Management Reporting", and including the initial steps towards the launch of the component for processing "Complaints and Suggestions", the completion of which is forecast for 2007;



Structure of the Valer+ Programme

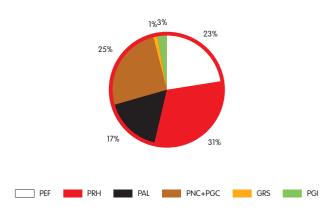


- Proceeding in terms of information technology, with the development and implementation of important operational gains, including the installation of a new fleet management (CE-Fleet) system and, by simplifying circuits and introducing new facilities into the SAP systems in the Human Resources (HR) and Materials Management (MM) areas, initiating a number of pilot projects including electronic billing and automatic billing for EDP Group service providers;
- Within the context of company optimisation and sustainability, two structural projects developed in 2006 are already in progress, involving the reformulation of the current Business Model and the Customer Relations Model;
- Supplementing the project to revise the Business
 Model with the identification and quantification
 of a significant group of initiatives aimed at
 increasing efficiency, the implementation of
 which will contribute towards optimising
 procedures and reducing EDP Valor's operating
 costs, thus adding to the EDP Group global
 objective of reducing costs (Project Opex);
- In the context of human resources, a series of measures were carried out with the aim of reinforcing skills and mobilising company teams, including staff meetings promoted by the different platforms, thematic meetings related to the work of the company and involvement in the Shared Services Club;

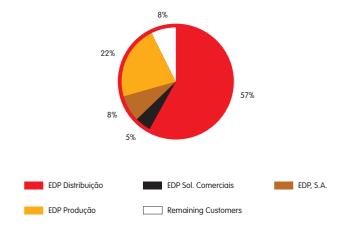
 With regard to social responsibility, the recognition obtained by EDP Valor and the attribution of the status to it of a Centre for the Recognition, Validation and Certification of Skills (CRVCC), should also be stressed.

With a diversified portfolio of services, EDP Valor invoiced EUR 58.5 million to Group companies and companies in which equity interests are held. It provided services to a total of 36 customers.

Turnover by Service



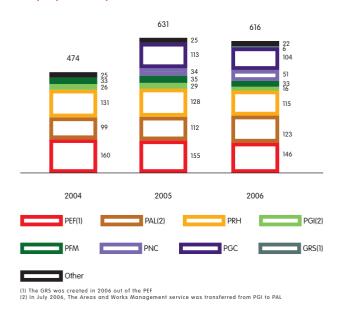
Turnover by Customer





At the end of 2006, EDP Valor had a staff of 616, whose development and location is shown in the diagram below:

Employee Composition Breakdown



The evolution of the activities of the various platforms during 2006 was as follows:

Economic-Financial Platform (PEF)

The PEF provides services to EDP Group companies in Portugal in the areas of accounting and taxation, verification and documentation of third party accounts, payments, receivables, banking and cash transactions, assistance in drawing up budgets and the supply of various forms of management information of an economic and financial nature.

As part of its work and with the aim of improving performance, a series of initiatives were launched in 2006 in all departments. Of particular importance, due to its innovative nature was automatic billing (automatic billing in the supplier's name simultaneously integrated into the EDP and supplier accounting systems). This initiative, which was tested in a pilot scheme involving a selected supplier, ran from October to December, processed and reported in the accounts approximately 2,000 invoices, and this is expected to extend to a universe of approximately 160,000 invoices over the next 2 to 3 years.

Supply and Logistics Platform (PAL)

The PAL has provided ongoing support services in the fields of works and space management, since July 2006, as well as fleet management, premises' management, prevention and safety and general administrative services.

Human Resources Platform (PRH)

The PRH provides wages and pension processing and control services and carries out all administrative support work for Human Resources departments, including requests for official statistics and the production of reports to support management.

Property Management Platform (PGI)

Following adjustments to the management of EDP Group property assets which, since the beginning of December 2006 have been centralised at EDP Imobiliária e Participações S.A., EDP Valor began transferring site management and maintenance work which had formerly been carried out in this area, now abolished following the current restructuring, to the Supply and Logistics Platform (PAL).

Training and Documentation Platform (PFM)

The PFM is responsible for training in the EDP Group and has also provided professional training to outside bodies, namely those working for the Group in technical areas, in accordance with the defined strategy. The Training Management Handbook was introduced in 2006, which established training processes and procedures

Negotiation and Procurement Platform (PNC)

The PNC is responsible for aligning strategies, including the introduction of process improvement measures, the bundling and consolidated negotiation of materials and services, obtaining economies of scale for the EDP Group and the exploitation of the potential to standardise product references in order to maximise savings. In 2006 the PNC instituted benchmarking procedures for negotiation and procurement activities in Portugal, Spain and Brazil.



Platform for Contractual Management of Technical Supplies (PGC)

The PGC is responsible for managing services and materials contracts, the administrative aspects of purchases, the assessment of suppliers and stocks and warehouse management.

Insurable Risks Office (GRS)

The GRS, created by making the Insurance and Risk Management service based in the PEF until the start of 2006, autonomous, is the first truly Iberian shared service in the EDP Group and has one Head for both Portugal and Spain.

The office is responsible for implementing the approved strategy for insurable risks, carrying out studies and drawing up hedging proposals, preparing the contract processes, the administrative and operational management of insurance contracts, the operational management of Energia RE (a captive company) and the preparation of related management information.







2006 was a particularly important year for EDP in corporate terms, involving the complete redrafting of its Articles of Association, approved by shareholders at the Annual General Meeting held on 30 March 2006. In the new version of the Articles of Association, in force since 30 June 2006, a managerial and supervisory structure was adopted which consists of the following three bodies:

- The Statutory Auditor;
- The General and Supervisory Council;
- The Executive Board of Directors.

In general terms, the new EDP Articles of Association incorporate the main recommendations on transparency and efficiency in corporate governance initially promoted by the supervisory body for the Portuguese securities market (the CMVM) and currently enshrined, to a large extent, in the Portuguese Companies' Code following the amendments introduced by Decree-Law no. 76-A/2006 of 29 March.

Within this context, it is important to note that this revision of the EDP Articles of Association is in line with modern trends in corporate governance, particularly in the following areas:

- The introduction of the 1 share / 1 vote principle;
- The reduction to 5 work days of the period of time in which proof of ownership of shares must be provided in advance for the purpose of participating in a General Meeting;
- The application of independent criteria when constituting the following corporate bodies:
 - The supervisory body, the majority of whose members must be independent;
 - The audit committee, which must be composed entirely of independent members;
 - The remuneration committee, elected by the General Meeting, composed of a majority of independent members.

During 2006, EDP was one of the companies issuing securities listed on Euronext Lisbon with the greatest number of privileged information disclosures and other market communications, publishing 32 of the former and 50 of the latter.

In fact, EDP, as an issuing body which maintains a highly transparent relationship with investors and the capital market, has maintained a policy of continuous communication with the market, whilst also attributing particular importance to adopting the best organisational models and best practices and conduct guidelines relating to corporate governance, by closely monitoring the evolution of international trends and promoting internal reflection on these matters.

For this reason, EDP has been an issuer of securities listed on Euronext Lisbon with one of the highest rates of compliance of CMVM recommendations on corporate governance and, in addition, a pioneer in adopting organisational and internal operational measures aimed at promoting best practices in this area.

In addition, EDP has actively encouraged shareholder participation in General Meetings and, with regard to this matter, it should be stressed that it was decided that the cost of issuing declarations of ownership of shares and the costs of freezing shares to allow shareholders to take part in the Annual General Meetings of 2005 and 2006, would be borne by the company.

Accordingly, EDP was a pioneer in Portugal in the use of such a measure designed to encourage the exercise of the shareholder's right to vote, which has proved effective, given the widely dispersed share capital within the company.

This report has been organised in accordance with the standard draft provided for in CMVM Regulation no. 7/2001 (amended by CMVM Regulation nos. 11/2003, 10/2005 and 3/2006) and it presents a summary of the most relevant aspects of practices regarding the governance of EDP.



1. STATEMENT OF COMPLIANCE

1.1. EDP has, in general, adopted the recommendations of the CMVM on the governance of listed companies under the terms of CMVM Regulation no. 7/2001 (amended by CMVM Regulations nos. 11/2003, 10/2005 and 3/2006.

The CMVM recommendations are as follows:

- Recommendation I-1. (Disclosure of information -Contact with investors);
- Recommendation II-2, sub-paragraphs b), c) and d) (Exercise of voting rights and shareholder representation);
- Recommendation III-3. (Corporate regulations -Internal control system);
- Recommendation III-4. (Corporate regulations -Defensive measures against takeover bids);
- Recommendation IV-5. (Managing Body -Composition of the managing body);
- Recommendation IV-6. (Managing Body -Independent status of the managing body);
- Recommendation IV-7. (Managing Body Internal control committees);
- Recommendation IV- 8., Part 1 (Managing Body -Remuneration of members of the managing body);
- Recommendation IV-9. (Managing Body -Independent status of the Remuneration Committee);
- Recommendation IV-10. (Managing Body Plans to allot shares and policy for communication of irregularities)





1.2. The following table provides a summary of the most important points contained in the CMVM recommendations:

MEASURES ADOPTED FROM CMVM RECOMENDATIONS

CMVM RECOMENDATIONS

MEASURES ADOPTED

I. Disclosure of information

Each listed company is required to ensure the appointment of a
permanent representative for liaison with the market, respecting the
principles of equality among shareholders and preventing uneven access
to information on the part of investors. The creation of a department
designed to assist investors is therefore recommended.

Creation and development of the following information channels for investors:

- Investor Relations Office (GRI)
- General access website (www.edp.pt)

II. Exercise of right to vote and shareholder representation

- 2. The active exercising of voting rights must not be restricted, either directly, in particular by postal vote, or by representation. For this purpose the following are considered to be a restriction on the active exercise of voting rights:
- a) The imposition of the deposit or blockage of shares greater than five working days in advance, for the purpose of participating in a General Meetina:
- b) Any restriction in the articles of association on postal voting;
- The imposition of a deadline of more than five working days for the reception of the declaration to vote issued by post;
- d) The non-availability of voting ballots at the disposal of shareholders for postal voting.

- Express provision and regulation of statutes on the exercise of postal voting, with no imposition of restrictions;
- EDP statutes allow for reception of the declaration to exercise a
 postal vote up to five working days prior to a General meeting;
- The right to a postal vote may also be exercised by e-mail;
- Availability of ballot papers for the exercise of voting rights by postal vote (at the website, by physical delivery or postal dispatch, through the GRI or at the shareholders' request);
- Vote by proxy accepted without any restrictions. Its exercise is facilitated through the assistance the GRI provides to all interested shareholders, namely through the supply of proxy letter forms;
- Payment of banking costs for the issue of declarations of ownership and the blocking of shares permitting shareholders to participate in the Annual General Meetings of 31 March 2005 and 30 March 2006.

III. Corporate rules

- 3. Companies should establish internal control systems, aimed at efficiently detecting risks arising out of company activities, thereby helping to safeguard the assets of the company and the transparency of its corporate governance.
- Definition of a corporate business risk management policy adopting an interconnected and efficient model of internal control aimed at detecting and mitigating the risks inherent in corporate activity;
- The creation of a Risk Management Office within the Corporate
 Centre to monitor the implementation of the risk management policy
 defined by the company.
- 4. Measures adopted to prevent the success of takeover bids should respect the interests of the company and its shareholders. Measures considered contrary to these interests include defensive clauses intended to cause an automatic erosion of company assets in the event of the transfer of control or a change to the composition of the Board which prove detrimental to the free transferability of shares and the free appraisal by shareholders of the performance of members of the Board.
- No defensive clauses whose effect might cause an automatic erosion
 of company assets in the event of the transfer of control or of a
 change in the composition of the Board (without prejudice to the
 usual change in control clauses that are not defensive in nature,
 aimed at protecting counterparts in accordance with international
 practices).



IV. Managing Body

- 5. The managing body should be composed of a number of members who provide managers with effective guidance on the management of the company.
- Notwithstanding the powers of the Executive Board of Directors as a collegiate body, each of its members have been appointed specific areas of management in order to create a more effective and efficient form of corporate management;
- Separation of the control and supervisory components of management through the creation of an Executive Board of Directors and a General and Supervisory Board, the majority of whose members are independent.
- The managing body should include at least one member who is not associated with any specific stakeholders, in order to ensure that the company's interests are fully represented.
- The managing body is composed entirely of members who are not associated to any specific groups of interest.
- 7. The managing body should set up internal control committees with powers to evaluate corporate structure and governance.
- Notwithstanding the powers of the Executive Board of Directors to define and evaluate corporate structure and governance, within the context of the current EDP governance model and under the terms of Article 23, paragraph 1 of the Articles of Association, the General and Supervisory Board has created a Corporate Governance and Sustainability Committee with the power to monitor issues concerning corporate governance.
- 8. The remuneration of the members of the managing body should be structured so as to permit their interests to be aligned with the interests of the company and they should be the object of annual disclosure in individual terms.
- Annual disclosure of the total amounts of remuneration allotted to the members of the managing body, specifying both the fixed and the variable components of directors' remuneration and the individual disclosure of those of the Chairman of the Executive Board of Directors.
- 9. The members of the remuneration committee or equivalent should be independent of the members of the managing body.
- The remuneration of the members of the Executive Board of Directors is established by a Remuneration Committee consisting of three members of the General and Supervisory Board under the terms of Article 27, paragraph 1 of the Articles of Association, the majority of whom are independent.
- 10. The proposal submitted to the General Meeting regarding the approval of plans to allot shares and/or stock options to the members of the managing body and/or employees should contain all the information necessary for a proper appraisal of the plan. The plan's regulations, if available, should accompany the proposal.
- Plans to allot shares or stock options are approved by the General Meetings in accordance with the CMVM recommendation.
- 10 A. The company should adopt a policy for communicating irregularities.
- In accordance with Article 22, paragraph 1, sub-paragraph d) of the Articles of Association, EDP provides an internal channel of communication providing direct contact with the General and Supervisory Board, thus enabling staff to provide, in confidence, information on any accounting, financial or other irregularity presumed to have taken place within the company.





2. DISCLOSURE OF INFORMATION

2.1. Transitional period - March to June 2006

At the General Meeting held on 30 March 2006, no members of the Board of Directors were re-elected. At the Meeting, a proposal was approved for the election of the current Board of Directors until 30 June 2006. During this period, the former corporate governance model, consisting of a Board of Directors that delegated everyday management to an Executive Committee and appointed an Audit Committee, would remain in force.

The members of the Board of Directors were:

Board of Directors	
Chairman	António de Almeida
	Ana Maria Machado Fernandes António Fernando Melo Martins da Costa António Luís Guerra Nunes Mexia António Luís Guerra Nunes Mexia António Manuel Barreto Pita de Abreu Carlos Jorge Ramalho dos Santos Ferreira Eduardo de Almeida Catroga João Manuel Manso Neto João Manuel Pragana da Cruz Morais José Maria Espirito Santo Silva Ricciardi Manuel Menéndez Menéndez Nuno Maria Pestana de Almeida Alves Paulo Jorge de Assunção Rodrigues Teixeira Pinto Vasco Maria Guimarães José de Mello

Executive Committee	
Chairman	António Luís Guerra Nunes Mexia
	Ana Maria Machado Fernandes António Fernando Melo Martins da Costa António Manuel Barreto Pita de Abreu João Manuel Manso Neto Jorge Manuel Pragana da Cruz Morais Nuno Maria Pestana de Almeida Alves

Audit Committee	
Chairman	António de Almeida
	Carlos Jorge Ramalho dos Santos Ferreira Eduardo de Almeida Catroga

Official Auditor	
Permanent:	KPMG & Associados, SROC, S.A., represented by Jean-éric Gaign, ROC
Deputy:	Vítor Manuel da Cunha Ribeirinho, ROC

In addition, at the General Meeting held on 30 March 2006, EDP shareholders approved changes to the corporate governance model and the adoption of a dual model, defined by the creation of a General and

Supervisory Board and an Executive Board of Directors. These alterations came into force on 30 June 2006, the date on which the changes introduced into the Portuguese Companies Code by Decree-Law no. 76-A/2006 of 29 March also came into effect.

Chairman	António de Almeida
Vice-Chairman	Alberto João Coraceiro de Castro António Francisco Barroso de Sousa Gomes Carlos Jorge Feijoo Pereira Ribeiro* Carlos Jorge Ramalho dos Santos Ferreira Diogo Campos Barradas de Lacerda Machado Eduardo de Almeida Cattroga José Manuel Archer Galvão Teles José Maria Espirito Santo Silva Ricciardi Manuel Fernando de Macedo Alves Monteiro Manuel Menêndez Menêndez Paulo Jorge de Assunção Rodrigues Teixeira Pinto Vasco Maria Guimarães José de Mello Vital Martins Moreira Vitor Domingos Seabra Franco Vitor Fernando da Conceição Gonçalves

• Announced resignation on 22 February 2007 from the General and Supervisory Board

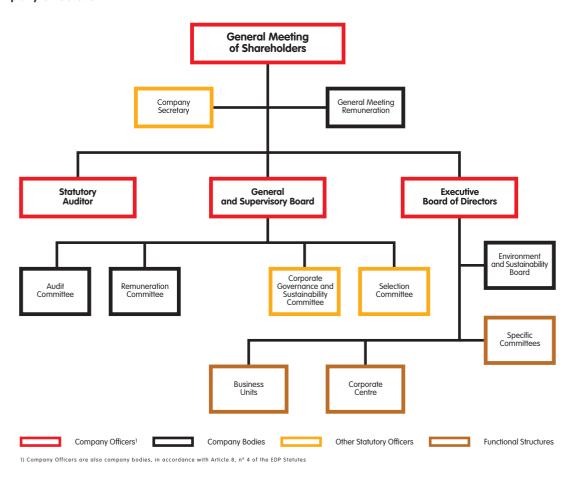
Executive Board of Directors	
Chairman	António Luís Guerra Nunes Mexia
	Ana Maria Machado Fernandes António Fernando Melo Martins da Costa António Manuel Barreto Pita de Abreu João Manuel Manso Neto Jorge Manuel Pragana da Cruz Morais Nuno Maria Pestana de Almeida Alves

Official Auditor	
Permanent:	KPMG & Associados, SROC, S.A., represented by Jean-éric Gaign, ROC
Deputy:	Vîtor Manuel da Cunha Ribeirinho, ROC

Therefore, on 30 June 2006, the members of the Board of Directors who had formed the Executive Committee elected at the General Meeting of 30 March joined the new Executive Board of Directors and the remaining non-executive members, together with other new members, joined the General and Supervisory Board. In this dual model, the Executive Board of Directors is responsible for management, supervised by the General and Supervisory Board. The Statutory Auditor, in turn, is responsible for inspecting the accounting documents.



2.2. Company structure



2.3. Governing Bodies, Other Statutory Officers and Functional Structures

2.3.1. The General Meeting

The General Meeting of Shareholders is the company's supreme body and has the following duties:

- Appraisal of the Executive Board of Directors' report, discussing and voting on the balance sheet, the accounts and the statutory auditor's report and any reports drawn up by the General and Supervisory Board and the Audit Committee, as well as deliberating on the allocation of the annual income:
- Appointing or dismissing officers of the General Meeting, members of the Executive Board of Directors and the General and Supervisory Board, as well as their respective chairmen and vicechairmen, where applicable, the statutory auditor,

- on the basis of a proposal from the General and Supervisory Board or, if so delegated, the Audit Committee, as well as the members of the Environment and Sustainability Board;
- Deliberating on any statutory amendments, including share capital increases;
- Appointing a Remuneration Committee responsible for establishing the remuneration of the members of the corporate bodies, the majority of whom should be independent;



- Assessing the annual company report produced by the General and Supervisory Board;
- Dealing with any other matters brought before it;
- Exercising any other powers that may be conferred by law.

The Board of the General Meeting

The officers of the General Meeting are the Chairman and Vice-Chairman, elected by the General Meeting, and the Company Secretary.

Board of the General Meeting	
Chairman	José Manuel Archer Galvão Teles
Vice-Chairman Company Secretary	António Campos Pires Caiado Maria Teresa Isabel Pereira

2.3.2. The General and Supervisory Board;

Under the terms of the Articles of Association, the current General and Supervisory Board, which took office on 30 June 2006, has a mandate of 3 years. On 31 December 2006, the Board was composed of 16 members, most of whom were independent, who met the requirements for training and skills stipulated in legislation or regulations applicable to EDP. The work of the General and Supervisory Board is governed by internal regulations.

The EDP General and Supervisory Board monitors and oversees, on a permanent basis, the activities of the EDP management, cooperating with the Executive Board of Directors and the various other corporate bodies and officers to pursue the interests of the company, under the terms stipulated in the Companies Code and in its Articles of Association, namely to:

- Oversee, on a permanent basis, the management of the company and controlled companies and, in this respect, to advise and assist the Executive Board of Directors, particularly on strategy, achievement of goals and compliance with the applicable legal rules;
- Deliver its opinion on the management report and annual accounts;

- Oversee, on a permanent basis, the work of the statutory auditor and the external auditor and, with regard to the former, to issue pronouncement on the respective election or appointment, removal from office, independent status and other relations with the company;
- Oversee, on a permanent basis, and evaluate internal procedures relating to accounting and auditing matters, as well as the efficacy of the risk management system, the internal control system and the internal audit system, including the way in which complaints and queries are received and processed, whether originating from employees or not;
- Propose to the General Meeting the removal from office of any member of the Executive Board of Directors;
- Monitor the definition of criteria and responsibilities required or appropriate for the structures and internal bodies of the company or Group and their impact, in addition to drawing up follow-up plans;
- Arrange, in accordance with the law, for the replacement of members of the Executive Board of Directors in the event of absence or temporary impediment;
- Provide, on its own initiative or when requested by the Chairman of the Executive Board of Directors, an opinion on the annual vote of confidence in directors referred to in Article 455 of the Companies Code;
- Monitor and assess matters relating to corporate governance, sustainability, internal codes of ethics and conduct and compliance with these codes, systems for appraisal and conflict resolution, including those associated with the company's relations with its shareholders, and deliver opinions on these matters;
- Obtain the financial or other means which it reasonably believes necessary for its work and request the Executive Board of Directors to adopt the measures or corrections it deems appropriate, being authorised to use the necessary means to obtain independent advice, if required;



- Receive regular information from the Executive Board of Directors on significant commercial relations between the company or controlled companies and shareholders with a qualified stake and related persons;
- Appoint the Remuneration Committee and the Audit Committee;
- Represent the company in its relations with directors;
- Supervise the activities of the Executive Board of Directors;
- Monitor compliance with the law and the Articles of Association;
- Select and replace the company's external auditor, giving the Executive Board of Directors instructions for the engagement or dismissal of the same;
- Monitor, when and how it deems appropriate, the bookkeeping, accounts and supporting documents, as well as the status of any assets or securities held by the company;
- Supervise the preparation and publication of financial information;
- Convene the General Meeting when it deems appropriate;
- Approve the respective internal regulations, including rules on relations with the various governing bodies and officers;
- Exercise any other powers that may be conferred upon it by law.

Within the context of the new EDP corporate governance model, the General and Supervisory Board is also attributed particularly significant powers, for even though it has no managerial powers, under the terms of Article 442, paragraph 1 of the Portuguese Companies' Code, the approval of certain acts, namely the following, requires the prior favourable opinion of this corporate body:

- The corporate strategic plan;
- The purchase or transfer of assets, rights or holdings of significant economic value;
- The contracting of finance of significant value;
- The opening or closing of establishments or important sections of establishments and important extensions or reductions in activity;
- Other businesses or transactions of significant economic or strategic importance;
- The establishment or termination of strategic partnerships or other forms of long-term cooperation;
- Division, merger and transformation plans;
- Alterations to the Articles of Association, including moving the registered office and increasing the share capital, if on the initiative of the Executive Board of Directors.

Ordinary meetings of the General and Supervisory Board are held at least once every quarter and extraordinary meetings take place whenever convened by the Chairman, either on his own initiative or at the request of any of its members, the Executive Board of Directors or its Chairman.

Chairman	António de Almeida
Vice-Chairman	Alberto João Coraceiro de Castro António Francisco Barroso de Sousa Gomes Carlos Jorge Feijoo Pereira Ribeiro* Carlos Jorge Ramalho dos Santos Ferreira Diogo Campos Barradas de Lacerda Machado Eduardo de Almeida Catroga José Manuel Archer Galvão Teles José Maria Espirito Santo Silva Ricciardi Manuel Fernando de Macedo Alves Monteiro Manuel Menêndez Menêndez Paulo Jorge de Assunção Rodrigues Teixeira Pinto Vasco Maria Guimarães José de Mello Vital Martins Moreira Vitor Domingos Seabra Franco Vitor Fernando da Conceição Gonçalves

[•] Announced resignation on 22 February 2007 from the General and Supervisory Board



2.3.3. The Executive Board of Directors

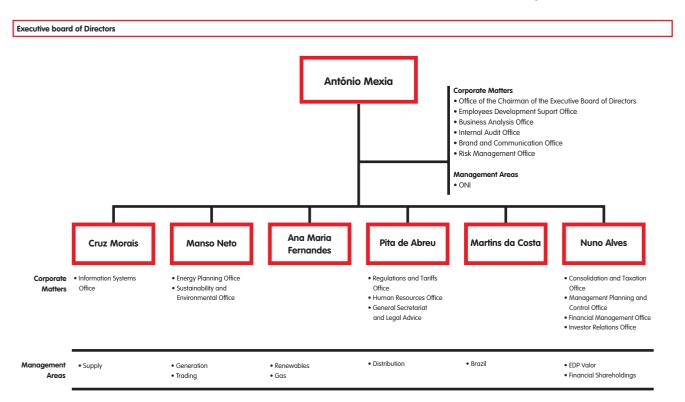
The Executive Board of Directors is responsible for managing corporate affairs under the terms of the Portuguese Companies' Code and the Articles of Association and is elected by shareholders at the General Meeting. The EDP Executive Board of Directors is composed of 7 members.

The specific responsibilities of the Executive Board of Directors regarding the management of the company include the following:

- Establishing the objectives and policies for company and Group management;
- Producing annual business and financial plans;

- Management of company business and execution of all acts and transactions concerning the company object and which do not fall under the responsibility of any other company bodies;
- Approving the issue of bonds and other securities under the conditions established by law and in the Articles of Association, observing the annual quantitative limits established by the General and Supervisory Board;
- Defining the technical and administrative organisation of the company and the standards for internal operations, particularly those relating to staff and remunerations.

The Executive Board of Directors is organised in accordance with the following functions:





2.3.4. The General Meeting Remuneration Committee

The General Meeting elects a Remuneration Committee which is responsible for establishing the remuneration of company officers, with the exception of the Executive Board of Directors. It must be mainly composed of independent members (see point 2.8)

2.3.5. The Environment and Sustainability Board

The Environment Board was a governing body formed in 1991, whose name was changed to the Environment and Sustainability Board at the Annual General Meeting of 30 March 2006.

The Environment and Sustainability Board is empowered specifically to act as a consultant to the Executive Board of Directors on environmental and sustainability issues, in particular providing advice and support in defining corporate environmental and sustainability strategy and issuing opinions and recommendations on the environmental impact of projects to be undertaken by the EDP Group.

The Environment and Sustainability Board is composed of five individuals with recognised competence in the field of environmental protection who are elected by the General Meeting:

Environment and Sustainability Board

João Ferreira do Amaral Miguel St. Aubyn José Azevedo Pereira Madalena Presumido Graça Martinho

2.3.6. The Statutory Auditor

The Statutory Auditor, elected by the General Meeting, is the company officer responsible for inspecting the accounting documents.

In accordance with the Portuguese Companies' Code and the Articles of Association, the Statutory Auditor is responsible for the following:

- Verifying the bookkeeping, accounting records and supporting documents;
- Verifying, as and when deemed appropriate, the extent of cash and the stocks of any form of goods

- or securities belonging to the company or received by it as guarantees, deposits or any other form of bond;
- · Verifying the accuracy of the accounting documents;
- Verifying whether the accounting policies and the valuation criteria used by the company correctly assess the assets and profits.

Statutory Auditor		
Permanent Official Auditor	KPMG & Associados, SROC, S.A., represented by Jean-éric Gaign, ROC	
Deputy Official Auditor	Vîtor Manuel da Cunha Ribeirinho, ROC	

2.3.7. Company Secretary

The Company Secretary and substitute is appointed by the Executive Board of Directors to exercise the powers established by law and stands down when the Executive Board of Directors that appointed him/her leaves office

Company Secretary	
Permanent Secretary	Maria Teresa Isabel Pereira
Deputy Secretary	Maria Virgínia Bastos dos Santos

2.3.8. Special Committees of the General and Supervisory Board

Audit Committee

The Audit Committee is the committee which deals with financial affairs, and is obligatory for all Euronext Lisbon listed companies, in accordance with Article 444, no. 2 of the Portuguese Companies' Code.

In accordance with the EDP model of corporate governance, the Audit Committee forms part of the General and Supervisory Board and is composed of a minimum of three independent members with suitable





qualifications and experience. It is obliged to include one member with a higher education degree appropriate for the exercise of the duties and the professional knowledge required for auditing or accounting.

The current members of the committee are:

Audit Committee	
Chairman	Vitor Fernando da Conceição Gonçalves
	António Francisco Barroso de Sousa Gomes Manuel Fernando de Macedo Alves Monteiro

The responsibilities of the Audit Committee are:

- To issue opinions on the annual management and financial report;
- To supervise, on a permanent basis, and assess internal procedures relating to accounting and auditing, as well as the efficacy of the risk management system, the internal control system and the internal auditing system, including the way in which complaints and queries are received and processed, whether originating from employees or not;
- Verifying, as and when it deems appropriate, the correctness of the bookkeeping, accounts records and supporting documents, as well as the status of any assets or securities held by the company in any form;
- Supervising the preparation and release of financial information;
- Exercising any other powers that may be conferred by law.

Since it was formed in 2003, the Audit Committee has always abided by the criteria for the independent status of its members, including the fact that no employment or binding contractual relations exist between its members and EDP, EDP shareholders with a stake of 2% or more or entities that have a Group and Group-controlled relationship with these shareholders.

The abovementioned characteristics and functions of the Audit Committee have been in force at EDP for approximately 4 years, and conform to approved European Commission principles governing the independence of directors, specifically those contained in the Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on supervisory board committees, now incorporated into the Portuguese Companies' Code following the reforms introduced by Decree-Law no. 76-A/2006 of 29 March.

In compliance with this European Commission Recommendation, the Audit Committee is composed exclusively of members of the General and Supervisory Board, whose independent status corresponds, in general, with that recommended by the European Commission. Equally, the duties assigned to the EDP Audit Committee conform to the role proposed by the European Commission for the audit committee of listed companies with regard to internal procedures and auditing.

The formation of the Audit Committee, a pioneering experience in terms of corporate governance in Portugal, has contributed towards reinforcing internal control mechanisms within EDP, due to the actions of its members, who have effective supervisory powers. As recognised internationally, the actions of the Committee have been highlighted in the area of reinforcing internal control mechanisms through "ex-ante" intervention, thus contributing towards eliminating or preventing possible conflicts of interest and increasing management transparency.

In 2006, the Audit Committee which functioned until 30 March met five times. The Audit Committee functioning between 1 April and 30 June met once and the Audit Committee functioning between 1 July and 31 December held 11 meetings.

Remuneration Committee

The Remuneration Committee is a special committee which forms part of the General and Supervisory Board with powers to establish the remuneration policy for the Chairman and the other members of the Executive Board of Directors. It is distinct from the Remuneration Committee appointed by the General Meeting which is responsible for establishing remuneration policy for the other corporate bodies. The work of the Remuneration Committee is governed by internal regulations.



The Remuneration Committee must submit to the Annual General Meeting, as a consultation document, a declaration of the remuneration policy for members of the Executive Board which it has approved, at least in those years when this policy is being established or altered.

The Remuneration Committee is composed of members of the General and Supervisory Board with suitable qualifications and experience, most of whom are independent.

Remuneration Committee	
Chairman	Alberto João Coraceiro de Castro
	Eduardo de Almeida Catroga Paulo Jorge de Assunção Rodrigues Teixeira Pinto

Corporate Governance and Sustainability Committee

The Corporate Governance and Sustainability Committee is a special committee which forms part of the General and Supervisory Board.

The purpose of the Corporate Governance and Sustainability Committee is to monitor and supervise, on a permanent basis, matters relating to the following:

- Corporate governance;
- Strategic sustainability;
- Internal codes of ethics and of conduct;
- Evaluation systems and systems for resolving conflicts of interests, namely with regard to relations between EDP and its shareholders.

The Corporate Governance and Sustainability
Committee is composed of members of the General
and Supervisory Board with suitable qualifications and
experience, most of whom are independent. The work
of the Corporate Governance and Sustainability
Committee is governed by internal regulations.

Corporate Governance and Sustainability Committee					
Chairman	António de Almeida				
	Alberto João Coraceiro de Castro José María Espirito Santo Silva Ricciardi Manuel Fernando de Macedo Alves Monteiro Vital Martins Moreira Vitor Domingos Seabra Franco				

The Selection Committee

The Selection Committee is a special committee which forms part of the General and Supervisory Board. Its purpose is to monitor and supervise, on a permanent basis, matters relating to:

- The definition of suitable criteria and responsibilities to be observed in the structures and internal bodies of EDP and their impact;
- The production of follow-up plans.

The Selection Committee is composed of three members of the General and Supervisory Board with suitable qualifications and experience, at least one of whom is independent. The work of the Selection Committee is governed by internal regulations.

Selection Committee	
Chairman	António de Almeida
	Carlos Jorge Ramalho dos Santos Ferreira Diogo Campos Barradas de Lacerda Machado

2.2.9. Functional Structure of EDP

EDP's activities are structured into a corporate group in accordance with the organisation, functions and competencies defined by the Executive Committee. This corporate body defines the Group's organisational model and the breakdown of functions between the various Business Units, the Shared Services Unit - EDP Valor - and the central structure functioning alongside





them, consisting of a Corporate Centre, organised into offices and business units, supported by a General Secretariat and Legal Department.

After the reorganisation of the Corporate Centre in the first half of 2006, priority areas were redefined in accordance with the new strategic guidelines adopted by the EDP Group, with the aim of reinforcing its position as an Iberian operator and focussing its activities on the creation of value.

The present configuration of the central support structure for decision-making processes is as follows:

The mission of the **Business Analysis Office (GAN)** is to optimise the Group's business portfolio through critical analysis in line with strategic development outlined by the Executive Board of Directors. Its main areas of operation are the appraisal of projects, identification of business opportunities, analysis and execution of transactions concerning the purchase and sale of assets and the negotiation of partnership agreements, as well as support for the Executive Board of Directors in making decisions on strategic investment and disinvestment.

Executive Board of Directors

Corporate Centre • Business Units

Offices

General Secretariat and Legal Advice
Office of the Chairman of the Executive Board of Directors
Business Analysis Office
Employees' Development Support Office
Internal Audit Office
Brand and Communication Office
Financial Management Office
Risk Management Office
Risk Management Office
Management Planning and Control Office
Consolidation and Taxation Office
Energy Planning Office
Quality Office
Human Resources Office
Regulations and Tariffs Office
Investor Relations Office
Information Systems Office
Sustainability and Environmental Office

Business Units

Energy Management Business Unit Gas Business Unit

The functions and responsibilities of the current Offices are as follows:

The **General Secretariat and Legal Office** is delegated to represent the Group externally and execute day-to-day management in an administrative sense. They are also responsible for supporting the activities of the corporate bodies and EDP's relationship with its subsidiaries.

The Office of the Chairman of the Executive Board of Directors assists the Chairman of the Executive Board of Directors and other members of the Executive Board of Directors. In addition to providing secretarial services for the weekly meetings of the Executive Board of Directors, it is also responsible for directing and monitoring projects of strategic and financial importance and represents EDP before external entities with the specific powers attributed to it.

Rui Maria Ribeiro Ferin Cunha
Miguel Nuno Setas
Miguel Stillwell de Andrade
Maria Adilia Pina Pereira
Azucena Viñuela Hernández
Paulo Campos Costa
Magda Abdool Magid Vakil
José Alberto de Baptista Allen Lima
Rui Manuel Teixeira
Miguel Ribeiro Ferreira
António José Silva Coutinho
Paula Pinto da Fonseca
Eugénio André da Purificação Carvalho
Maria Joana Mano Pinto Simões
Miguel Henriques Viana
Luis Pedro Ferraz Flores
António Manuel Neves de Carvalho

Carlos Alves Pereira João Paulo Costeira e Carlos Mata

The Employees' Development Support Office (GDQ) was founded for the purpose of supporting EDP key staff development. The aims of the GDQ are to help optimise EDP Group human capital, by improving the technical skills and individual performance of its key staff and contributing towards the Group's organisational development. It focuses on careerplanning for key staff and on creating the conditions/prerequisites for their functional and geographical mobility.

The main function of the Internal Audit Office (GAI) is to support management in designing, implementing and monitoring an internal control system suitable for pursuing the established objectives of operational effectiveness and efficiency by carrying out structural appraisal audits of internal control and checking the effective and efficient working of established controls. These auditing procedures are designed to provide a reasonable guarantee of the capacity of the internal



control systems to prevent, detect and correct any operational irregularities and errors or materially relevant omissions in information used to measure the degree of compliance with the established objectives and manage the organisation, in liaison with the External Auditors and Statutory Auditors.

The **Brand and Communication Office (GMC)** works in the area of managing media contacts, advertising and media management, internal and organisational communications, corporate media (website, intranet, in-house magazines) and institutional relations. The GMC is also responsible for EDP "brand management". All areas of communication of the EDP Group, including Energias do Brasil, are centralised in the GMC.

The Financial Management Office (GFN) is responsible for presenting proposals for defining the Group's financial management policy, for its observance and for control of its financial liabilities. The GFN's functions include managing the debt portfolios of EDP and EDP Finance BV, the associated interest and exchange rate risks and the centralised cash management of Group companies operating in the national electricity sector or 100% owned, directly or indirectly, by EDP, and negotiating and contracting financing and credit facilities. Parallel to this, it supervises the financial departments of subsidiaries. The GFN is also the main interlocutor with the debt and banking markets and rating agencies and in addition, is responsible for managing the EDP Group Defined Benefits Pension Plan, specifically by monitoring the balance between Pension Plan financial assets and liabilities.

The mission of the **Risk Management Office (GGR)** is to define, implement and maintain the Integrated Risk Management System (SGIR) for the EDP Group. The use of the SGIR represents a source of comparative advantage for EDP by enabling the risk factor to be included in Group strategic and operational decisions. In effect, uncertainties are always associated with the opportunities that are constantly presented to a Group the size of EDP and the fact that these can be quantified by determining the corresponding risks represents a decisive contribution towards correct decision-making.

The **Consolidation and Taxation Office (GCF)** is organised into three main areas: i) Consolidation, whose main function is the consolidation of Group

accounts and reporting, (ii) Corporate Accounting Standardisation (national, international and environmental), (iii) Group Taxation.

The Management Planning and Control Office (GCG) is responsible for the Group's operational and budget planning, management control, budget control, financial reporting, development of balanced scorecards and review of budgeting processes and systems.

The Energy Planning Office (GPE) was created with the aim of supporting the Group by providing an integrated view of the whole "portfolio" and of its current and future positioning in the Iberian market, enabling needs and options for sourcing energy to be considered. With this purpose in mind, the GPE represents a platform for liaising between the Group's various electricity and gas business departments in order to achieve the necessary integrated view of the market and the performance of the EDP Group.

The Quality Office's (GQL) mission is to collaborate with the Group business units in order to increase their profitability, competitiveness and market share, where appropriate. For this purpose, the GQL selects and analyses information relevant to decision-making, enabling internal improvement procedures to be better conducted and facilitating the realisation of objectives. In order to achieve this, the GQL uses, as its main supporting methodology, market studies of internal and external customers and Group staff, identifies new business opportunities, provides training courses in the field of quality and acts as an internal consultant.

The purpose of the **Human Resources Office (GRH)** is to support the development of the organisation and its personnel by developing policies and strategies aligned with the Group's objectives and values. Its main responsibilities are: (i) designing human resources and occupational safety strategies, policies





and procedures (ii) developing negotiations with social partners, (iii) controlling the execution of HR policy, (iv) developing people management instruments, (v) implementing social support policies for employees and retired employees, (vi) developing a safety culture (vii) adapting the corporate HR system to regulations and legislation currently in force and to the needs of organisational development.

The mission of the **Regulation and Tariffs Office (GRT)** is to support the Executive Board of Directors in making decisions on regulation and relations with the various supervisory bodies of the energy sector. The GRT monitors the development and implementation of new European electricity and natural gas directives and studies the impact of the implementation of the MIBEL. The liberalisation of the energy sectors and the regulation of "natural monopolies" are based on profound legislative, regulatory and organisational changes, whose implications for the profitability of companies need to be studied, requiring economic and financial models and tariff studies to be developed.

Investor Relations Office (GRI) (see 2.8.2)

The Information Systems Office (GSI) is responsible for aligning the Group's information systems with business objectives and technological developments, supporting the Board in defining objectives, policies and standards for information technology and systems and the overall contracting of goods and services. The GSI's mission is also to assist the Executive Board of Directors in defining the Group's information technology and systems strategy and establishing a systems master plan, defining the architectural model for systems and technology, promoting IT security and carrying out the planning, budgeting and management of information systems and technologies.

The main responsibilities of the **Sustainability and Environment Office (GSA)** are (i) to advise the Board on matters relating to the environment and sustainability, particularly in regard to defining corporate action policies and strategies and supervising goals and aims, as well as its relationship with the Environment and Sustainability Office, (ii) to report on company activity in environmental areas, (iii) to ensure coordination of strategic environmentally-related activities in the Corporate Centre and to guarantee that the operational activities of the Group

comply with the guidelines produced by the Executive Board of Directors, (iv) to supervise the development of environmental matters that are of greatest importance to the business and to propose the adoption of overall strategies for the company's activities.

The **Gas Business Unit (UNG)** is responsible for all activities relating to the management of the gas supply chain, from procurement/trading to supply and distribution, in addition to coordination of EDP holdings in this sector.

The Energy Management Business Unit (UNGE) is responsible for negotiating the physical and forward purchases of fuel and contracting maritime transport in the name of, and on behalf of, the appropriate EDP companies. It is also responsible for carrying out spot and forward purchases and sales in the electricity market, of a physical or financial nature, namely energy by-products and foreign exchange operations. It also decides on operational and supply programmes of the EDP Group electricity generating plants where the energy output is under its responsibility, with the aim of optimising the portfolio and supplying energy to the clients of the EDP Group's sellers. In addition, it is responsible for managing operations relating to the EDP Group's CO, emission licences and green certificates.

2.3.10. EDP's Special Committees

With a view to providing more effective, efficient and supportive monitoring of corporate management, the following special committees have been formed:

Innovation Committee

The Innovation Committee has the following responsibilities:

- Defining strategic areas in innovation within the EDP Group and submitting them for the approval of the Executive Board of Directors;
- Identifying a range of projects to be implemented within the area of innovation and submitting them for the approval of the Executive Board of Directors;



- Monitoring Group initiatives and projects already in progress in the area of innovation and proposing corrective measures whenever necessary;
- Analysing the conclusions reached by technological surveys;
- Defining investments and technological lines of priority, taking into account the results of the Portfolio XXI Project;
- Preparing meetings of the Innovation Board.

The Innovation Committee, which meets quarterly, is composed of individuals responsible for the company's main areas of business, in addition to the heads of the Business Analysis, Brand and Communication, Energy Planning and Information Systems offices.

Disclosure of Information, Control and Procedures Committee (CDI)

The CDI has three primary functions:

- To identify and analyse information that periodically has to be made public by the company;
- To participate in the review of information periodically provided by EDP within the context of preparing reports and other communications for the market;
- To make quarterly assessments of control and disclosure of information mechanisms.

The committee therefore represents an organisational structure responsible for monitoring and evaluating control mechanisms and disclosure of information procedures and is included in the EDP Group Information Certification Project directed by the Internal Audit Office, which also includes a project working party that is led by the Internal Audit Office in close cooperation with the Executive Board of Directors and the Business Area Teams responsible for the control procedures of each business sector.

The members of the CDA include the heads of the Investor Relations, Internal Audit, Planning and Management Control, Consolidation and Taxation, Financial Management, Regulation and Tariffs, Human Resources and Environment offices and the General

Secretariat of the Executive Board of Directors, as well as the heads of the company's main areas of business.

Corporate Risk Committee (CCR)

The Corporate Risk Committee is presided over by the Chairman of the Executive Board of Directors. The Chief Financial Officer (CFO), the Chief Risk Officer, the Director of the Finance Office and the head of the Iberian Trading Unit are also represented on the Committee, as permanent members.

The CCR is responsible for:

- Correctly monitoring the key risks and evaluating the risk profile of the EDP Group;
- Approving the periodic report model to be presented by the business areas or by the GGR, as well as other mechanisms for reporting and monitoring EDP risks;
- Approving recommendations on the Group's key risks and on extraordinary situations in terms of risk, for analysis by the Executive Board of Directors;
- Making recommendations on policies, procedures and risk thresholds for the Group, for analysis and approval by the Executive Board of Directors.

This committee holds quarterly meetings in which nonpermanent members invited on the basis of the specific agenda may participate. It also meets when required to do so by the emergence of an unexpected risk situation.



Prevention and Safety Board (CEPS/EDP)

The CEPS/EDP has the following responsibilities:

- To support the Executive Board of Directors in drawing up proposals for the definition of the EDP Group's strategic objectives with regard to prevention and safety at work, appraising the degree of application and effectiveness thereof and reporting on progress;
- To provide a critical analysis of the Annual Report and to give an opinion on the EDP Prevention and Safety Action Plan;
- To monitor the evolution of the main occupational safety indicators and to draw up proposals for improvements.

Regulation, Environment and Energy Planning Committee

The Regulation, Environment and Energy Planning Committee is responsible for the following:

 Iberian liaison in the fields of regulation, environment and strategic planning between Group business activities in Portugal (regulation, environment and energy planning), HC Energía (regulation, environment and energy planning) and the renewable energy companies.

The committee is composed of the directors of the regulation, sustainability, environmental and strategic planning areas, in addition to the director of the renewable energies business area.

Control and Finance Committee

 The main responsibility of the Control and Finance Committee is the Iberian-wide liaison in the field of control and finance, ensuring the coordination and uniformity of the Group's business activities in Portugal with those of HC Energía, Energias do Brasil, EDP Valor and the renewable energies business area.

The Committee is presided over by the Chief Financial Officer and includes the directors of Finance, Business Analysis, Consolidation and Management Control offices as well as the directors of the Energias do Brasil and HC Energía financial departments.

Training Board

- Defines the strategic objectives of the training process;
- Approves the training plan and budget;
- Monitors the procedure for evaluating the effectiveness of training throughout the Group.

The Board is headed by the Chairman of the Executive Board of Directors and is composed of directors of the Group companies.

Information Technology Committee

- Develops guiding principles for the strategic planning of information systems;
- Approves the annual budget and plan for information systems (application and infrastructure projects);
- Allocates funds and resources for large-scale initiatives

This committee is composed of the director responsible for information systems, the directors of companies with similar responsibility and the head of the Information Systems Office.

Environment and Sustainability Committee

The Environment and Sustainability Committee is responsible for the following:

- Producing and annually updating the EDP Group medium/long term strategic plan for approval by the Executive Board of Directors;
- Approving annual action plans and defining the objectives and targets to be met by the Group, for approval by the Executive Board of Directors:
- Monitoring the development of approved plans of action;



 Monitoring the activities of the sustainability and environmental management structures of group companies.

This committee includes one member of the Executive Board of Directors, the head of environmental affairs at HC Energía and a representative from EDP Brasil, in addition to the heads of the Human Resources, Investor Relations and Brand and Communication offices

Given the specific responsibilities of this committee, its work is monitored by the Chairman of the Executive Board of Directors, who attends meetings whenever deemed appropriate. The committee meets at least every quarter.

Procurement Coordinating Committee

The key responsibility of the Procurement Committee is Iberian-wide liaison in the procurement field, ensuring the coordination and standardisation of activities between the Iberian Negotiation and Purchasing Platform and the respective Procurement Directorates in Portugal and Spain.

Prices and Volumes Committee

The primary aim of the Prices and Volumes Committee is to guarantee that the Group has access to the best information and outlook on market trends at any given moment. The committee is therefore responsible for:

- Sharing relevant and up-to-date market information:
- Deciding on what should be considered relevant information on the evolution of key variables to be made available to the Group;
- Defining the forward curve that represents Group estimates in relation to market evolution;
- Providing an up-to-date database containing historical data and estimates for key market variables;
- Guaranteeing standardisation amongst business areas with regard to shared information;

 Establishing itself as a forum for ongoing discussion, and for sharing and standardising market perspectives and information.

Generation Committee

The main responsibility of the Generation Committee is the Iberian-wide coordination of generation, ensuring the coordination and standardisation of the activities of EDP Produção and HC Energía (Generation).

This committee includes the director responsible for generation and the directors of companies in the energy generation business.

Distribution Committee

The main responsibility of the Distribution Committee is the Iberian-wide coordination of distribution, ensuring the coordination and standardisation of the business activities of EDP Produção, HC (Distribution) and EDP Brasil.

This committee includes the director responsible for generation and the directors of companies in the energy distribution business.

Supply Committee

The main responsibility of the Supply Committee is the Iberian-wide coordination of supply, ensuring the coordination and standardisation of the activities of EDP Commercial and HC (Marketing and Supply).

This committee includes the director responsible for supply and directors of the companies in the energy supply business.





2.4. Compliance with the Sarbanes-Oxley Act

The Sarbanes-Oxley Act, passed in July 2002, requires all foreign companies listed on the stock exchange and subject to supervision by the Securities and Exchange Commission (SEC) to certify their annual report with regard to the accuracy of the information contained in it, as well as to publicly disclose the results of the evaluation of the internal control of financial information disclosed to the market.

Aware of the benefits that adopting the principles and practices proposed in the Sarbanes-Oxley Act would bring to the transparency of the company's relations with the market, EDP launched a project with the aim of establishing the conditions that would enable it to comply fully, and in a timely manner, with the requirements of the act.

In its first phase, the project focused on establishing and implementing procedures and controls for the disclosure of information that were consistent with the provisions of Section 302 of the Act and aimed essentially at the products of compulsory reports for the American market.

In its second phase, covering Portugal, Spain and Brazil, it focused on:

- The study, documentation and assessment of the internal control of financial information, in accordance with the Committee of Sponsoring Organizations of the Treadway Commission (COSO) reference model;
- Formalising internal control management procedures in accordance with the requirements of the Act.

The aim of this work consisted essentially of:

- Monitoring and assessing more effectively the internal control of financial information and, consequently, correcting omissions or weakness more quickly, which could potentially compromise the quality of the information provided;
- Providing more objective grounds for the assessment of the internal control of financial information, which EDP is committed to from 2007 (in relation to the financial year 2006) onwards, under the terms of the Sarbanes-Oxley Act.

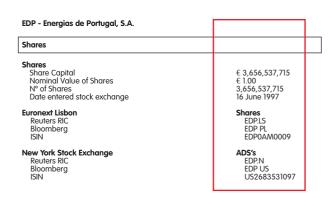
2.5. EDP on the Capital Market

Shares representing EDP's share capital were initially listed on the official market of Euronext Lisbon (called, at the time, the Lisbon Stock Exchange) on 16 June 1997. Since then, more shares have been listed on the Euronext, following five subsequent reprivatisation phases:

		n to Trading	
	% Capital in the Marke	Date	Admission Phases
30%	30%	O 16-Jun-97	1st Phase of Privatisation/IPO
32%	32%	26-May-98	2 nd Reprivatisation Phase
47%	47%	28-Jun-98	3 rd Reprivatisation Phase
69%	69%	23-Oct-00	4th Reprivatisation Phase
80%	80%	hare Capital 07-Dec-04	5th Reprivatisation Phase/Share Capital
85%	85%	27-Dec-05	6 th Reprivatisation Phase
		27-Dec-05	6th Reprivatisation Phase

Since 27 December 2005, following the sixth reprivatisation phase, EDP has 3,096,222,980 ordinary shares listed on Euronext Lisbon, with a nominal value of EUR 1. This represents 85 percent of its share capital. The free float in 2006 was 60 percent.

In addition to Euronext Lisbon, EDP also has securities representing its share capital listed on the NYSE - New York Stock Exchange - in the form of American Depositary Shares (ADSs).



Additionally, EDP shares are an underlying asset for futures contracts transacted on the Lisbon market.

The following EDP bond issues have not yet matured:



	Date Issue Maturity				Su	ım
Issue/ISIN			Coupon	Stock exchange	Issue	Outstanding ⁽²⁾
23 rd Issue PTEDPSOE0002	20-12-1996	20-12-2011(3)	Half-yearly Euribor 6m + 12.5bp	Euronext Lisbon	149,639,369	10,321,254
25 th Issue PTEDPKOE0000	23-11-1998	23-11-2008(4)	Half-yearly Euribor 6m + 22.5bp	Euronext Lisbon	299,278,738	199,319,625
26 th Issue PTEDPAOE0002	26-03-2003	26-03-2013	Half-yearly Euribor 6m + 50.0bp	Not listed	150,000,000	150,000,000
1 st Issue EMTN ⁽¹⁾ XS0103383286	29-10-1999	29-10-2009	Annual fixed rate EUR 6.400%	Euronext Paris London, Switzerland,	1,000,000,000	1,000,000,000
2 nd Issue EMTN ⁽¹⁾ XS0126990778	28-03-2001	28-03-2011	Annual fixed rate EUR 5.875%	London, Frankfurt	1,000,000,000	747,352,000
4 th Issue EMTN ⁽¹⁾ XS0139081763	26-11-2001	27-11-2009	Zero Coupon - EUR	London	22,455,000	22,455,000
6 th Issue EMTN ⁽¹⁾ XS0152784715	09-08-2002	09-08-2017	Annual fixed rate GBP 6.625%	London	200,000,000 ⁽⁵⁾	200,000,000 ⁽⁵⁾
7 th Issue EMTN ⁽¹⁾ XS0159585453	16-12-2002	20-03-2008	Annual fixed rate EUR 5.000%	London	500,000,000	355,024,000
8 th Issue EMTN ⁽¹⁾ XS0160258280	23-12-2002	23-12-2022	Annual fixed rate EUR 2.661%	Not listed	93,357	93,357
9 th Issue EMTN ⁽¹⁾ XS0221295628	22-06-2005	22-06-2015	Annual fixed rate EUR 3.75%	London	500,000,000	500,000,000
10 th Issue EMTN ⁽¹⁾ XS0223447227	29-06-2005	29-06-2020	Annual fixed rate EUR 4.125%	London	300,000,000	300,000,000
11th Issue EMTN (1) XS0256996538	12-06-2006	14-06-2010	Quarterly Euribor 3m + 15.0bp	London	500,000,000	500,000,000
12th Issue EMTN (1) XS0256997932	12-06-2006	12-06-2012	Annual fixed rate EUR 4.25%	London	500,000,000	500,000,000
13th Issue EMTN (1) XS0256997007	12-06-2006	13-06-2016	Annual fixed rate EUR 4.625%	London	500,000,000	500,000,000

In 2006, EDP was the company with the greatest relative weight on the PSI-20, the Euronext Lisbon index, representing approximately 19.82% of the index. EDP is one of the six Portuguese companies represented on the Euronext 100 index with a share in the order of 0.65%. EDP shares are also included on several European indices, such as the Dow Jones Eurostoxx Utilities, which is based on the market performance of the principal and most representative European companies in the utilities sector.

During 2006, EDP shares rose in value by 47.7%, from EUR 2.60 to EUR 3.84 euros which, added to the gross dividend per share of EUR 0.10 paid on 28 April 2006, resulted in a total gross return of 51.5% during this period. This performance was significantly superior to the returns offered by the main reference indices, namely the PSI-20, which rose 30.2% during this period, and the Dow Jones Europe STOXX Utilities whose performance was +35.3% in 2006.

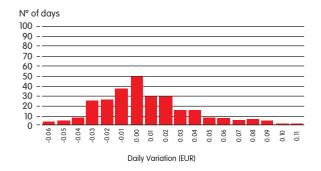
The market value of the EDP Group, calculated on the basis of its market capitalisation (no. shares issued x price per share) at 29 December 2006, rose to

EUR 14.041 billion, equivalent to 7% of the total capitalisation of Euronext Lisbon which, in 2006, grew to EUR 238.286 billion. In 2006, EDP shares were the most widely traded on Euronext Lisbon. Around 4.128 billion EDP shares were traded on this official market, representing a daily average of 16 million shares at an average price of EUR 3.15, about 130% percent of the total number of EDP shares listed on this market. In terms of turnover, EDP shares accounted for the equivalent of 25% (EUR 12.988 billion) of the total volume of shares traded on the regulated Lisbon market (EUR 52.327 billion).

The following two charts show the daily and intradaily change in the EDP share price on Euronext Lisbon, demonstrating the stock's low volatility. The third chart shows the return vs. volatility matrix revealing the various consolidation phases in the sector in the Iberian Peninsula.

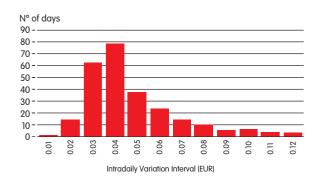


Histogram of Daily Variation 52 Weeks (Jan 06 / Dec 06)



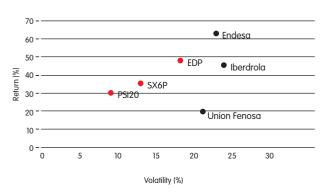
Source: Bloomberg

Histogram of Intradaily Variation 52 Weeks (Jan 06 / Dec 06)



Source: Bloomberg

Return vs. Volatility (Jan 06 / Dec 06)



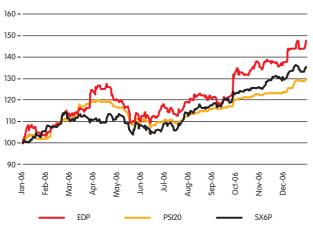
Souce: Bloomberg

2.5.1. Factors influencing the change in EDP share price

2006 was characterised by a very positive performance in the main European stock market indices. In Portugal, the performance of the PSI-20 index rose by around 30%, based on forecasts of concentration trends, namely the preliminary announcements of takeover bids by SonaeCom on PT and PTM and by BCP on BPI.

In addition, the European utilities sector was supported by a rise in electricity prices in the main European wholesale markets and some attempts at sectoral concentration, such as the preliminary announcement of a takeover bid by Gás Natural on Endesa, followed by a counter-takeover bid by E.On, the takeover of Scottish Power by Iberdrola and the planned Suez/GdF merger. These market manoeuvres enabled the utilities sector to increase in value by approximately 35%.

EDP vs PSI20 vs Euro Stoxx Utilities



Source: Bloomberg

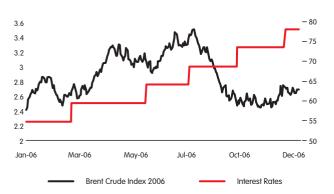
During 2006, there was still some instability in relation to the price of energy, with the average price of oil per barrel increasing considerably from USD 55.75 (EUR 44.34) in 2005 to USD 66.34 (EUR 52.86) in 2006. However, it should be stressed that since August 2006 the price of oil has fallen slightly by around 18%. This instability had an effect on electricity prices in the wholesale markets and on gas prices, which consequently affected the power stations that used natural gas, normally a marginal technology, as a raw material. In this situation, companies which possessed a mix of more diverse technologies, such as hydroelectric and nuclear power and whose costs were lower, made considerable gains. In addition, the instability of oil prices and



increased concerns about global warming and Europe's energy independence provided greater incentives for investment in renewable energies.

It should be emphasised that in 2006 the interest rate trend for the previous year was reversed, with the Central European Bank increasing its standard rate by 125 b.p. to 3.5%, a figure unequalled since May 2001, with obvious implications on Euribor rates and Bond yields.

Brent Crude Index 2006 & Interest Rates



Source: Bloomberg

The process of liberalisation and integration of electricity markets in Europe increased throughout 2006, implying a necessary extension of the risk management capacity in the generation and supply sector.

It was within this context that during 2006 the performance of EDP shares, which had risen in value by around 48%, was clearly superior to the PSI-20 and DJ EuroStoxx Utilities indices, partly supported by the climate of mergers and acquisitions existing in the utilities sector, particularly in the Iberian Peninsula.

Various increases in qualified holdings in EDP were announced at the corporate level: on 5 January 2006, Banco Espírito Santo, S.A. announced that it held a 2.17% stake in EDP; on 3 February 2006 Baltic - SGPS, S.A. announced a 2.0% stake in EDP; on 31 March 2006 Caixa Geral de Depósitos, S.A. announced a stake of 5.098%, reduced on 29 December to 5.00%; on 27April 2006 lberdrola announced a reinforcement of its stake in EDP from 5.7% to 9.5%. In addition, at the EDP General Meeting on 30 March 2006, new governing bodies for the company were elected for the three-year period 2006-2008, resulting in a new management team and a change in CEO.

The new strategic guidelines for the 2006-2008 three-year period were presented by the new EDP management team, on 19 July 2006, in London. These focused on the creation of value for shareholders through three main pillars of action: controlled risk, greater efficiency and steered growth.

One of the focus areas of Group growth was investment in renewable energies. It was announced in October 2006 that Agrupamento Eólicas de Portugal, in which EDP has a 40% stake, had been awarded "Phase A" of the contract for wind power capacity in the scope of the national electricity grid, with the subsequent allocation of 1,200 MW of wind power to be installed. In addition, in December 2006, EDP announced that it had acquired the renewable energy companies Agrupación Eólica and Ceasa located in France and Spain, clearly backing market diversification.

In the gas sector, total control was acquired over Bilbogas and Gasnalsa with the strategic aim of consolidating Naturgas as an integrated energy operator and leader in the gas sector in the Basque country.

In compliance with the company's planned strategic guidelines EDP sold off some of its non-strategic assets in 2006, namely Telecable, sold to Cajastur, ONI, sold to Win Reason, S.A., the sale of 7.55% of Sonaecom on the stock market and the sale of 15% of REN to Gestmin, SGPS, S.A., Logoenergia, SGPS, S.A. and Oliren, SGPS,

In relation to outside investment in the Group, in February EDP Lajeado and Eletrobrás entered into an agreement regarding redeemable preferential shares issued by Investoo

In terms of tariffs, the ERSE disclosed the parameters, prices and tariffs for the electricity business in Portugal in 2007, establishing an average tariff increase of 6.2%. In addition, Decree Law 237-B/2006, of 18 December, was approved, authorising the securitization of credit resulting from tariff deficits in the electricity system. The same body also announced new regulations for the gas sector in Portugal in preparation for liberalisation, although the parameters associated with this were not defined and are only expected to be published during 2007

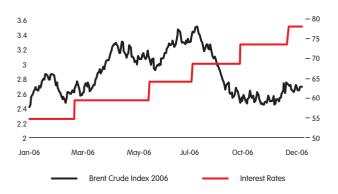
Relatório e Contas 2006 Caderno Institucional e do Governo da Sociedade **Governo da Sociedade**



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Main events associated to change in EDP's share price in 200



#	Date	Description
1	03-Feb	Standard & Poors reaffirm EDP credit rating as 'A' long-term and 'A-1' short-term.
2	16-Feb	EDP Lajeado concludes negotiations with Eletrobrás on redeemable preferential shares issued by Investco
3	07-Mar	EDP publishes 2005 financial report
4	30-Mar	EDP General Meeting of Shareholders
5	06-Apr	ANEEL approves annual Enersul tariff readjustment of 16.75%
6	18-Apr	Deliberations of Board of Directors regarding the establishment of a Executive Board, creation of an Audit Committee, appointment
		of the Company Secretary and nomination of a representative for market and CMVM relations
7	25-Apr	"Ex-dividend" date
8	28-Apr	Payment of gross dividend per share of EUR 0.10 (2005 financial year)
9	03-May	Naturgas acquires total control of Bilbogas
10	11-May	EDP reinforces indirect stake in Portgás (72.0%) and Setgás (19.8%)
11	02-Jun	EDP issues Eurobonds worth EUR 1,500 million in three tranches
12	22-May	EDP begins process of selling its holding in ONI
13	06-Jul	Eólicas de Portugal Group short-listed for "Phase A" of wind power invitation to tender
14	13-Jul	New Articles of Association and corporate governance model comes into force
15	19-Jul	Presentation of EDP Group strategic plan
16	25-Jul	Restructuring of Electra
17	27-Jul	HC Energia signs agreement to sell its holding inTelecable to Cajastur
18	04-Aug	ANEEL approves annual Escelsa tariff readjustment of 16.67%
19	08-Sep	Naturgas Energia acquires all of Gasnalsa
20	20-Oct	ANEEL approves annual Enersul tariff readjustment of 13.44%
21	26-Oct	EDP decides to exercise purchase option for OPTEP
22	31-Oct	Eólicas de Portugal group signs contract for "PHASE A" of wind power tender
23	09-Nov	Sale of ONI
24	14-Dec	EDP acquires Agrupación Eólica and Ceasa renewable assets
25	14-Dec	EDP reduces stake in Sonaecom
26	22-Dec	EDP sells 15% shareholding in REN



Capital Market Indicators										
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
EDP Shares on Euronext Lisbon (euros) Opening price Closing price Peok Price Minimum Price				1.58 2.09 2.14 1.38	2.43 1.59 2.50 1.47	3.52 2.44 3.64 2.29	3.50 3.52 4.22 3.10	3.79 3.47 4.36 2.82	3.49 3.75 4.99 3.40	3.49 3.48 4.04 2.64
EDP share price adjusted for share capital increase (euros) ⁽¹⁾ Opening price Closing price Peak Price Minimum Price	2.60 3.84 3.85 2.58	2.22 2.60 2.68 2.04	2.01 2.23 2.42 1.93	1.52 2.01 2.06 1.33	2.33 1.53 2.40 1.41	3.38 2.34 3.50 2.20	3.36 3.38 4.05 2.98	3.64 3.33 4.19 2.71	3.35 3.60 4.79 3.26	3.35 3.34 3.88 2.54
EDP ADRs on the NYSE (US dollars) Opening price Closing price Peak Price Minimum Price	31.37 50.66 50.18 31.37	30.03 30.87 31.67 24.60	26.59 30.23 31.15 25.15	16.79 26.37 26.50 15.10	22.19 16.80 22.19 14.56	33.50 21.80 34.31 20.90	34.75 33.88 39.50 25.81	45.50 34.88 50.04 29.00	38.38 44.56 54.50 38.38	25.84 38.75 39.63 25.84
Variation in the share price and reference indices EDP Shares ^(II) ADSs EDP PSI20 Dow Jones Eurostoxx Utilities Euronext 100	48% 64% 30% 36% 19%	17% 2% 13% 26% 23%	11% 15% 13% 25% 8%	31% 57% 16% 10% 13%	(35%) (23%) (26%) (27%) (33%)	(31%) (36%) (25%) (11%) (20%)	2% (3%) (13%) 7%	(8%) (22%) 9% (5%)	8% 15% 25% 32%	12% 12% 20% 19%
Liquidity of EDP shares on the markets Volume on Euronext Lisbon (EUR million) Mean daily volume (EUR million) Volume on the NYSE (USD million) Mean daily volume (USD million)	12,576.9 50.5 398.8 1.6	5,639.4 21.9 222.6 0.9	5,470.9 21.1 124.3 0.5	2,800.2 11.0 40.8 0.2	2,489.5 10.1 43.1 0.2	3,475.5 14.1 33.2 0.2	4,535.4 18.4 73.2 0.4	3,450.1 13.9 55.4 0.3	4,364.0 17.6 179.4 0.8	2,226.1 16.4 301.5 2.2
Number of shares traded (million) ⁽²⁾ Number of ADRs traded (million)	2,190.3 10.4	2,505.2 7.9	2,477.2 4.3	1,587.5 2.0	1,294.2 2.3	1,228.9 1.3	1,308.4 2.5	1,024.2 1.5	1,078.0 3.9	726.7 8.5
Total number of shares issued (million) Privatised shares at the end of the year (million) % of Capital already privatised Number of own shares held as at 31 Dec. (million)	3,656.5 3,096.2 85% 7.1	3,656.5 3,096.2 85% 17.3	3,656.5 2,936.2 80% 14.3	3,000.0 2,099.1 70% 21.4	3,000.0 2,099.1 70% 17.4	3,000.0 2,099.1 70% 11.7	3,000.0 2,099.1 70% 2.4	3,000.0 1,499.1 50% 1.8	3,000.0 1,499.1 50% 0.0	3,000.0 899.8 30% 0.0
Annual rotation of capital (privatised shares) Annual rotation of capital (ADRs)	70.7% 3.4%	85.0% 2.7%	84.4% 1.5%	75.6% 0.9%	61.7% 1.1%	58.5% 0.6%	62.3% 1.2%	68.3% 1.0%	71.9% 2.6%	80.8% 9.5%
EDP Market Value (EUR million) Market appreciation at the end of the financial year	14,041.1	9,507.0	8,154.1	6,270.0	4,770.0	7,320.0	10,560.0	10,398.0	11,250.0	10,431.0
Total Shareholder profitability Annual variation in share price ⁽¹⁾ Gross dividend distributed per share in the year Total shareholder profitability	1.24 0.100 52%	0.37 0.092 21%	0.22 0.090 16%	0.48 0.090 37%	(0.82) 0.113 -30%	(1.04) 0.140 -27%	0.05 0.140 6%	(0.27) 0.140 -4%	0.26 0.130 12%	(0.02) 12%
Dividends Dividend per share "Dividend yield"	0.11 2.9%	0.10 3.8%	0.09243 4.1%	0.090 4.3%	0.090 5.7%	0.113 4.6%	0.140 4.0%	0.140 4.0%	0.140 3.7%	0.130 3.7%

⁽¹⁾ In order to ensure comparability, prices for EDP shares prior to 9 November 2004 have been adjusted to show EDP share capital increase rights in 200-(2) The number of shares traded has been adjusted to keep the Daily Business Volume unchanged after the adjustement of the share price referred to in I



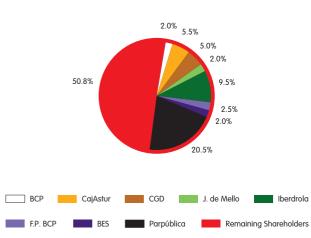
2.5.2. EDP's shareholder structure

Qualifying holdings

In accordance with the provisions of Article 8 paragraph 1e) of CMVM Regulation no. 4/2004 of 11 June, the following information is provided on the qualifying holdings of shareholders in EDP's share capital at 31 December 2006:

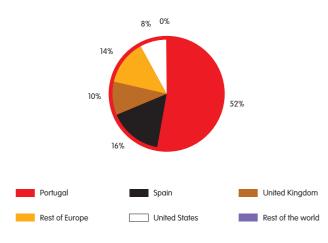
EDP Shareholder Structure			
Shareholders	N° of shares	% Capital	% Vote
Parpública - Participações Públicas, SGPS, S.A.	749,323,856	20.49%	20.53%
Iberdrola - Participações, SGPS, S.A.	347,371,083	9.50%	5.00%
Caja de Ahorros de Asturias (Cajastur)	202,250,158	5.53%	5.00%
Caixa Geral de Depósitos, S.A.	182,997,452	5.00%	5.00%
Fundo de Pensões do Grupo BCP	89,750,000	2.45%	2.46%
Banco Espírito Santo, S.A.	74,699,087	2.04%	2.05%
Banco Comercial Português, S.A.	74,039,991	2.02%	2.03%
José de Mello - Soc. Gestora de Participações Sociais, S.A.	. 73,327,867	2.01%	2.01%
EDP (Treasure stock)	7,084,793	0.19%	-
Remaining Shareholders	1,855,693,428	50.77%	
Total	3,656,537,715	100%	

Shareholder structure

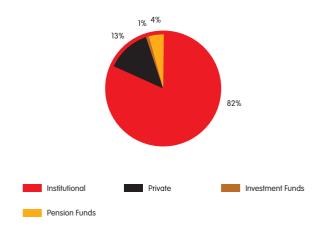


The geographical and investor type breakdown of the EDP shareholder structure on 31 December 2006 was as follows:

Geographical breakdown of shareholder structure



Breakdown of shareholder structure by investor type







Allocation of voting rights pursuant to the terms of Article 20.1 of the Portuguese Securities Code

Shareholdings disclosed by shareholders

Shareholders	N° of shares	% Capital	% Vote
Grupo Caixa Geral de Depósitos Caixa Geral de Depósitos Companhia de Seguros Fidelidade Mundial, S.A. Companhia de Seguros Fidelidade Mundial Pension Fund Império Bonança - Companhia de Seguros, S.A. Via Directa - Companhia de Seguros, S.A. Cares - Companhia de Seguros, S.A. Caixa Geral de Depósitos Pension Fund Total	175,171,517 5,592,240 18,798 405,560 5,684 9,645 1,794,008 182,997,452	4.79% 0.15% 0.00% 0.01% 0.00% 0.00% 5.00%	4.80% 0.15% 0.00% 0.01% 0.00% 0.00% 0.05% 5.00%

Caixa Geral de Depósitos holds 100% of the share capital and voting rights of Caixa Seguros, SGPS, S.A., which in turn holds: i) 100% of the share capital and voting rights of Companhia de Seguros fidelidade-Mundial, S.A., which in turn holds 100% of the share capital and voting rights of Via Directa - Companhia de Seguros, S.A.; ii) 70% of the share capital and voting rights of Império Bonança, SGPS, S.A., which in turn holds 100% of the share capital and voting rights of Império Bonança - Companhia de Seguros, S.A.; iii) 100% of the share capital and voting rights of Cares - Companhia de Seguros, S.A.

Jose de Mello - Soc. Gestora de Participações Sociais, S.A.			
José de Mello Energia, SGPS, S.A.	73,202,802	2.00%	2.01%
José de Mello - Soc. Gestora de Participações Sociais, S.A.	100,000	0.00%	0.00%
Managing and Supervisory Officers	25,065	0.00%	0.00%
Total	73,327,867	2.01%	2.01%

The company José de Mello Energia, SGPS,S.A. (formerly known as Baltic, SGPS, S.A.) is fully owned by José de Mello Participações II, SGPS, S.A., the entires share capital of which is held by José de Mello - Sociedade Gestora de Participações Socials, S.A.

Banco Comercial Português			
Banco Comercial Português	73,256,894	2.00%	2.01%
Company Officers	7.948	0.00%	0.00%
Fundação Banco Comercial Português	350,000	0.01%	0.01%
Banco Millennium BCP Investimento, S.A. Banco Millennium BCP Investimento, S.A.	418,719	0.01%	0.01%
(Discretionary management)	6.430	0.00%	0.00%
BCP Group Pension Fund Total	89,750,000 163.789,991	2.45% 4.48%	2.46% 4.49%
Total	103,767,771	4.40%	4.47/0
Banco Espírito Santo, S.A.			
Banco Espírito Santo, S.A.	74,650,058	2.04%	2.05%
Members of Corporate Bodies	49.029	0.00%	0.00%
Total	74 600 087	2.04%	2.05%

2.5.3. Dividend distribution policy

Every year since EDP shares were admitted to the Lisbon Stock Exchange (now Euronext Lisbon), the company has proceeded with a careful and judicious distribution of dividends based on the principles of prudence and the creation of value for shareholders. In accordance with these principles, the dividends distributed by EDP since 1997 are as follows:

Financial Year	Approval date	Payment date	Gross dividend	Net D Residents	Dividend Non-residents
1997(1)	17-04-1998	18-05-1998	€ 0.648	€ 0.534	€ 0.534
1998 ⁽¹⁾	11-05-1999	28-05-1999	€ 0.698	€ 0.620	€ 0.620
1999(1)	12-05-2000	31-05-2000	€ 0.698	€ 0.611	€ 0.611
2000(2)	10-05-2001	31-05-2001	€ 0.140	€ 0.119	€ 0.119
2001(2)	10-05-2002	06-06-2002	€ 0.113	€ 0.099	€ 0.093
2002(2)	22-05-2003	18-06-2003	€ 0.090	€ 0.079	€ 0.074
2003(2)	31-03-2004	30-04-2004	€ 0.090	€ 0.083	€ 0.079
2004(2)	31-03-2005	29-04-2005	€ 0.09243	€ 0.085	€ 0.081
2005(2)	30-03-2006	28-04-2006	€ 0.10000	€ 0.090	€ 0.090

II) Values converted from escudos to euros are rounded to the third decimal place. The gross value per share shown in the legal tender at the time of payment of the dividend was PTE 129.87 in 1997, PTE 140.00 in 1998 and PTE 129.87 in 1997, PTE 140.00 in 1998 and PTE 120.00 in 1998 and PTE 120.00

With regard to the 2005 financial year, the EDP Board of Directors submitted a proposal to the Shareholders' General Meeting held on 30 March 2006 for the appropriation of the EUR 509.8 million net profit (IFRS), EUR 365.6 million of which was for distribution to shareholders as dividends. The proposal was approved by 99.99% of the votes at the General Meeting and a gross dividend of EUR 0.010 was paid out on 28 April 2006

The EDP Articles of Association, in keeping with the legal provisions in force, require that the profits for the year be appropriated, in particular, to:

- · Cover losses in previous years;
- Constitute or increase legal reserves or other reserves determined by law;
- Constitute or increase other reserves established by deliberation of the General Meeting;
- Distribute to shareholders as dividends;
- Allocate bonuses to directors and employees according to criteria defined by the General Meeting;
- Allocate a donation to the EDP Foundation to be used to sponsor worthy initiatives in accordance with a programme to be submitted to the General and Supervisory Board as part of the EDP Group corporate civic support and sustainable development policy, corresponding to an amount of up to 0.1% of the consolidated turnover.

In accordance with accounting principles generally accepted in Portugal, profits distributed in the form of dividends are deemed to be those arising after the deduction of losses brought forward from previous years and a provision of 5% to increase the legal reserves until this amounts to one fifth of the share capital, taking into consideration all other applicable legal and statutory limitations.

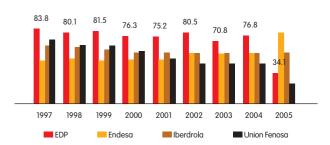


Dividend Payout and Dividend Yield

EDP has followed a sustained policy of dividend distribution that seeks to reconcile, on the one hand, strict compliance with the relevant legal and statutory provisions and, on the other hand, the sharing with all its shareholders of a significant portion of the value created by the Group, in keeping with the specific situation of the company and the market. The pursuit of this policy is intended to enable shareholders to obtain an adequate return on their investment without compromising the company's value, as shown by comparison with the dividend distribution carried out by its Iberian counterparts:

Dividend Payout (%)

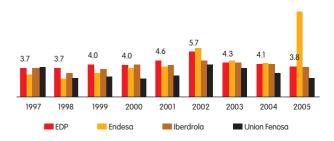
Distributed Dividend/Net Profit



 $Note: Net\ profit\ in\ accordance\ with\ accounting\ principles\ generally\ accepted\ in\ each\ country.$

Dividend Yield (%)

Dividend distributed per share/Year-end closing share price



As mentioned in the prospectus on the November 2004 increase in EDP share capital, the global amount of dividend distributed by the company in the 2004 financial year was adjusted by the effect of this increase, with reference to the closing price for EDP shares on Euronext Lisbon on the last day of trading in subscription rights.

As a result, the overall amount of dividend distributed by EDP and its future variations will be determined on the basis of the proportion corresponding to the impact of the capital increase on EDP's market capitalisation before this operation took place,

The General Meeting held on 30 March 2006 therefore approved the proposal for the appropriation of profits consisting of the distribution of a gross dividend of EUR 0.10 per share for the 2005 financial year.

Outlook

EDP believes that a transparent relationship with investors and the market involves the definition of clear criteria and reasonable objectives for the dividend distribution policy, as the growing demands by the investment community, faced with the instability of the capital markets in recent years, have made clear

Therefore at the presentation of the 2007-2010 business plan for national and foreign investors and analysts on 22 January 2007, the objective of increasing annual dividends by 11% during the period 2005 to 2010 was reinforced.

2.6. Share and stock option award plans

The EDP Group implemented two plans for the award of stock options following, and pursuant to, the terms approved at the General Meeting on 11 May 1999, one for executive directors and the other for Group company staff.

On 31 December 2005 only the plan for Executive Directors had exercisable options, in accordance with the following table:

Date of Award	N° of Benef.	N° of options associated	Price in finacial year	Financial Year Start date	Date of expiry	N° of exercised options
31-Dec-01	7	490,000	2.95	31-Dec-03	31-Dec-06	337,555
31-Dec-02	2 9	490,000	2.00	31-Dec-04	31-Dec-07	292,111

A total of 350,334 live options were exercised in the first semester of 2006, exhausting the plan for executive directors defined in 1999.

Applicable to the 2003 to 2005 financial years

In March 2004, the Remuneration Committee fixed the performance appraisal criteria for the variable remuneration of the Chairman of the Board of Directors, the Chairman of the Executive Committee and the Voting Executives for the period 2003/2005.



• Share purchase option plan

This plan encompasses the yearly award of purchase options according to the qualitative and quantitative evaluation for each financial year. In accordance with the plan, a maximum of 1/3 of each purchase option may be exercised in each one-year period after the date of award. Options not exercised become null and void at the end of eight years from the date of award.

The following table shows the share options exercised in 2006, and also details the total awards for the financial years 2003 to 2005.

	N° of Benef.	N° of options associated	Price in finacial year	Financial Year Start date	Date of expiry	N° of exercised options
30-Apr-04	6	760,482	2.29	30-Apr-05	29-Apr-12	430,436
30-Jun-05	6	932,328	2.21	30-Jun-06	29-Jun-13	263,851
02-May-0	6 6	1,461,497	2.21	02-May-07	01-May-14	0

• Share award plan

As stipulated in the plan for variable remuneration, at the end of the mandate shares were allocated, calculated by the Remuneration Committee based on the evaluation of company profits for the three-year period 2003/2005.

Therefore on 29-03-2006, 1,511,183 shares representing EDP share capital were allocated.

50% of these shares may be traded from 1 July 2006 and the remainder one year later.

2.7. Transactions between the company and members of the managing and supervisory bodies, entities with qualifying shareholdings and companies in a group or control relationship.

EDP strictly observes legislative restrictions applicable in relation to transactions between directors and the company or Group or Group-controlled companies. Instructions are provided, therefore, to guarantee the necessary diligence and efficiency for effecting company management decisions whilst striving to ensure full compliance with the best practices required of listed companies regarding both internal control procedures and the corporate risk management policy.

In 2006 there were no transactions between directors and the company or Group or Group-controlled companies.

2.8. Investor support structures

2.8.1. EDP communication policy

EDP, in accordance with good practices in the governance of listed companies regarding shareholders' access to information on the Group's business activities, is constantly concerned to ensure that the Group's communication policy and the disclosure of all relevant information is conducted in a manner that does not discriminate between the various parties acting in the financial market and that the content of the information is clear and objective.

EDP's communication policy is based on adopting the recommendations put forward by the CMVM and the best practices of corporate governance in this area, with a view to ensuring transparent management and the credibility of the information conveyed by the EDP, in order to promote and reinforce the trust of shareholders, strategic partners, employees, customers, creditors and the general public.

2.8.2. EDP Investor Relations Office

The EDP Investor Relations Office, set up in 1997 following the first phase of the company's reprivatisation process, plays a vital role in the pursuit of this objective, enabling a proper institutional and informative relationship to be maintained with the vast number of shareholders, financial analysts and potential investors in EDP, as well as with the stock markets on which EDP shares are traded, and the regulatory and supervisory bodies (the Portuguese Securities Market Commission and the Securities and Exchange Commission in the United States).

The primary function of the Investor Relations Office is to act as a link between the EDP Executive Board of Directors and investors and financial markets as a whole. It is responsible, within the scope of its normal activity, for all the information provided by the EDP Group, both with regard to the disclosure of privileged information and other market communications and with regard to the publication of regular financial statements.



In order to perform its duties, this office maintains a constant flow of communication with investors and financial analysts, providing all the necessary information to satisfy the requests for information addressed to it by these entities, in compliance with the applicable legal provisions and regulations. The market relations representative is Eng.º Nuno Alves, a member of the Executive Board of Directors. The EDP Investor Relations Department is coordinated by Dr. Miguel Viana and is situated at the company's registered office at:

Praça Marquês de Pombal, n.º 12, 4º Piso 1250-162 Lisbon

Telephone: +351 21 001 2834

Fax + 351 21 001 2899 Email: ir@edp.pt

During 2006 various meetings took place with analysts, shareholders and investors, two Utilities conferences were attended and EDP took part in one road show, held in Europe and the USA in November.

The table below summarises the communication channels through which EDP provides its shareholders with information on each type of documentation.

Channels	In person ¹	www.edp.pt	E-mail	Investor Relations Phone Line ⁵	By mail ²	www.cmvm.pt	Media
Elements required by law or regulation ³							
Notice of meeting	•	•	•	•	•	•	•
The Board of Directors' proposals Amendment of Articles of Association Other proposals	:	•	-	•	-	•	-
Annual Report and Accounts for the 2005 financial year ⁴	•	•	•	-	•	•	•
Management and supervisory positions held in other companies by company officers	•	•	-	•	-	-	-
Additional information provided by EDP							
Draft forms for voting by proxy	•	•	•	•	•	-	-
Ballots for postal voting	•	•	•	•	•	-	-
Draft forms for voting by e-mail	•	-	•	•	•	-	-
Clarification of any issues	•	•	•	•	•	-	-
EDP articles of association and regulations	•	•	•	•	•	•	-

Results of voting on proposals

2.8.3. Use of new information technology to disclose corporate information

In addition to the Investor Relations Office, and in compliance with the regulatory requirements of the CMVM, EDP's institutional website (www.edp.pt) provides all statutory information or information regarding the company's governance, updates on the development of Group businesses and a complete set of the company's operational and financial data, in order to make it easier for its shareholders, financial analysts and other interested parties to search for and access information.

The information provided by this means includes the Annual Reports, communications of relevant facts, the company's Articles of Association, the internal regulations of the corporate bodies, the Group's shareholder structure, the preparatory documents for each general meeting, the historical evolution of EDP's share price and other information of potential interest concerning the Group. The EDP website also enables interested parties to consult or request copies of the Annual Reports for each financial year since 1997.

EDP has increased its use of IT support in all disclosure of information processes far beyond its institutional page on the internet. In fact, there is an ongoing practice of investing in information technology in order to facilitate access to, and the exchange of information between, EDP Group companies and the various stakeholders, especially shareholders, financial analysts and media professionals.

With this purpose in mind, EDP has promoted and encouraged the use of e-mail to receive and provide information in relations with the supervisory body and the market, as well as teleconferencing and videoconferencing facilities for interaction with brokers and institutional investors.

2.9. General Meeting Remuneration Committee

The remuneration of the company officers, with the exception of the members of the Executive Board of Directors, is determined by the Remuneration Committee, elected at the General Meeting and composed of three shareholders elected by the General Meeting in accordance with the Articles of Association.

¹ At the EDP main office.

2 Additionally, on EDP's initiative, information from the Chairman of the BD relative to participation in the 2005 and 2006 General Meetings of Shareholders, communique by the Chairman of the EC divulging information about the economic and financial activity and indicators at the end of each financial year, and communiqués whenever events of relevance to the company occur.

3 Companies Code (Article289) and CMVM Regulation no. 7/2001, with the amendments introduced by CMVM Regulations nos. 10/2005 and 3/2006.

4 Management report, individual and consolidated accounts, legal certification of accounts and opinion of the Statutory Auditor.

5 Investor Relations phone line: +351 21 001 28 34



Remuneration Committee	
Chairman	Alberto João Coraceiro de Castro
	Eduardo de Almeida Catroga Paulo Jorge de Assunção Rodrigues Teixeira Pinto

2.10. Auditors

KPMG is responsible for the external auditing of the entire EDP Group in Portugal, Spain, Brazil and other countries.

In 2006, the recognised and specialised cost of contracting KPMG for the auditing and statutory audit of the accounts, the provision of guarantee and reliability services, tax consultancy and other services in Portugal, Spain, Brazil and other countries were as follows:

EUR	Audit and statutary audit of	Other assurance andreliability services	Tax consultancy services	Other services unrelated to statutary Auditing	Total
Portugal	1,824,000	537,570	1,088,260	185,250	3,635,080
Spain	1,123,632	0	0	0	1,123,632
Brazil	885,395	183,151	32,027	0	1,100,573
Other Countries	46,500	21,500	0	0	68,000
Total	3,879,527	742,221	1,120,287	185,250	5,927,285

The auditing services and statutory auditing of accounts are services required in order to issue opinions on the individual and consolidated financial statements of the parent company and its subsidiaries in Portugal and abroad. These amounts do not include services provided to associated companies or jointly controlled entities.



3. EXERCISE OF VOTING RIGHTS AND SHAREHOLDER REPRESENTATION

3.1. Statutory rules

In accordance with the EDP Articles of Association, shareholders with voting rights may attend and take part in the General Meeting of Shareholders. Each share corresponds to one vote.

3.2. Legitimation for the exercise of voting rights

Shareholders may only participate in the General Meeting if they have held shares for at least five days prior to the date of the meeting and they maintain this status up to the meeting's date.

Proof of ownership of shares is effected by sending a declaration to the Chairman of the Board of the General Meeting at least five days prior to the date of the meeting, issued and authenticated by the financial intermediary entrusted with registering the shares in an account, which must state that the shares in question have been registered in the account for at least five days prior to the date of the meeting and that the shares are blocked up to the date on which the meeting will take place.

EDP, acting as a pioneer in Portugal, has decided to bear the costs of issuing declarations of ownership and share blocking for shareholders to participate in Annual General Meetings. This measure is intended to encourage the active exercise of shareholders' voting rights by eliminating obstacles, especially those of a financial nature, that might discourage shareholders from exercising their voting rights.

3.3. Methods of exercising voting rights

3.3.1. EDP shareholders

Shareholders may exercise their voting rights on each of the items in the agenda by letter (registered mail with recorded delivery) signed with a signature identical to the one on the National Identity Card, addressed to the Chairman of the Board of the General Meeting and sent to EDP's registered office at least five work days prior to the date of the meeting, unless greater advance notification is stated in the notice, together with a legible photocopy of the National Identity Card of the individual signing the letter.

EDP has sought to encourage shareholders to participate in the life of the company, in particular by exercising their voting rights at General Meetings, and so it authorised postal voting via its Articles of Association, as soon as the Portuguese Securities Code came into force.

To allow for this method of voting, the proposals to be submitted by the Executive Board of Directors and by the General and Supervisory Board to the General Meeting, as well as the reports that must accompany these proposals by law and any other items of preparatory information, are made available to all shareholders at the EDP head office, at least fifteen days prior to the General Meeting. EDP will also send this information by post, fax or electronic mail if so requested by shareholders.

3.3.2. Holders of American Depositary Shares (ADSs)

Holders of rights representing shares under ADS programmes listed on the NYSE (New York Stock Exchange) may give instructions to the respective depositary bank to exercise voting rights, or grant proxy to a representative appointed by EDP for this purpose, with due regard for the applicable legal and statutory provisions. The deposit contract must contain provision on the deadlines and methods for exercising voting instructions, as well as the course of action where no such instructions are provided.

Holders of ADSs are granted identical voting rights to holders of ordinary shares. The voting rights of holders of ADS's are determined by the consideration that one ADS represents ten ordinary EDP shares.

3.3.3. Limitation on the exercise of voting rights

No holder of ordinary (or category A) shares may cast votes, in their own name or as a representative of another, exceeding 5% of the total votes corresponding to the share capital.

In addition, shareholders who acquire a holding of 5% or more of the voting rights or the share capital must communicate this fact to the Executive Board of Directors within a period of five work days from the date on which the holding came into existence and may not exercise voting rights while they have not communicated this fact.



3.4. Model for the exercise of postal voting

In order to extend the use and facilitate the process of postal voting by shareholders wishing to take advantage of this prerogative, EDP provides a draft copy of the proxy letter and ballot paper for postal votes on its website or will forward these on receipt of a personal request made in writing or by telephone, in accordance with the applicable legal and statutory rules.

3.5. Possibility of exercising voting rights by electronic means

EDP offers the possibility of exercising voting rights by post using electronic means, provided that the legal and statutory formalities for participation in the General Meeting are fulfilled and the shareholder is adequately identified by a form of certification equivalent to the methods used for postal voting by registered letter with recorded delivery.



4. CORPORATE RULES

4.1. Internal Regulations

The EDP articles of association, which define the main rules for the working and organisation of the Company's organic and administrative structure, are available for the public to consult. They can be provided on request at the EDP Investor Relations Office or by accessing the EDP website at www.edp.pt .

In addition to the EDP Articles of Association, the General and Supervisory Board and the Executive Board of Directors are governed by internal regulations which establish a series of rules associated with the way in which they operate.

The EDP General and Supervisory Board includes special committees composed of its members, whose functions have been described above (see point 2.3.10).

4.2. Prevention of cases of insider trading

Members of corporate bodies, managers and employees who may be in possession of important information not yet made public and capable of influencing the stock market price of EDP Group company stock, including, in particular, estimates of results, acquisitions or significant partnerships and the acquisition or loss of important contracts, may not, prior to their official disclosure:

- · Disclose this information to third parties;
- Deal in the securities of EDP Group companies, strategic partners or companies involved in transactions or relationships with the EDP Group that may constitute, or may come to constitute relevant events.

EDP has established a number of practices to discourage cases of abuse as a result of access to privileged information, such as:

 The publication of privileged information outside trading times, by harmonising, whenever possible, the trading times of the various markets on which EDP and Group companies have security assets listed, in particular Euronext Lisbon, the New York Stock Exchange and Bovespa, the São Paulo stock exchange; The provision of strategic and specialised subject publications for the use of analysts and investors through the CMVM information system and the EDP Group website.

Furthermore, in accordance with Article 248 B of the Portuguese Securities Code and Article 3 of CMVM Regulation no.7/2001, the members of EDP's managing and supervisory bodies are obliged to inform the company, and the company to inform the CMVM, of the acquisition and/or sale of any company shares they own within a period of five working days following the date of the transaction.

4.3. Communication of irregular accounting and financial practices

The EDP Group has always regulated its activity by consistently implementing measures to ensure the good governance of its companies, including the prevention of practices that are not entirely correct, particularly in the areas of accounting and finance.

In 2005, EDP became a pioneer in Portugal by providing Group employees with a channel for them to convey information directly and confidentially to the General and Supervisory Board regarding any practice presumed to be unlawful or any alleged accounting and/or financial irregularity occurring within their company, thus complying with CMVM Regulation no. 7/2001 and the principles imposed by the Sarbanes-Oxley Act.

Through the creation of this channel for communicating irregular accounting and financial practices, EDP intends to:

- Guarantee the existence of conditions that allow any employee to communicate his/her concerns with regard to these matters freely to the General and Supervisory Board;
- Facilitate the early detection of irregular situations which, if practised, might cause serious damage to the EDP Group, its employees, customers and shareholders.

The General and Supervisory Board may be contacted by e-mail, fax and post and access to information received in this context is restricted.



Any complaint or denunciation addressed to the General and Supervisory Board is treated as strictly confidential and the identity of the complainant remains anonymous, provided that this does not make investigation of the complaint unfeasible.

In accordance with the regulations it has established, EDP guarantees that no employee will be the target of any retaliatory or disciplinary action as a result of exercising their right to report irregular situations, provide information or assist in an investigation.

4.4. Indication of measures that might interfere with the success of takeover bids

Although there are no limitations on the transmissibility of EDP shares since, under the terms of the Portuguese Securities Code, shares transacted on the market must be freely transmissible, the EDP Articles of Association contain rules regarding limitations on the exercise of voting rights applicable to ordinary (or category A) shares. The law defining the conditions for the fourth phase of EDP reprivatisation, which took place in October 2000, also establishes certain special rights granted to the Portuguese State as an EDP shareholder that might interfere with the success of any takeover bid for EDP.

According to the EDP Articles of Association, votes cast by a holder of ordinary (or category A) shares, in their own name or as a representative of another, that exceed 5% of the total votes corresponding to the share capital, are considered null and void.

Category B shares are the shares to be reprivratised and have, as their unique privilege, the fact that those who hold them, or their representatives, are not subject to the voting limitation stipulated in point 3 onwards of Article14 of the Articles of Association in relation to these shares.

In addition, shareholders who acquire a holding of 5% or more of the voting rights, or of the share capital, must communicate this fact to the Executive Board of Directors within a period of five work days from the date on which said holding became effective, and may not exercise voting rights if they have not communicated this fact.

For this purpose, the voting rights which, under the terms of the Portuguese Securities Code are considered

to be part of a qualified holding, are deemed to be cast by the same shareholder. In this case, shareholders have the duty to communicate to the Executive Board of Directors, in writing and in a complete, objective, clear and truthful manner and a form satisfactory to the Board, all the information that the latter may request of them regarding facts that may concern them and that may be related to the qualified holding.

Furthermore, under the terms of Article 13 of Decree-Law no. 141/2000 of 15 July, regarding the fourth phase of the EDP reprivatisation process, whilst the Portuguese State remains an EDP shareholder, irrespective of the number of shares it may hold directly, or indirectly through public bodies, the approval of the following deliberations depends on its vote in favour:

- Alterations to the Articles of Association, including share capital increases, mergers, splits and winding up;
- Entering into parity and subordination group contracts;
- Abolition of, or limitation on, shareholders' right of preference in share capital increases.

Equally, for as long as the State remains an EDP shareholder, it enjoys the right enshrined in Article 13 point 2 of Decree-law n° 141/2000 of 15 July.

4.5. Ethics

EDP has always conducted its activity within a framework of ethical values that are explicit or implicit in its business agenda, in its professional relationships and obligations towards shareholders, in the vision, mission and values defined by the Executive Board of Directors and the principles of sustainable development.



The company has a Code of Ethics which applies to the whole Group and explains how all employees should conduct themselves in business and in all EDP Group activities.

Ethics Committee

Following the approval of the EDP Group's Code of Ethics, a special committee was established, with the aim of:

- Supporting the definition of EDP Group policy regarding the code of conduct, the adoption of good practices and compliance with the highest standards of ethics;
- Establishing guidelines for regulating matters for which it is responsible;
- Striving for the proper regulation of ethical matters within Group companies.





5. MANAGING BODY

5.1. Characterisation of the Managing Body

The Executive Board of Directors is responsible for managing corporate affairs under the terms of the Portuguese Companies' Code and the Articles of Association and is elected by shareholders at the General Meeting.

5.2. Description of the operational procedure of the Executive Board of Directors

The Executive Board of Directors usually meets on a weekly basis and may not deliberate unless the majority of its members are present.

Each director is not permitted to represent more than one absent director at each meeting. All directors have equal voting rights and the Chairman has the casting vote. The work of the Executive Board of Directors is governed by internal regulations.

In accordance with the Articles if Association, the responsibilities of the Executive Board of Directors include:

- Establishing the objectives and management policies of EDP and the EDP Group;
- Drawing up the annual business and financial plans;
- Managing corporate business and undertaking all actions and operations associated with the corporate object that do not fall within the responsibilities allocated to other company bodies;
- Representing the company in and out of court, actively and passively, with the power to waive, transact and admit guilt in any legal proceedings, as well as to make arbitrage agreements;
- Acquiring, selling or by any other means disposing of, or encumbering, rights or fixed assets;
- Establishing companies and subscribing to, acquiring, encumbering and disposing of corporate holdings;

- Deliberating on the issue of bonds and other securities under the terms of the law and the Articles of Association, observing the annual quantitative limits established by the General and Supervisory Board;
- Establishing the technical and administrative organisation of EDP and the rules of its internal operation, particularly in relation to personnel and their remuneration;
- Establishing proxies with such powers as it may deem fit, including the power to substitute;
- Appointing the company secretary and his/her deputy;
- Appointing the External Auditor on the basis of recommendations by the General and Supervisory Board.
- Exercising any other powers that may be conferred upon it by law or by the General Meeting;
- Establishing its own system for determining regulations for its internal operations.

The Chairman of the Board of Directors is granted particular competencies, and is responsible for:

- Representing the Executive Board of Directors in and out of court;
- Co-ordinating the work of the Executive Board of Directors, as well as convening and chairing its meetings;
- Striving for the proper execution of the deliberations of the Executive Board of Directors.

The Chairman of the Executive Board of Directors has the right to attend, whenever appropriate, meetings of the General and Supervisory Board, except when these deal with decisions associated with the



supervision of the work of the Executive Board of Directors and, in general, any situations which involve a conflict of interests.

In 2006, the Board of Directors which held office until 30 March 2006 held 6 meetings. The Board of Directors which held office between 1 April and 29 June 2006 held 3 meetings. The present Executive Board of Directors held 22 meetings between 30 June and 31 December.

5.3. Remuneration of Company Officers

In compliance with the Articles of Association, the General Meeting elects a Remuneration Committee which establishes the remuneration of company officers, with the exception of the members of the Executive Board of Directors. The General Meeting may also determine the award of a part of the profits to directors, as profit sharing, as well as the implementation of stock option plans.

The remuneration awarded in 2006 to EDP Company Officers was the following:

Remuneration of Company Officers	Euros	
Board of the General Meeting	3,750.00	
Official auditor	154,450.00	
CA/CE/CGS/CAE	9,764,000.74	
Total	9,922,200.74	
		_

Remuneration policy relative to members of the managing body

The Remuneration Committee appointed by the General and Supervisory Board is responsible for defining the remuneration policy in regard to the members of the managing body. At present, the Committee has defined the fixed remuneration for Board members, whilst the definition of the parameters that will define variable remuneration is still in progress.

Remuneration of the managing body - present and former mandate (until 30 March)

EUR	Fixed	Variable ^(•)	Vouchers	Total
Previous Mandate				
Chairman B.D.	149.834.76	882.431.16	0.00	1.032.265.92
Chairman E.C.	149,834,76	1.182.661.81	0.00	1.332.496.57
E.C. Voting Members	492.964.51	3.472.026.84	0.00	3.964.991.35
Audit Committee	,	-,,		-,,
Voting Members	31.098.75	0.00	15.000.00	46.098.75
Subtotal	823,732,78	5.537.119.81	15,000.00	6.375.852.59
Current Mandate Chairman B.D./G.S.B. Chairman E.C./E.B.D.	410,485.67 517.421.33	0.00	0.00	410,485.67 517.421.33
Voting Members	317,121.00	0.00	0.00	317,121.00
of the E.C./E.B.D. Audit Committee	2,460,241.15	0.00	0.00	2,460,241.15
Voting Members	0.00	0.00	0.00	0.00
Subtotal	3.388.148.15	0.00	0.00	3.388.148.15
Total	4,211,880.93	5,537,119.81	15,000.00	9,764,000.74

5.4. EDP shares held by company officers

In accordance with Article 447 paragraph 5 of the Portuguese Companies' Code, transactions of shares belonging to company officers during the year ended on 31.12.06 was as follows:

	Movements in 2006 P	Mean N Purchase/Sale	N.° of Shares 31-12-2006
De and of the Consent Marchine			
Board of the General Meeting José Manuel Archer Galvão Teles	400	2.01	4 000
António Campos Pires Caiado	680 -6.078	3.01 3.79	6,000
Maria Teresa Isabel Pereira	-0,076	3.79	
Maria reresa isabel Perella	-	-	3,962
General and Supervisory Board			
António de Almeida	-100	3.04	0
Alberto João Coraceiro de Castro	_	-	4.578
António Francisco Barroso de Sousa Gomes	-	-	4,135
Carlos Jorge Feijoo Pereira Ribeiro ⁽¹⁾	-	-	0
Carlos Jorge Ramalho dos Santos Ferreira	-	-	24,400
Diogo Campos Barradas de Lacerda Machado	-	-	260
Eduardo de Almeida Catroga	-	-	0
José Manuel Archer Galvão Teles	680	3.01	6,000
José Maria Espírito Santo Silva Ricciardi	-	-	0
Manuel Fernando de Macedo Alves Monteiro	-	-	0
Manuel Menéndez Menéndez	- (2)	-	0
Paulo Jorge de Assunção Rodrigues Teixeira P			1,388
Vasco Maria Guimaráes José de Mello	-872	3.00	0
Vital Martins Moreira (3)	1,996	3.74	21,870
Vítor Fernando da Conceição Gonçalves	-	-	6,035
Víctor Domingos Seabra Franco	-	-	0
Executive Board of Directors			
António Luís Guerra Nunes Mexia	_	_	1,000
Ana Maria Machado Fernandes	-	-	0
António Fernando Melo Martins da Costa	-	-	13,299
António Manuel Barreto Pita de Abreu	-	-	34,074
João Manuel Manso Neto	-	-	1,268
Jorge Manuel Pragana da Cruz Morais	-	-	12,497
Nuno Maria Pestana de Almeida Alves	-	-	. 0

Notes: Il Director of Energy Finance, S.A., a company which entered into an agreement with UBS AG to buy 36,785,378 EDP shares, with a buy-back obligation 21 Shares held by spouse, Poulal Etickeira da Cruz 3) includes o,109 shares held by spouse Maria Manuel de Lemos Leitão Marques



5.5. Corporate positions held by members of the Managing Body

	António Mexia	Nuno Alves	Ana Maria Fernandes	António Martins da Costa	Jorge Cruz Morais	João Manso Neto	António Pita de Abreu
EDP - Energias de Portugal, S.A.	CEBD	D	D	D	D	D	D
EDP - Gestão da Produção de Energia, S.A.						CBD	
EDP Energias do Brasil, S.A.	CBD	VM	VM	MD			
EDP Comercial - Comercialização de Energia, S.A.					CBD		
EDP - Estudos e Consultoria, S.A.	CBD						VM
EDP - Soluções Comerciais, S.A.					CBD		
EDP Participações - SGPS, S.A.		CBD				VM	
EDP Produção EM - Engenharia e Manutenção, S.A.						CBD	
EDP Produção - Bioeléctrica, S.A.			CBD				
EDP Serviner - Servicos de Energia, S.A.					CBD		VM
EDP Valor - Gestão Integrada de Serviços, S.A.		CBD					
Sãvida - Medicina Apoiada, S.A.							CBD
SCS - serviços complementares de Saúde, S.A.							CBD
Eneraia RE - Sociedade Cativa de Resseauro		CBD					
Enernova - Novas Energias, S.A.			CBD				
Hidroeléctrica del Cantábrico, S.A.		VM	VM		VM	VCBD	VM
Naturgás Energia, S.A.			VM		VM	VM	
Desarrollos Eólicos S.A.			CBD				
Genesa S.L.			CBD				
NQF Projectos de Telecomunicações e Energia, SGPS, S.A.		VM	CBD				
NQF Energia, SGPS, S.A.		VM	CBD				
NQF Gás, SGPS, S.A.			CBD				
Portaás – Sociedade de Produção e Distribuição de Gás, S.A.			V		VM		
Setaás – Sociedade de Produção e Distribuição de Gás, S.A.			V				
Enagas, SGPS, S.A.			CBD				
EDP Powerline		VM					CBD
Internel - Serviços de Consultoria Internacional, S.A.						CBD	
Nuevas Energias de Occidente, S.L.			VM				
ONI - SGPS, S.A.	CBD	VM					

5.6. Company positions held by members of the General and Supervisory Board

See the section on Company Officers.



Annual Report 2006 Institutional Report and Report on Corporate Governance







Annual Report 2006 Institutional Report and Report on Corporate Governance Financial Statements 31st December 2006



FINANCIAL STATEMENTS

Consolidated Balance Sheet as at 31 de December 2006 and 2005

(thounsand Euros)	2006	2005
Assets		
Property, plant and equipment	15,081,728	13,864,146
Intangible assets	1,168,136	1,462,003
Goodwill	2,553,831	2,046,824
Investments in associates	201,863	351,302
Available for sale investments	822,148	566,446
Deferred tax assets	898,323	892,653
Trade receivables	117,651	121,992
Debtors and other assets	299,968	374,601
Total Non-Current Assets	21,143,648	19,679,967
lavoradoria -	000 (00	010 104
Inventories	228,692	219,194
Trade receivables	1,475,202	1,463,505
Debtors and other assets	874,916	1,465,612
Tax receivable	620,840	346,175
Financial assets held for trading	116,439	275,618
Cash and cash equivalents	753,493	585,499
Assets classified as held for sale	255,681	-
Total Current Assets	4,325,263	4,355,603
Total Assets	25,468,911	24,035,570
Equity		
Equity	0 / 5 / 500	0 / 5 / 500
Share capital	3,656,538	3,656,538
Treasury stock	-14,542	-38,119
Share premium	501,992	501,992
Reserves and retained earnings	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	945,661	1,287,763
Total Equity	6,534,896	6,111,163
Liabilities		
Medium / Long term debt and borrowings	8,624,695	8,600,721
Employee benefits	1,770,560	1,843,246
Provisions for liabilities and charges	388,473	269,249
<u> </u>		
Hydrological correction account	198,596	169,967
Deferred tax liabilities	557,269	369,722
Trade and other payables	2,427,193	1,898,258
Total Non-Current Liabilities	13,966,786	13,151,163
Short term debt and borrowings	1,528,355	1,983,579
Trade and other payables	2,757,669	2,613,925
Tax payable	521,107	175,740
Liabilities classified as held for sale	160,098	-
Total Current Liabilities	4,967,229	4,773,244
Total Liabilities	18,934,015	17,924,407
Total Equity and Liabilities	25,468,911	24,035,570
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Consolidated Income Statement for the years ended 31 December 2006 and 2005

		2006			2005	
	Continuing	Discontinued		Continuing	Discontinued	
(thousand Euros)	operations	operations	Total	operations	operations	Total
Turnover	10,185,658	164,168	10.349.826	9,374,890	273,277	9.648.167
Cost of consumed electricity	-4,380,703	104,100	-4,380,703	-4,222,003	2/3,2//	-4,222,003
Cost of consumed gas	-744.350	_	-744,350	-458,233	_	-458,233
Changes in inventories and cost of raw material and consumables used	-1,052,114	-14,205	-1,066,319	-1,106,791	-5,801	-1,112,592
•						
Other operating income / (expenses)	4,008,491	149,963	4,158,454	3,587,863	267,476	3,855,339
Other operating income Other operating income	136,386	7,762	144,148	208,318	3,235	211,553
Supplies and services	-621,674	-119,724	-741,398	-616,966	-205,815	-816,781
Personnel costs	-563,894	-21.192	-585,086	-504,024	-41,963	-545,987
Employee benefits expense	-162,201	-21,172	-162,287	-200,163	-128	-200,291
Other operating expenses	-498,188	- 10.193	-508,381	-444,771	-8,895	-453,666
Office operating expenses	-1,709,571	-143,433	-1,853,004	-1 551,606	-253,566	-1,805,172
	2,298,920	6,530	2,305,450	2,036,257	13,910	2,050,167
Provisions	-90,350	-4,214	-94,564	-73,338	60,864	-12,474
Depreciation and amortisation expense	-1,018,851	-40,015	-1,058,866	-906,174	-87,239	-993,413
Amortisation of deferred income on partially funded properties						
received under concessions	101,415	-399	101,016	97,600	-	97,600
	1,291,134	-38,098	1,253,036	1,154,345	-12,465	1,141,880
Gains from the sale of financial assets	4,791	27	4,818	440,647	83	440,730
Other financial income	769,351	1,010	770,361	527,260	634	527,894
Other financial expenses	-956,053	-21,685	-977,738	-897,249	-29,922	-927,171
Share of profit of associates	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
Trom before tax	1,004,002	30,740	1,275,000	1,200,270	41,070	1,210,020
Income tax expense	-266 457	542	-265,915	-100,236	-51,953	-152,189
Profit after tax but before gains/losses on discontinued operations	1,088,095	-58,204	1,029,891	1,160,062	-93,623	1,066,439
Gains/ (losses) on sale of discontinued operation, net of tax	-	-12,808	-12,808	-	45,522	45,522
Profit for the year	1,088,095	-71,012	1,017,083	1,160,062	-48,101	1,111,961
Attributable to:						
Equity holders of EDP	1,011,911	-71.088	940.823	1,115,118	-44,016	1,071,102
Minority interests	76,184	76	76,260	44,944	-4.085	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



Annual Report 2006 Institutional Report and Report on Corporate Governance Financial Statements 31st December 2006



Company Balance Sheet as at 31 December 2006 and 2005

	(thousand de Euros)	2006	2005
Assets			
Property, plant and equipment		84,899	95,536
Intangible assets		1,763	322
Investiments in subsidiaries		6,673,680	7,351,589
Investiments in associates		97,919	354,635
Available for sale investments		399,805	260,394
Deferred tax assets		83,662	53,317
Debtors and other assets		3,351,059	3,494,196
Total Non-Current Assets		10,692,787	11,609,989
Trade receivables		66,396	70,664
Debtors and other assets		1 567,202	1 356,160
Tax receivable		50,017	140,591
Financial assets held for trading		1,693	205,376
Cash and cash equivalents		235,234	183,334
Total Current Assets		1,920,542	1,956,125
Total Assets		12,613,329	13,566,114
Equity			
Share capital		3,656,538	3,656,538
Treasury stock		-14,542	-38,119
Share premium		501,992	501,992
Reserves and retained earnings		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		2,623,926	3,171,899
Employee benefits		-	17,087
Provisions for liabilities and charges		19,910	14,754
Hydrological correction account		198,596	169,967
Trade and other payables		12,740	3,598
Total Non-Current Liabilities		2,855,172	3,377,305
Short term debt and borrowings		2,993,257	3,386,438
Trade and other payables		566,367	407,971
Income tax payable		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



Company Income Statement for the years ended 31 December 2006 and 2005

(thousand Euros)	2006	2005
Turnover	682,261	560,385
Cost of consumed electricity	-329,289	-278,006
Cost of raw material and consumables used	-243,841	-190,162
	109,131	92,217
Other operating income / (expenses)		
Other operating income	12,051	29,722
Supplies and services	-103,162	-97,188
Personel costs	-13,272	-6,329
Employee benefits expense	-1,469	-882
Other operating expenses	-294,121	-131,943
	-399,973	-206,620
	-290,842	-114,403
Provisions	-2,424	-3,850
Depreciation and amortisation expense	-6,378	-5,374
Amortisation of deferred income on partially funded properties		
received under concessions	-	670
	-299,644	-122,95
Gains/(losses) from the sale of financial assets	-17,206	-81,714
Other financial income	1,439,452	1,556,660
Other financial expenses	-632,253	-871,939
Share of profit of associates	-19,399	
Profit before tax	470,950	480,05
Income tax expense	44,746	29,77
Profit for the year	515,696	509,83
ings per share (Basic and diluted) - Euros	0.14	0.14



Annual Report 2006 Institutional Report and Report on Corporate Governance Proposal for the Appropriation of Profits



PROPOSAL FOR THE APPROPRIATION OF PROFITS

In accordance with Article 27 of the Articles of Association, the Executive Board of Directors recommends that the net profits be appropriated as follows:

Appropriation of Profits (EUR)	Euros	
Statutory Reserves	25,784,821.02	
Dividends	402,219,148.65	
Allocated to the EDP Foundation	8,400,000.00	
Retained Earnings	79,292,450.66	
Net Profit	515,696,420.33	

The proposed dividend is EUR 0.11 per share.

Annual Report 2006 Institutional Report and Report on Corporate Governance Outlook for 2007



OUTLOOK FOR 2007

For the EDP Group 2007 will be a very challenging year, in which its work will be defined by the strategic guidelines that have been established: risk control, efficiency of operations and profitable growth.

With regard to risk control, in 2007 EDP will implement an integrated hedging strategy between generation and supply on the open market and will face a diverse and complex regulatory agenda. On the one hand, it is expected that the Iberian energy market (MIBEL) will become operational and will open up the markets of both countries much more extensively to operators in each country. Equally, and as a condition of entry into MIBEL, costs for the maintenance of contractual equilibrium (CMEC) will be regulated, defining the compensation due to producers under the system of binding generation for the termination of Power Purchase Agreements in Portugal.

In the gas sector in Portugal the liberalisation of the Portuguese market for electricity producers will commence, cumulating in 2010 with the opening up of this market to all consumers, as is the case in Spain. In addition, ERSE will define the regulation of the gas distribution business in Portugal.

In Spain, developments are expected in relation to several aspects of regulation, particularly following the issue of Royal Decree-Law 3/2006 and the "draft" for renewable energies, which will have a particular impact on remuneration for the various activities in the supply chain.

The competitive environment of the Iberian Energy Market will be influenced by developments in the international commodities markets and by the actions of its agents, who will depend heavily on the results of current shareholder movements. Examples include the takeover bids by E.ON and Gas Natural on Endesa and the acquisition of shareholder positions by large construction groups in Spanish energy companies.

With regard to operational efficiency, in 2007 particular emphasis will be placed on the implementation of the cost cutting programme launched in 2006, namely through the creation of a rigorous control system for initiatives in this area and strict discipline with regard to investments, introducing internal competition for resources. It is also expected that the plan for the

divestiture of non-strategic assets will be concluded, an example of which will be the completion of the sale of the ONI shares still held by EDP and the additional disposal of the shareholding in REN.

In terms of profitable growth, EDP expects to construct new combined cycle plants in the Iberian Peninsula over the next year, Lares I in Portugal and Castejón II and Soto 4 in Spain, with the aim of consolidating its position within the competitive environment in the Iberian Peninsula. At the same time, EDP will continue to develop its strong growth trend in the renewable energies sector and expansion into other international markets

2007 will thus represent a period of great challenges for EDP, but it will also be a year of great opportunities for the company to consolidate its strategy and to assert itself as the leader in the creation of value in the Iberian utility sector.



Annual Report 2006 Institutional Report and Report on Corporate Governance **Acknowledgements**



ACKNOWLEDGEMENTS

In its closing remarks, the Executive Board of Directors would like to express its gratitude to all those who have supported and supervised the work of EDP throughout the financial year 2006.

The focus that has been provided us throughout the year, as a consequence of the central role played by EDP as a comprehensive economic Group operating at all levels of society and in the various geographical areas in which it has a presence, provided a strong incentive for us to achieve the results presented for the financial year under review.

First and foremost, we express our thanks to the shareholders for their continued confidence in the EDP Group and for their confidence placed in the current Executive Board of Directors and each one of its members elected for the 2006-2008 three-year period by the Annual General Meeting.

In this respect, we also offer out thanks for the work of the company officers, also elected by the same General Meeting, who are entrusted with the task of monitoring and supervising the Group's activities.

It is also important for the Executive Board of Directors to acknowledge the cooperation and guidance it has received from the General and Supervisory Board in putting into operation the new governance model adopted by shareholders.

The Executive Board of Directors also acknowledges the valuable contribution made by the former Board of Directors, which stood down at this General Meeting, to the development of the EDP Group and the unsurpassed way in which it helped the new Board to take up office.

The Board would also like to thank the members of the supervisory authorities in the countries in which EDP has an institutional presence for the support they have lent to Group activities during the past financial year, monitoring the work of EDP on behalf of the economic and social development of their respective populations.

With regard to the energy sector, and in a year characterised by substantial changes to Portuguese legislation in the field, it is also important to

acknowledge the constructive dialogue provided by the Energy Service Regulatory Body (ERSE) and the Directorate-General of Geology and Energy (DGGE) with regard to Group companies operating in Portugal. In the same context, we would also like to acknowledge the work of the regulatory bodies operating in the countries in which EDP is most active, namely the CNE in Spain and the ANEEL in Brazil.

The gratitude of the Executive Board of Directors also extends to all those entities who have co-operated with the EDP Group during 2006, particularly:

- CMVM, Euronext Lisbon, Interbolsa, CVM and BOVESPA.
- The EDP Group's external auditors;
- Financial institutions;
- · Scientific, university and technical institutions;
- The Portuguese Association of Electricity Sector Enterprises (Elecpor).

A special word of thanks is also due to the customers of the EDP Group companies, to whom we wish to reaffirm our commitment to the quest for excellence in the provision of services and the full satisfaction of their needs, and to the media which has closely followed the activities of the EDP Group and, in its coverage of individual events, has raised the requirements for management rigour and professionalism to the next level.

Finally, a special word of thanks to our employees in all the Group companies, for their contribution to the development of the EDP Group, for their competence and professionalism in performing their duties and for their commitment to the EDP Group's drive to change and grow.

The Executive Board of Directors

António Luís Guerra Nunes Mexia (Chairman) Ana Maria Machado Fernandes António Fernando Melo Martins da Costa António Manuel Barreto Pita de Abreu João Manuel Manso Neto Jorge Manuel Pragana da Cruz Morais Nuno Maria Pestana de Almeida Alves

Annual Report 2006 Institutional Report and Report on Corporate Governance Extract of the Minutes of the General Meeting of Shareholders



------ Extract of minutes 1/2007 --------- The General Meeting of Shareholders of EDP - Energias de Portugal, S.A., a listed company (hereinafter referred to as "EDP" or the "Company"), having its registered office at 12, Praça Marquês de Pombal in Lisbon and a share capital of €3,656,537,715, registered as a company at the Lisbon Registry of Companies under number 500 697 256 (previous entry number 1.805), was held at ten a.m. on the twelfth day of April of the year two thousand and seven at no. 77-A Rua Castilho in Lisbon. It was not held at the Company's registered office due to shortage of space there, as a large number of shareholders always attend, since it is a listed company. --- The Chairperson of the Meeting, José Manuel Archer Galvão Teles, assisted by the Secretary, Maria Teresa Isabel Pereira, verified that the meeting had been convened by the mandatory publications on the websites of the Ministry of Justice, CMVM, Euronext Lisbon and EDP (in addition to publication in the Euronext Lisbon Boletim de Cotações of 7 March 2007 and the newspapers Público and Jornal de Notícias of 9 March 2007).-----The Chairperson and Secretary verified that the attendance list was properly organised and that there were powers of attorney for shareholders that were legal persons or were not present in person.-----The Chairperson and Secretary then verified the percentage of the share capital present or represented at the General Meeting, which corresponded to 50.8402% of the share capital and 46.3418% of the voting rights, on the basis of the registration statements and share blocking by the financial intermediaries responsible for the individual registration of each shareholder's shares and announced that there was the necessary constitutive and deliberative quorum for the General Meeting.-----The Chairperson also announced that no shareholders other than Parpública - Participações Públicas (SGPS), S.A. could vote with more than 5% of the voting rights.-------The Chairperson and Secretary also verified that all other formalities prior to the General Meeting had been completed, particularly that the shareholders had been informed of the motions and information on the items on the agenda at the registered office and the CMVM and EDP websites within the legal time limits, with the exception of Point 6 on the agenda.-----(...) Mr Galvão Teles submitted to the General Meeting the amendment to the order of the agenda so that the part of Point Six (election of members of the corporate bodies) regarding the election of the officers of the General Meeting of Shareholders could be dealt with first. As there were not votes against, the Chairperson announced that the order of the Agenda had been unanimously amended and that the part of Point Six regarding the election of the officers of the General Meeting of Shareholders was not the first on the Agenda.-----The Chairperson then announced that two motions regarding the election of the Chairperson and Vice-Chairperson of the General Meeting had been submitted, one by Parpública - Participações Públicas (SGPS), S.A. and the other by Caixa Geral de Depósitos, S.A. and that they would be combined, if the meeting so authorised,. He then read the motions, which were as follows:----"Motion for the election of the Chairperson of the General Meeting of EDP - Energias de Portugal, SA As José Manuel Galvão Teles, Chairperson of the General Meeting, has resigned, it is necessary to elect his replacement.-----In view of his qualifications and professional experience, we move that Rui Pena be elected Chairperson of the General Meeting of Shareholders of EDP - Energias de Portugal, SA to complete the three-year period 2006/2008."-------Motion for the election of an Officer of the General Meeting of Shareholders of EDP - Energias

Annual Report 2006 Institutional Report and Report on Corporate Governance Extract of the Minutes of the General Meeting of Shareholders



As António Pires Caiado, Vice-Chairperson of the General Meeting, has resigned, it is necessary to elect his replacement.-----In view of his qualifications and professional experience, we move that António Bernardo de Menezes e Lorena de Sèves be elected Vice-Chairperson of the General Meeting of Shareholders of EDP - Energias de Portugal, SA, to complete the three-year period 2006/2008."------(...)After the motions had been read, the Chairperson then put them to the vote. They were approved by a majority of votes cast (3.6468% votes against and 1.7124% abstentions).------Rui Pena then took over the proceedings of the General Meeting, beginning with the discussion of and vote on the original Point One of the Agenda, as follows: "To deliberate on the individual and consolidated accounting documents for the financial year of 2006, including the single management report, the individual and consolidated accounts, the annual report and opinion of the General Supervisory Board and the legal certification of accounts".-----(...) After the debate and as no-one else had requested the floor, the Chairperson put the motion to the vote. The single management report and other reporting documents for the financial year of 2006 were approved by a majority of votes cast (0.0180% votes against and 1.1951% abstentions). --- The Chairperson continued with the agenda and read Point Two, as follows: "To deliberate on the proposal for appropriation of profits for the financial year of 2006". The Chairperson read the proposal of the Executive Board of Directors: "As set forth in Article 30.1 of the Company's Articles of Association the Executive Board of Directors proposes to the Shareholders that the profit for the financial year be appropriated as follows:-----Legal reserve €25,784,821.02-----Dividends (€0.11 per share) €402,219,148.65-----Donation to Fundação EDP €8.400.000.00-----Retained earnings €79,292,450.66"-----(...) The Chairperson then put Point Two of the Agenda to the vote and the votes cast approved the proposed appropriation of profits unanimously (0.0005% abstentions).-------- Passing on to the original Point Three of the agenda, the Chairperson read its contents: "Making a general appraisal of the management and supervision of the company as required by Article 455 of the Company Code". He gave the floor to the Chairperson of the General Supervisory Board, who gave the board's opinion on the company's management:-----"Shareholders-----As required by Article 22.1h of EDP's Articles of Association, the GSB must issue an opinion on the annual vote of confidence in the Executive Board of Directors, on which Article 455 of the Company Code requires the shareholders to deliberate..... (...) "THE GSB trusts in the collective and individual capacity of the members of the Executive Board of Directors to achieve these goals, basing their actions on the single purpose of promoting the Company's interests.-----At its meeting of 8 March 2007, the GSB therefore decided unanimously to issue a favourable opinion on a vote of confidence and praise for the EBD and each of its members." The Chairperson then read the motion submitted by the shareholders Parpública - Participações Públicas SGPS, S. A., Caixa Geral de Depósitos, S.A., Banco Comercial Português, S.A., Banco Espírito Santo, S.A. and José de Mello - Sociedade Gestora de Participações Sociais, S.A. as



"Considering Afficie 3/6.1c and Afficie 455.1 and 445.2 of the Company Code,
We hereby move for:
1 - A vote of confidence and praise for the Executive Board of Directors and each of its members
for their work in 2006
2 - A vote of confidence and praise for the General Supervisory Board and each of its members
for their work in 2006
3 - A vote of confidence and praise for the official auditors for their work in 2006"
()
The Chairperson then put to a separate vote the three points of the motion submitted by the shareholders Parpública - Participações Públicas SGPS, S. A., Caixa Geral de Depósitos, S.A., Banco Comercial Português, S.A., Banco Espírito Santo, S.A. and José de Mello -Sociedade Gestora de Participações Sociais, S.A. The results were as follows:
- The first point of the motion ("A vote of confidence and praise for the Executive Board of Directors and each of its members for their work in 2006") was approved by a majority of votes cast (0.0016% votes against and 0.0002% abstentions)
- The second point of the motion ("A vote of confidence and praise for the General Supervisory Board and each of its members for their work in 2006" was approved was approved by a majority of votes cast (0.0016% votes against and 0.0011% abstentions)
- The third point of the motion ("A vote of confidence and praise for the official auditors for their work 2006") was approved by a majority of votes cast (0.0016% votes against and 0.0011% abstentions)
The meeting then moved on to the original Point Four of the agenda, which the Chairperson read: "Granting the Executive Board of Directors authorisation to purchase and sell the company's own shares for EDP and subsidiaries" ()
After the speech and as no-one else had requested the floor, the Chairperson put the motion to the vote and it was approved by majority of votes (0.0525% votes against and 0.0009% abstentions)
The Chairperson then read the original Point Five on the agenda: "Granting the Executive Board of Directors authorisation to purchase and sell the company's own bonds for EDP and subsidiaries" () As no-one wished to take the floor, the Chairperson put the motion to the vote and it was approved by a majority of votes cast (0.0542% votes against and 0.0073% abstentions) The Chairperson went on to the discussion and vote on Point Six of the agenda regarding the election of the other corporate bodies (). He informed the meeting that he had received a motion on this point of the agenda from the shareholders Parpública - Participações Públicas (SGPS), S. A. and Caixa Geral de Depósitos, S.A. and asked the Secretary to read it, which he did as follows:
 a) José Manuel Galvão Teles and António Pires Caiado, Chairperson and Vice-Chairperson of the General Meeting of Shareholders have submitted their resignation; b) They have both performed the above duties in an exemplary, with a special mention going to Mr Galvão Teles for the dignity, distinction and great competence with which he has carried out the duties of Chairperson of the General Meeting over the years. It has been an honour for EDP and its shareholders to have as Chairperson of its most representative body a person of such intellectual, moral and professional class; c) People of such great experience and quality as Rui Pena and António de Sèves were elected
to realize them.

Annual Report 2006 Institutional Report and Report on Corporate Governance Extract of the Minutes of the General Meeting of Shareholders



we move that the Shareholders approve:
1. A vote for praise for Mr Galvão Teles and Mr Pires Caiado for the exemplary fashion with which they performed their duties, with special reference to Mr Galvão Teles for the aforementioned reasons;
2. A vote of congratulations on the election Mr Pena and Mr de Sèves on replacing them". As no-one else requested the floor after the reading, the Chairperson put the two points of the motion submitted by the shareholders Parpública - Participações Públicas (SGPS), S. A. and Caixa Geral de Depósitos, S.A. to a separate vote. The results were as follows:
Also under Point Six of the agenda, the Chairperson informed the meeting that he had received another motion regarding the election of a member of a corporate body from the shareholders Parpública - Participações Públicas SGPS, S.A. and Caixa Geral de Depósitos, S.A., which he read: "Whereas:
(A) On 11 April 2007, EDP - Energias de Portugal, S.A. ("EDP") and Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures ("Sonatrach") signed an agreement of principles on the possible formation of a corporate partnership for certain business areas in natural gas and electricity generation ("Strategic Partnership");
(B) The formation of the Strategic Partnership is subject to the signing of final agreements to be negotiated by 31 July 2007 (unless the period is extended by agreement between EDP and Sonatrach), the acquisition by Sonatrach of a 2% shareholding in EDP and the appointment of Sonatrach as a member of the General Supervisory Board of EDP;
(C) On 26 March 2007, Sonatrach acquired 1,639,699 shares in EDP and therefore now owns 74,400,000 shares representing 2,035% of EDP's share capital and corresponding to 2.039% of the voting rights, as announced to the market on 2 April 2007;
the meeting should decide:
2. To elect Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures ("Sonatrach") as a member of the General Supervisory Board for the current three-year period of office, 2006/2008, on the condition that the Strategic Partnership is suspended (unless the period is extended by agreement between EDP and Sonatrach)
The Chairperson then informed the meeting of the need to approve the first point by a majority of two-thirds of votes as set forth in EDP's Articles of Association and put the two point of the motion submitted by the shareholders Parpública - Participações Públicas (SGPS), S. A. and Caixa Geral de Depósitos to a separate vote. The results were as follows:
- The first point of the motion ("To authorise the decision to elect Société Nationale pour la



--- As there was no other business, the meeting was adjourned at three p.m. These minutes were then drawn up and have been signed by the resigning Chairperson, the present Chairperson and the Secretary.-----

Lisbon, 12 April 2007

The Company Secretary Maria Teresa Isabel Pereira **Annual Report 2006** Institutional Report and Report on Corporate Governance



