



Annual
Report
2005

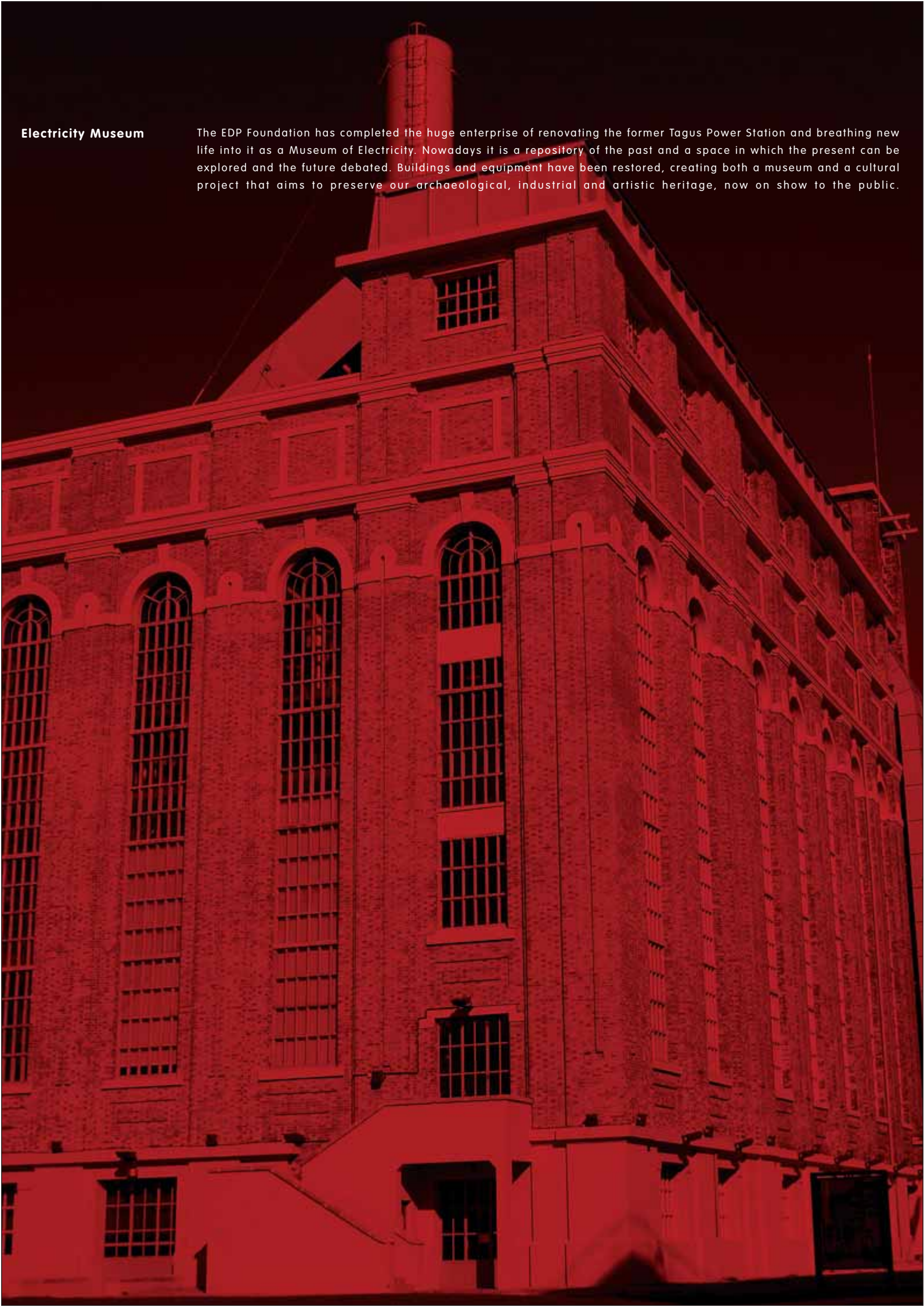
Institutional
Report and
Report on Corporate
Governance

10 million smiles

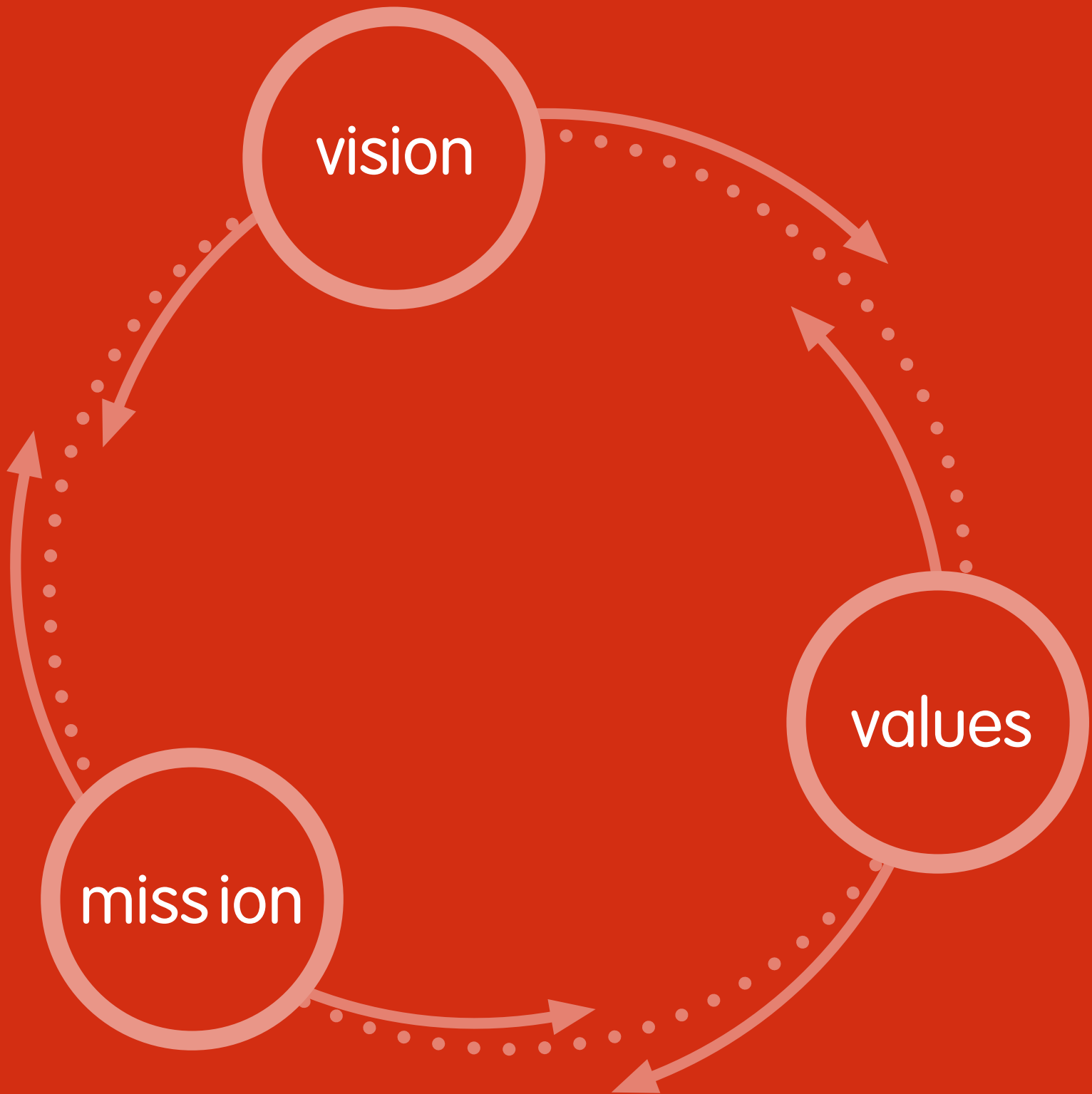
Nowadays EDP is much closer to its customers. Its procedures, its services and the new products it creates are all much simpler. It is more transparent. More optimistic. More profitable for its shareholders. More responsible. More human. And it gives more satisfaction – with a smile that creates millions more.

Electricity Museum

The EDP Foundation has completed the huge enterprise of renovating the former Tagus Power Station and breathing new life into it as a Museum of Electricity. Nowadays it is a repository of the past and a space in which the present can be explored and the future debated. Buildings and equipment have been restored, creating both a museum and a cultural project that aims to preserve our archaeological, industrial and artistic heritage, now on show to the public.



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VISION

To be the most competitive, efficient producer and supplier of electricity and gas solutions in the Iberian Peninsula.

MISSION

EDP's mission is based on three fundamental pillars:

- To provide our shareholders with an attractive rate of return so that they will continue to invest in EDP;
- To guarantee high quality service exceeding our customers' expectations and ensuring their loyalty;
- To provide the employees of the EDP Group with prospects of career and professional growth and allowing their self-realisation as members of a winning team.

VALUES

- Customer – To consider the customer as the central entity to EDP's business.
- Ambition – To be the most competitive company of our sector on the basis of excellence.
- Efficiency – To bring value to our customers, employees and shareholders, working efficiently, generating and implementing innovative, quality solutions.
- Transparency – To make transparency in our relations with customers, employees, shareholders and the regulatory entity an embedded value of the Group's culture.
- Rigour – To adopt rigour as the general rule of activity and of decision-making. To accept mistakes, provided they are not deliberate, fraudulent, destructive or recurrent, as part of a process of human and professional improvement.
- Environment – To have due regard for the environment, developing the Group through sustainable solutions and through active support for the communities that we serve.
- Ethics - To meet the highest standards of ethics in each and every one of our activities.

FINANCIAL HIGHLIGHTS

| EUR thousands | 2005 | 2004 | Var. % |
|---|------------|------------|-----------|
| EDP Group | | | |
| Turnover | 9,677,024 | 7,310,688 | 32.4% |
| Gross Operating Profit ⁽¹⁾ | 2,481,549 | 1,076,542 | 130.5% |
| Operating Profit ⁽²⁾ | 1,582,610 | 327,202 | 383.7% |
| Net Profit | 1,071,102 | 42,815 | 2401.7% |
| Operating Cash Flow | 1,652,816 | 1,664,036 | -0.7% |
| Net Operating Investment | 1,427,154 | 1,218,420 | 17.1% |
| Financial Investment | 775,682 | 149,360 | 419.3% |
| Net Assets | 24,032,975 | 20,900,976 | 15.0% |
| Shareholders' Equity | 4,823,400 | 4,037,858 | 19.5% |
| Financial Liabilities | 10,584,300 | 9,141,885 | 15.8% |
| Return on Equity | 25.2% | 1.1% | 24.2 p.p. |
| Return on Assets | 4.7% | 0.2% | 4.5 p.p. |
| Financial Liabilities / Shareholders' Equity | 219.4% | 226.4% | -7.0 p.p. |
| Net Assets / Liabilities | 125.1% | 123.9% | 1.2 p.p. |
| Earnings per Share (EUR) | 0.29 | 0.01 | 2401.7% |
| Dividend Yield | 3.8% | 4.1% | -0.3 p.p. |
| Market Capitalisation | 9,506,998 | 8,154,079 | 16.6% |
| Electricity Generation – Portugal | | | |
| Turnover | 1,896,584 | 1,520,729 | 24.7% |
| Gross Operating Profit | 802,394 | 835,563 | -4.0% |
| Operating Profit | 602,814 | 633,746 | -4.9% |
| Net Profit | 379,407 | 402,350 | -5.7% |
| Operating Investment | 202,233 | 200,208 | 1.0% |
| Electricity Distribution – Portugal | | | |
| Turnover | 3,767,596 | 3,637,538 | 3.6% |
| Gross Operating Profit | 423,964 | 282,516 | 50.1% |
| Operating Profit | 171,263 | 28,122 | 509.0% |
| Net Profit | 128,686 | 22,687 | 467.2% |
| Operating Investment | 335,926 | 302,762 | 11.0% |
| Electricity Supply – Portugal | | | |
| Turnover | 525,023 | 322,319 | 62.9% |
| Gross Operating Profit | -80,821 | -6,139 | -1216.5% |
| Operating Profit | -85,239 | -9,846 | -765.7% |
| Net Profit | -71,255 | -8,569 | -731.6% |
| Operating Investment | 5,663 | 5,572 | 1.6% |
| Electricity – Spain (100%)⁽³⁾ | | | |
| Turnover | 1,300,353 | 1,077,501 | 20.7% |
| Gross Operating Profit | 407,756 | 258,479 | 57.8% |
| Operating Profit | 267,969 | 130,156 | 105.9% |
| Net Profit | 113,218 | 22,074 | 412.9% |
| Operating Investment | 89,108 | 68,995 | 29.2% |
| Neo Energia (100%)⁽⁴⁾ | | | |
| Turnover | 344,275 | 107,283 | 220.9% |
| Gross Operating Profit | 124,344 | 61,970 | 100.7% |
| Operating Profit | 76,404 | 33,914 | 125.3% |
| Net Profit | 30,798 | 12,929 | 138.2% |
| Operating Investment | 278,273 | 291,711 | -4.6% |
| Gas – Iberia (100%)⁽⁵⁾ | | | |
| Turnover | 750,730 | 703,352 | 6.7% |
| Gross Operating Profit | 137,751 | 138,490 | -0.5% |
| Operating Profit | 101,788 | 103,855 | -2.0% |
| Net Profit | 69,518 | 59,291 | 17.2% |
| Operating Investment | 68,280 | 74,164 | -7.9% |
| Energias do Brasil | | | |
| Turnover | 1,503,654 | 1,074,319 | 40.0% |
| Gross Operating Profit | 413,097 | 210,769 | 96.0% |
| Operating Profit | 344,966 | 156,643 | 120.2% |
| Net Profit | 180,889 | 45,646 | 296.3% |
| Operating Investment | 419,355 | 284,926 | 47.2% |
| Telecommunications⁽⁶⁾ | | | |
| Turnover | 278,403 | 279,962 | -0.6% |
| Gross Operating Profit | 19,271 | -40,943 | - |
| Operating Profit | -61,845 | -84,721 | 27.0% |
| Net Profit | -118,124 | -131,354 | 10.1% |
| Operating Investment | 34,070 | 25,531 | 33.4% |

Note: Values of 2005 and 2004 in accordance with the IFRS 100% of the figures presented for Operating Investment are considered (Net of co-participation)

¹ Includes the impact of the divestiture of financial assets and provisions.

² Includes the impact of the divestiture of financial assets.

³ Proforma: 100% in both periods. Does not include Naturgas Energia and Genesa

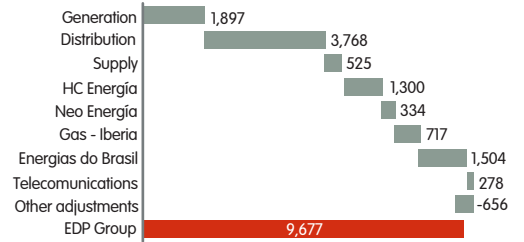
⁴ Proforma: 100%. Enernova, NEO holding, Genesa and NEO Desa in both periods

⁵ Proforma: Includes 100% Portugás and Naturgas Energia in both periods

⁶ Proforma in 2004. Excludes Comunitel in the last quarter of the year

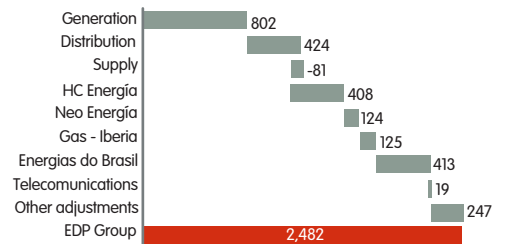
EDP Group Turnover

(Millions of euros)



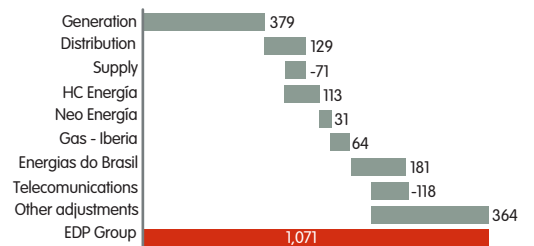
EDP Group Gross Operating Profit⁽¹⁾

(Millions of euros)



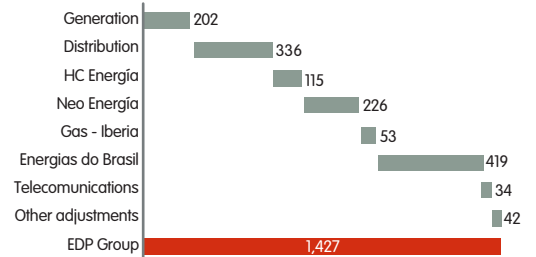
EDP Group Net Profit

(Millions of euros)



EDP Group Net Operating Investment

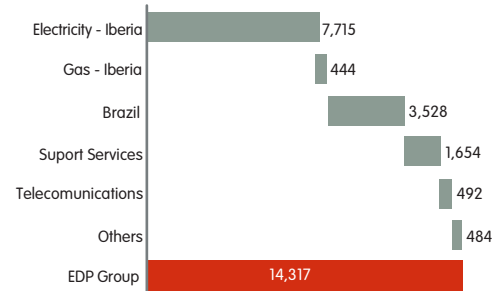
(Millions of euros)



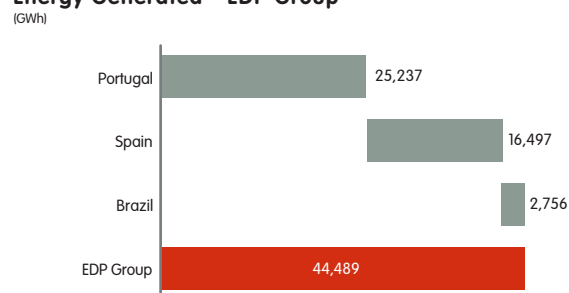
OPERATING HIGHLIGHTS

| | 2005 | 2004 | Var. % |
|--|---------------|---------------|---------------|
| Number of Employees | 14,317 | 16,243 | -11.9% |
| Iberian Energy Market | 8,159 | 8,755 | -6.8% |
| Ordinary Regime Generation | 2,276 | 2,216 | 2.7% |
| Special Regime Generation | 229 | 136 | 68.4% |
| Distribution | 5,016 | 5,889 | -14.8% |
| Supply | 194 | 215 | -9.8% |
| Gas | 444 | 299 | 48.5% |
| Brazil (Electricity) | 3,528 | 3,569 | -1.1% |
| Generation | 282 | 216 | 30.6% |
| Distribution | 3,231 | 3,344 | -3.4% |
| Supply | 15 | 9 | 66.7% |
| Support Services | 1,654 | 790 | 109.4% |
| Telecommunications | 492 | 1,096 | -55.1% |
| Information Technology | 0 | 1,416 | - |
| Other | 484 | 617 | -21.6% |
| Ordinary Regime Electricity Generation - Iberia | | | |
| Maximum Power (MW) | 11,073 | 10,568 | 4.8% |
| Portugal | 8,584 | 8,080 | 6.2% |
| Spain | 2,488 | 2,488 | 0.0% |
| Electricity Sales (GWh) | 39,448 | 38,699 | 1.9% |
| Portugal | 24,076 | 24,291 | -0.9% |
| Spain | 15,372 | 14,407 | 6.7% |
| Special Regime Electricity Generation - Iberia | | | |
| Maximum Power (MW) | 951 | 668 | 42.4% |
| Portugal | 337 | 322 | 4.7% |
| Spain | 614 | 346 | 77.7% |
| Electricity Sales (GWh) | 2,285 | 1,709 | 33.7% |
| Portugal | 1,161 | 1,083 | 7.2% |
| Spain | 1,124 | 626 | 79.5% |
| Electricity Distribution - Iberia | | | |
| Number of Customers | 6,492,287 | 6,397,902 | 1.5% |
| Portugal | 5,907,365 | 5,823,342 | 1.4% |
| Spain | 584,922 | 574,560 | 1.8% |
| Electricity Sales (GWh) | 53,031 | 50,338 | 5.4% |
| Portugal | 43,784 | 41,315 | 6.0% |
| Spain | 9,247 | 9,023 | 2.5% |
| Electricity Supply - Iberia | | | |
| Number of Customers | 30,658 | 9,710 | 215.7% |
| Portugal | 9,212 | 3,616 | 154.8% |
| Spain | 21,446 | 6,094 | 251.9% |
| Electricity Sales (GWh) | 12,240 | 8,997 | 36.0% |
| Portugal | 6,314 | 4,381 | 44.1% |
| España | 5,926 | 4,647 | 27.5% |
| Gas - Iberia | | | |
| Gas Distribution - Portugal | | | |
| Number of Customers | 149,196 | 139,328 | 7.1% |
| Gas Sales (GWh) | 1,948 | 1,839 | 5.9% |
| Gas Distribution - Spain | | | |
| Supply Points | 599,904 | 577,802 | 3.8% |
| Gas Sales (GWh) | 21,547 | 22,059 | -2.3% |
| Gas Supply - Spain | | | |
| Supply Points | 94,493 | 1,484 | - |
| Gas sales (GWh) | 11,791 | 9,853 | 19.7% |
| Brazil - Electricity | | | |
| Maximum Power (MW) | 531 | 506 | 5.0% |
| Electricity Sales (GWh) | | | |
| Generation | 2,759 | 2,878 | -4.2% |
| Distribution | 23,061 | 22,395 | 3.0% |
| Supply | 6,379 | 4,849 | 31.6% |
| Number of Customers | 2,971,930 | 2,895,127 | 2.7% |
| Telecommunications | | | |
| Voice Traffic (M.min.) | 977.9 | 991.4 | -1.4% |
| New Broadband Customer (Retail seg.) | 31,724 | 12,138 | 161.4% |

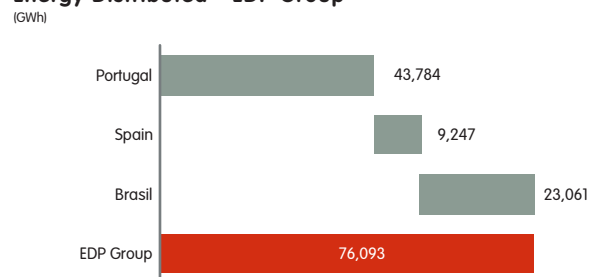
EDP Group Employees



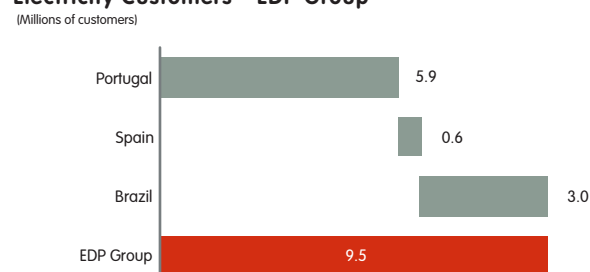
Energy Generated - EDP Group



Energy Distributed - EDP Group



Electricity Customers - EDP Group

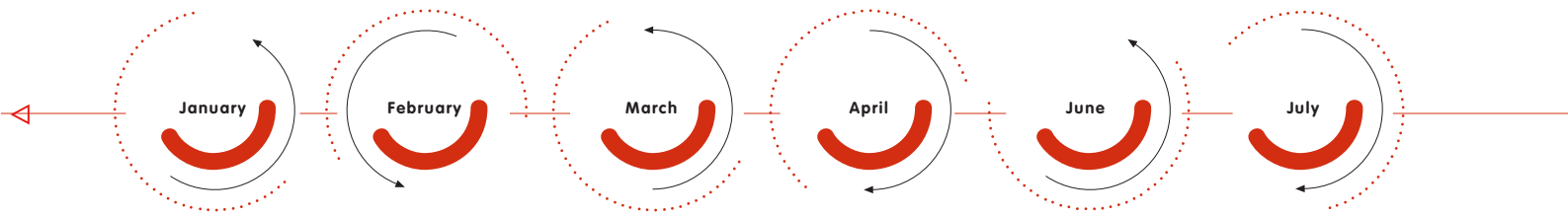


Note: 100% of the figures are presented for all companies, regardless of their stake in the EDP Group. Staff numbers include governing bodies

EDP signs contract for the sale of Edinfor
7 January – EDP signs a purchase-and-sale contract with LogicaCMG, with a view to the disposal of 60 percent of the share capital of Edinfor.
EDP signs termination agreements for PPAs (Power Purchase Agreements)
27 January – EDP announces that it has signed agreements for the termination of the PPAs by the EDP Group through the CPPE (Portuguese Electricity Generating Company) and by the REN (National Electrical Network).
CajAstur holds 5.75 percent of EDP's share capital
31 January – CajAstur announces that it has a total stake in EDP's share capital of 210,251,158 shares, or 5.75 percent of the total.
General Meeting of Shareholders
31 January – Ratification of the cooption of EDP directors João Eduardo Moura da Silva Freixa and Prof. José Pedro da Silva Sucena Paiva, enlargement of the Board to fifteen members and election of Manuel Menéndez Menéndez and José Alfredo Parreira Holtreman Roquette as Directors.

Turbogás option exercise
16 March – EDP acquires a 20 percent stake in the share capital of Turbogás and 26.667 percent of the share capital of Portugal for EUR 52 million. As a result of this transaction, EDP increased its stake in the share capital of Turbogás to 40 percent.
General Meeting of Shareholders
31 March – Approval of the 2004 accounts and of the distribution of a gross dividend of EUR 0.09243.

Sale of BCP shares
30 June – EDP transfers 65,473,757 shares, or 2.01 percent of BCP's share capital, to the EDP Pension Fund. The value for the purposes of registration with Euronext Lisbon is EUR 2.12 per share.



Appeal against the decision on GDP
24 February – EDP lodges a legal appeal against the decision of the European Commission prohibiting the acquisition of joint control of Gás de Portugal.

Sale of 3 percent of REE (the Spanish Electricity Grid)
1 April – HC Energia sells its stake of around 3 percent in REE for EUR 76 million.
Corporate restructuring in Brazil
8 April – Agreement signed regarding the restructuring of the Bandeirante, Iven, Escelsa, Magistra and Enersul subsidiary companies, concentrating all their capital into Energias do Brasil, with the consequent roll-up of the respective minority shareholders, who now hold around 30.7 percent of the capital of Energias do Brasil.
Tariff revision at Enersul
11 April – ANEEL, the regulating body of the Brazilian electricity sector, sets the final figure for Enersul's April 2003 tariff revision, raising it from 43.59 percent to 50.81 percent.
Sale of 60 percent of Edinfor
20 April – Following approval by the European Commission's Competition Directorate-General, EDP sells 60 percent of Edinfor's share capital to LogicaCMG.

Energias do Brasil IPO
13 July – Admission to trading on the Novo Mercado da Bovespa (São Paulo, Brazil) of the shares representing the share capital of Energias do Brasil, following an Initial Public Offering of 24,161,000 new ordinary shares at a price of BRL 18 per share, at the total sum of BRL 434.9 million.
Sale of Comunitel
14 July – Oni signs a contract with Tele2 for the sale of its 99.93 percent stake in the share capital of Comunitel.



Increased stake in Portugás and Setgás

6 September – EDP concludes negotiations with Endesa Gás for the acquisition of 49 percent of the share capital of NQF Gás, which holds 25.348 percent of the share capital of Portugás and, indirectly, 19.8 percent of Setgás. Through this transaction, EDP increases its (direct and indirect) shareholder positions in Portugás and Setgás to 72.0 percent and 19.8 percent, respectively.

Gas Natural takeover bid

8 September – EDP issues statement on sectoral concentration movements in the Iberian market.

Rejection of the appeal regarding GDP

21 September – The European Communities Court of First Instance issues a judgement rejecting the appeal lodged by EDP to overturn the European Commission's decision to prohibit the joint acquisition of GDP by EDP and ENI. On 27 September, EDP decides not to lodge an appeal against this decision.

Contract with Tecneira

29 September – EDP signs contract with Tecneira regarding the acquisition of five companies that promote wind projects in Portugal with a total capacity of 120.7 MW.

Acquisition of wind farms

14 November – Portuguese Competition Authority approves the operation signed on 28 February 2005, between Enernova and Energia y Recursos Ambientales, S.A., and Vendaval Promociones Eólicas, S.A., for the acquisition of 100 percent of the Ortiga (11.7 MW) and Saíra (41.7 MW) wind farms.

Announcement by the Chairman of the Executive Committee

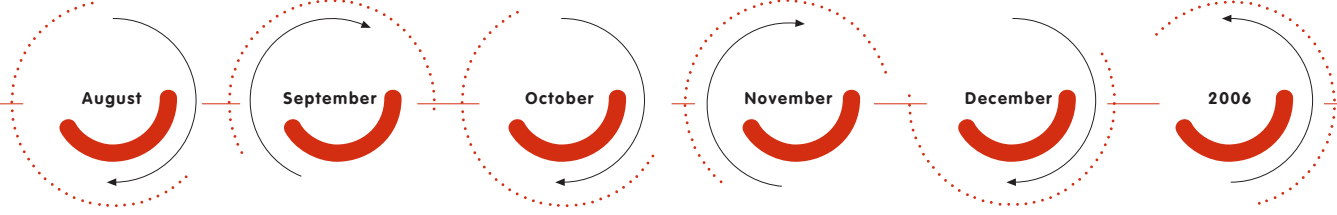
2 January – João Talone announces to the market that he does not intend to complete a new mandate.

Baltic acquires 2 percent of EDP's share capital

2 February – Stock market acquisition by BALTIC SGPS, S.A., a José de Mello Group company, from Brisa Participações, SGPS, S.A., of 73,202,802 shares, representing a 2.0020 percent stake in EDP's share capital.

Standard & Poor's revises EDP's rating

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



Tariff revision at Escelsa

12 August – ANEEL, the regulating body of the Brazilian electricity sector, sets the final figure for the average increase in Escelsa's 2004 tariffs – previously established within the scope of the three-yearly tariff revision on 7 August 2004, raising it from 6.33 percent to 8.58 percent.

Sale of 50 percent of Bioelétrica

13 October – EDP signs contract with Celulose do Caíma for the sale of 50 percent of the share capital of EDP Produção - Bioelétrica, S.A.

Bandeirante tariffs

19 October – ANEEL, the regulating body of the Brazilian electricity sector, sets the final figure for the average rise in the 2003 tariffs granted to Bandeirante at 9.67 percent. In addition, it sets the October 2005 annual tariff readjustment at -8.86 percent.

Sale of Galp Energia

7 December – EDP sells 14.268 percent of the share capital of Galp Energia, SGPS, S.A., to the Américo Amorim Group for EUR 720.5 million.

2006 tariffs

7 December – ERSE announces parameters, tariffs and prices for 2006-2008.

Acquisition of Nuon España

9 December – EDP acquires Nuon España for EUR 478 million, including a wind project portfolio with 221 MW in operation and 1,186 MW in development.

Parpública issues bonds

9 December – Parpública issues bonds exchangeable for EDP shares in the context of the sixth phase of the EDP privatisation process.

EDP acquires 1.11 percent stake in Tejo Energia

13 December – EDP acquires a 1.11 percent stake in the share capital of Tejo Energia from EDF for a total of EUR 1.4 million.

EDP purchases wind farms in France

16 December – EDP acquires three (29.9 MW) wind farms from Nuon France Holding SAS in the area of Brittany (France) for EUR 4.4 million.

Positive responses to the Previous Information Requests (PIPs) for hydroelectric plants

22 December – EDP receives positive responses from the DGE to the Previous Information Requests for connecting the Baixo Sabor and Foz Tua hydroelectric plants to the SEP networks, and for increases in capacity for Picote and Bemposta.



Francisco de la Fuente Sánchez
Chairman of the Board of Directors

Shareholders,

The year 2005 was very positive for EDP. It was a good year economically and financially.

In 2005 we improved profits, operational quality and the organisation and performance of the EDP Group's business, activities and governance.

It was also a year that presented a huge challenge to our capacity to adapt to the growing pressure we face from the competition and the market, and from regulatory changes and the framework of national, Iberian and European energy policy.

It is thus with natural satisfaction that we present our accounts to the Shareholders, with the notion that we have made progress in achieving our goals for the growth and consolidation of the EDP Group in the markets and in the sectors essential for the fulfilment of our strategic agenda.

In the Iberian Peninsula, EDP continued to work on the financial, operational and managerial integration of Hidrocantábrico, optimising the complementarity of the generation, distribution and supply assets of electricity, as well as the transmission, distribution and supply of gas, on both sides of the border.

Besides the development of the Group's activities in Iberia, it is important to draw attention to the establishment of NEO – Novas Energias do Ocidente, created from scratch to manage the renewable energy assets in Portugal and Spain. In 2006 this company submitted the winning bid for the acquisition of a number of wind farms in Spain. We can now say that EDP is one of the main operators in the renewable energies market in the Iberian Peninsula.

In Portugal, we increased the installed capacity in conventional generation, with the coming into operation of the third electricity generation unit at the Ribatejo Power Station. While we wait for licences to be granted for new natural gas combined cycle power stations, we are continuing with the necessary studies for building the Baixo Sabor and Foz Tua Hydroelectric Plants, as well as modernising and increasing the capacity of existing hydroelectric power stations, such as Picote and Bemposta on the River Douro.

In electricity distribution in Portugal, we have achieved recognised service quality levels, thanks to the careful investments that EDP Distribuição has been making to improve the technical and commercial quality that we provide to our Customers.

We have also faced an enormous challenge in our electricity supply activities, as a result of strong competitive pressure in both Portugal and Spain and a very significant rise in costs, due to the unfavourable evolution of fuel prices and to the low hydrological correction.

We have continued to expand our position in the natural gas distribution and supply sector, based on our platforms in Spain – with Naturgas Energia – and in Portugal – with Portgás. We have developed a growth strategy based on our cooperation with Hidrocantábrico, providing, in the Basque Country, joint offers of electricity and gas.

Furthermore, as part of the Restructuring of the National Energy Sector, EDP has taken the opportunity to dispose of the entire 14.3 percent stake it held in the share capital of Galp Energia, an operation that made an appreciable contribution to the Group's profits.

For EDP's international activities, 2005 was also a year of hard work and profound transformation.

In particular, in Brazil we concluded the corporate restructuring of our activities. We structured our holdings into three strategic areas - generation, distribution and supply of electricity, optimising the EDP Group's performance throughout the value chain.

In July, at the end of a long process, the shares of EDP – Energias do Brasil were admitted to trading on the Novo Mercado da BOVESPA in São Paulo, the most demanding exchange in Brazil in terms of transparency and good corporate governance.

This operation was undertaken with remarkable success, attracting important investors and the market in general, both in the initial operations of the IPO and the increase in share capital, and in the price rises in subsequent transactions.

Equally significant was the progress made in implanting the EDP Group's image and brand in Portugal, Spain and Brazil. We have renovated the brands of the various Group companies and their association with the new EDP logotype, ensuring the essential coherence and proximity for our activities to fit in with the reality and culture of the communities of which we are a part.

In telecommunications we began a new cycle in ONI, strengthening the management team, consolidating their activities and focusing operations on the market segments with the greatest return.

We were able to undertake a prudent disinvestment in Comunitel in Spain, enabling us to reduce ONI's financial debt and improve its balance sheet.

We adapted our information technologies operations to the new relationship with Edinfor/LógicaCMG, which is now based on the strict concept of services rendered.

We have also promoted the best practices of good corporate governance in the light of the recommendations from the CMVM and from respected national and international organisations.

We have improved the transparency and quality of the information provided to the market, and we have encouraged the participation of all Shareholders in the life of the company.

In line with this, the Board of Directors approved the presentation to the General Meeting of Shareholders of a proposal to alter the statutes to ensure that each EDP share corresponds to one vote. This is intended to make it easier for small shareholders, who represent the company's capital structure, to access and contribute to the decisions of the General Meeting of Shareholders, the company's top body.

Following the publication of the EDP Group's Code of Ethics, which identifies the working principles that embody the values assumed and promoted in all the Group's companies, we have set up an Ethics Committee, a special Board of Directors body to support the definition of the Group's policy regarding good conduct, to set guidelines for its implementation and to supervise, at a senior level, its proper application by all employees.

The year 2005 was also a period in which we paid special attention to communication with all the stakeholders in the Group's activities, recognising their importance for EDP's relationship with the communities in which it is involved, for the development of its own strategy and for the enhancement of its values.

In this context, EDP earned the award for Best Annual Report in the Non-financial Sector, and, for the fourth consecutive year, the award for Best Sustainability Report, from the Portuguese Association of Official Auditors.

We have also sought to improve our knowledge of our employees and their concerns, by surveying and analysing their satisfaction in terms of the company and the Work Areas. This process enabled us to record a positive evolution in feeling on the part of employees, as well as to identify training needs and improve the systems for assessing performance and career development.

In connection with implementing a Sustainable Development strategy, we improved the practices and internal organisational structures regarding sustainability and the environment.

In this context we established the EDP Foundation, a body specially dedicated to drawing attention to the Group's involvement in actions of cultural patronage, corporate citizenship and support for social solidarity projects.

The EDP Foundation was responsible for the restoration and refurbishment of the old Tagus Power Station building, a prime example of Portuguese industrial archaeology. This led to the development of a new museum project, rejuvenated, modernised and serving educational purposes in the area of energy and the environment. This initiative culminates in the reopening of the Electricity Museum to the public.

We continued to invest in reducing the environmental impacts related to our work. In particular we carried on with the process of installing desulphurisation units to reduce polluting emissions at the Sines, Aboño and Soto de Ribera Power Stations.

We have also made a significant effort to follow the best international practices, particularly those set out in the Dow Jones Sustainability Index (we have prepared intensively for EDP to be included in this respected index in the near future) and the United Nations Global Compact initiative, with the aim of achieving excellent levels of performance and recognition.

In short, I believe that the challenges the EDP Group has overcome, the maturity it has achieved and the preparation it has undertaken will be key landmarks for the company's future growth and of its contribution to Portugal.

For the year 2005, taking into account the consolidated net profit of EUR 1.071 billion, and in line with the outlook for dividend growth announced in the Strategic Plan, the Board of Directors will propose, for the approval of the General Meeting of Shareholders, the distribution of a gross dividend of EUR 0.10 per share.

The proposed dividends are within the upper limit of the range presented to the market, without prejudice to the prudence that needs to be borne in mind in a company such as EDP, since the high profits in 2005 are explained by a combination of factors, some ongoing and others extraordinary, including particular items that will not be repeated.

The significant profits generated abroad are also worth noting, and they entirely vindicate the timely choices that were made about the need for geographical diversification as a source for growth and value creation.

I am confident that the good results achieved are due to the work carried out jointly by Shareholders, Company Officers and Employees, based on an ambitious Strategic Agenda that was almost totally accomplished.

This year also closes the 2003-2005 management cycle.

I would like to extend my due thanks to the Shareholders for the trust they have placed in the EDP Group over the year, and during the management cycle consisting of the current mandate of the Company Officers.

This trust has been well demonstrated in successive General Meetings of Shareholders, and in the various situations in which EDP has gone to the market, both in the share capital increase authorised by the General Meeting of Shareholders, in the context of the acquisition of the additional stake in Hidrocarbúrico, in Energias do Brasil going public and in the recent sixth phase of EDP's privatisation. These operations were characterised by excellent levels of receptivity, with demand greatly exceeding the offer.

All the work carried out in this context, and in the countless areas of activity, has confronted EDP Group employees with huge challenges, and I dedicate a very special word of thanks to them for their openness to change and the ready response they have always shown.

I ask the Shareholders to allow me a final word of thanks - to all my colleagues on the Board of Directors for the important support I have received.

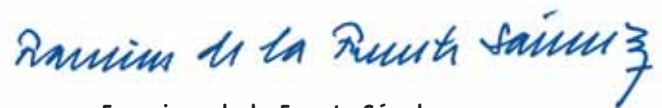
I also acknowledge the full cooperation received on the part of the members of the Audit Committee.

I particularly thank the members of the Executive Committee, especially its Chairman, for all their help and their role in creating value for EDP, whereby they fulfilled their duty of conducting the company's day-to-day business over this three-year period.


Personally, I consider it a privilege to have held the posts of EDP director for the last nine years, since January 1997, and especially that of Chairman of the Board of Directors, since October 2000.

It has been an honour and a pleasure to perform the functions entrusted to me by the Shareholders.

EDP, 7 March 2006.



Francisco de la Fuente Sánchez
Chairman of the Board of Directors



Electricity Museum

High-pressure
boiler room

This area houses boilers 12, 13 and 14, which were built between 1938 and 1941. From amongst the intricate mass of pipes and conductors, valves and gauges, the water pipes inside the furnaces represent a highly complex regulating system for the steam produced at high pressure in high temperatures (38 kg/cm² at 450°C) and involving the consumption of 400 tonnes of coal or 50 tonnes of naphtha per day.



João Ramalho Talone
Chairman of the Executive Committee of the Board of Directors

To the Shareholders

Another three-year cycle is now closed. A mandate comes to an end.

I shall be brief!

EDP is a "great" company.

Because of the people here, their dedication and professionalism!

Because of the Public Service it has provided in Portugal!

Because of its positioning in the Iberian and Brazilian markets!

Because of its capacity and financial stability!

Because of the quality and strength of its assets.

It was like this before I arrived here. It will continue to be so after I leave.

At the same time the company has become more customer-oriented. It has adopted a new stance. A new brand. A new attitude. Shared by the three markets that live in an environment of growing competition.

In three years we have increased our capacity from 11.2 GW to 12.6 GW. A rise of 13 percent.

Turnover has risen from EUR 6.4 to 9.7 million. A rise of 51 percent!

Gross operating profits have risen from EUR 1.489 to 2.482* billion. A rise of 67 percent!

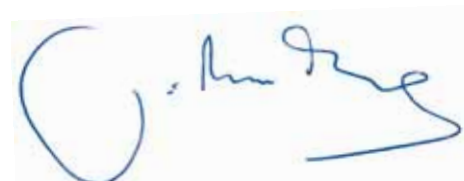
The profitability of invested capital has increased from 3.5 percent to 6.8 percent. Almost double!

When we started, the company's market value was EUR 5.3 billion. It is now EUR 10.2 billion.

All this has been achieved by people. By motivated people. The satisfaction index of employees has risen over this period from 68 percent to 75 percent. And the proportion of motivated employees has increased from 57 percent to 65 percent.

This is why EDP is a "great company". It deserves to be supported in order to make progress and maintain its independence.

Lisbon, 12 January 2006



João Ramalho Talone
Chairman of the Executive Committee
of the Board of Directors

* includes the impact of the disposal of financial assets

BOARD OF THE GENERAL MEETING**José Manuel Galvão Teles**, Chairman**António Campos Pires Caiado**, Vice-Chairman**SUPERVISORY BODY**

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

Deputy Statutory Auditor: Vítor Manuel da Cunha Ribeirinho, ROC

BOARD OF DIRECTORS**Francisco de la Fuente Sánchez**, Chairman

In 1965, he graduated from the Instituto Superior Técnico in Lisbon in Electrotechnical Engineering. In 1969, he joined the Companhias Reunidas Gás e Electricidade, where in 1975, he was appointed to the Management Commission. From 1977, he headed EDP's Lisbon Area Concessions Department and, from 1981, he headed the Organisation Support Body of Distribuição Tejo's Operations Division. In 1985, he was appointed manager of the Lisbon Distribution Centre. In 1987, he became assistant to EDP's Board of Management and, in 1988, he was appointed Central Commercial Manager. He was general manager of Distribuição Tejo's Operations Division until 1994, when he was made a director of LTE. In 1997, he was elected a director of EDP and, in 2000, he became Chairman and CEO. In the international area, he has been a non-executive director of CERJ since 1997, non-executive Vice-Chairman of Bandeirante and later non-executive Chairman of CERJ. Since 2002, he has been a director of HidroCantábrico. Outside the electricity sector, he has been a non-executive director of Galp Energia and BVLP. He is currently non-executive Chairman of ONI, a senior board member of BCP, a non-executive director of the Portugal-Africa Foundation, a member of the Advisory Board of APDC and a director of PROFORUM and of the Forum for Competitiveness. He is at present the Portuguese representative at EURÉLECTRIC. He was named 2002 Personality of the Year by the Portuguese-Brazilian Chamber of Commerce and Industry. He is Chairman of the EDP Foundation and of Elecpor – Associação Portuguesa das Empresas do Sector Eléctrico.

João Ramalho Talone, Chief Executive Officer

In 1974, he graduated from the Instituto Superior Técnico in Lisbon in Civil Engineering. He simultaneously took the Higher Management course at the National Institute for Industrial Research. In 1984, he received his MBA at the Universidade Nova de Lisboa (Wharton School of Pennsylvania), with a final grade of 18. In 2002, he attended the Advanced Management Program at Harvard Business School. From 1988 to 1989, he was a guest lecturer in International Business at the Universidade Nova in Lisbon. He was Chairman of the Board of Directors of the entire BCP insurance group and an executive member of the Board from 1993 to 2002. In 1994, he was elected a member of the Supervisory Board of Eureko. He was a member of the Association de Genève, joining the board of this international insurance association in 2000. In 1999 he was appointed CEO of Eureko, based in Paris. In August 2002, by deliberation of the Council of Ministers, he was appointed head of the mission to work with the Minister for Finance and the Minister for the Economy to dissolve the IPE. In January 2003, by deliberation of the Council of Ministers, he was entrusted with the task of rethinking the corporate strategy of the national energy sector. In April 2003, he was elected Vice-Chairman of Lusotur.

António Galvão Lucas, Member of the Audit Committee

He graduated from the Instituto Superior Técnico in Lisbon, and is now a manager and entrepreneur in the ceramics sector. He is Chairman of EPM – Sociedade Gestora de Participações Sociais, S.A. He was previously a manager and a director in the CUF Group in Portugal and Brazil, and in the SAPEC Group in Portugal, Spain and Belgium. He was Director of the CIP - Confederation of Portuguese Industry, and is currently Chairman of APICER - the Portuguese Ceramics Industry Association, a member of the Senior/Advisory Boards of the AEP - Portuguese Employers' Association, of COTEC - the Employers' Association for Innovation, and of the Forum for Competitiveness.

Arnaldo Navarro Machado, Member of the Executive Committee

He graduated from the University of Strathclyde, Scotland, in Naval Engineering. He has been CEO of the Sociedade Central de Cervejas, of Internel (1992-1998), of CPPE (1994-1997) and of MRH (1997-1998). He was a voting member of the Boards of Directors of HLC, of CERJ (1996-1998), of Investco (1998) and of OPTEP (1997-1998), as well as of Turbogás (1995-1998) and EDP (1991-1992). He was Vice-Chairman of EDP from 1992 to 1998. He has also been a voting member of the Board of Management of the Sociedade Central de Cervejas (1988-1991), Chairman of Luso, the water company (January 1990), and a voting member of the Board of Directors of Setenave (1984-1988).

Carlos Jorge Ramalho dos Santos Ferreira, Non-executive Voting Member

He graduated in Law from the Law faculty of the Universidade Clássica de Lisboa (1971). 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) and Chairman of the Board of Fundação de Oeiras (1987-1989) and of the Macao Airport Company (1989-1991). He has been a director of the Champalimaud Group, and chaired the Board of Mundial Confiança and the General Meeting of Shareholders of Banco Pinto & Sotto Mayor. Between 1999 and 2003, at the BCP Group, he was a director of Servibanca, Vice-Chairman and a voting member of the Board of Directors of Seguros e Pensões Gere, a Director and Chairman of Império Bonança, of Ocidental e Ocidental Vida Insurance companies, of Seguro Directo, of ICI-Império Comércio e Indústria, of Companhia Portuguesa de Seguros de Saúde, of Autogere, of Corretoresgest, and a director of Eureko B.V. He has also been Vice-Chairman of Estoril Sol, Vice-Chairman of Finansol, non-executive Chairman of Willis Portugal-Corretores de Seguros (2003-2005) and a director of Seng Heng Bank. He is currently Chairman of Caixa Geral de Depósitos.

Jorge de Oliveira Godinho, Member of the Executive Committee

He graduated in Electrotechnical Engineering from the Instituto Superior Técnico in Lisbon, and received his MBA at the Universidade Nova de Lisboa. Until 2003, he was Chairman of the Executive Committee of EDINFOR and of the Board of Directors of ACE. He was a member of the tenth and eleventh Constitutional Governments as Secretary of State for Fisheries from 1985 to 1990. As Chairman of Portucel and Portucel Industrial, from 1990 to 1998, he led the restructuring of the company and initiated its privatisation. He has also been Chairman of Docapesca, Vice-Chairman of the Portuguese Industrial Association and a director of the Social Security Financial Management Institute, the National Scientific and Technological Research Board, the Forum for Competitiveness, Efacec and the Fund for the Internationalisation of the Portuguese Economy. Representing EDP, he has been Vice-Chairman of Optimus (1998-2000) and a director of OPTEP. He has also been an Assistant and Senior Lecturer at IST. From 1978 to 1982, he was a union leader at EDP and a member of the EDP Inter-union Committee.

José Holtreman Roquette, Non-executive Voting Member

He graduated in Economics from the Universidade do Porto (1958), and is currently Chairman of JHR, Finagra, SAIP – Sociedade Alentejana de Investimentos e Participações, STDA, and Mantero. He was previously a member of the Executive Committee of BES (1971-1975), director of the Espírito Santo Group's main holding companies (after 1975), Chairman of the Management Board of Banco Inter-Atlântico, Brazil (1976-1981), Chairman of Emptel – Empresa de Equipamentos de Telecomunicações (partly controlled by Siemens) (1986-1993), Chairman and CEO of Valores Ibéricos, SGPS (Banco Totta & Açores) (1989-1993), Chairman of BTA, Totta Gespar, Totta Urbe (1991), Chairman of Sporting Club de Portugal and the main companies of the SCP Group (1996-2000), Chairman of Sirius (2000) and a member of the Senior Board of BCP.

José Manuel de Morais Cabral, Non-executive Voting Member

He graduated in Economics from ISCEF in 1970. He is at present a director of ONI, Efacec Capital, Imopólis, SGFII, S.A., José de Mello Participações II, Soimper and Soponata, and manager of José de Mello Serviços. He started his career in 1968 in the Technical Secretariat of the Council of Ministers as a technical specialist in regional planning. In 1970, he joined METAL Portuguesa as Financial Controller and Manager, becoming Financial Director in 1980. In 1989, he became Director and Chairman of Air Atlantis, and Director of IPE and Celbi from 1992 to 1994.

and 1993 to 1995, respectively. In 1994, he was appointed Adviser to the Board of the Banco de Fomento, and President of the Forum of the Sea in 1995. At the end of 1995, he became a director of Lisnave, where he was Chairman of the Executive Committee from 1997 to 1999. He was a founder and Board member of the CIP from 1974 to 2000. He is Vice-Chairman of the Forum for Competitiveness.

José Neves Adelino, Chairman of the Audit Committee

In 1976, he graduated from the Universidade Técnica in Lisbon in Finance. He gained his doctorate in Business Administration from Kent State University, Ohio, USA, in 1981. He has been Aggregate Professor in Economics at the Faculty of Economics at the Universidade Nova in Lisbon since 1995, where he is currently a full professor, and he has also been a voting member of the faculty board there from 1982 to 1986, and again since 1990. From 1990 to 1996, he was director of management on the MBA programme and of executive training, in addition to heading the Universidade Nova's Economics Faculty from 1999 to 2002. He is a member of the Global Advisory Board of Sonae, SGPS, of Portugal Telecom's Strategy Board, of the Confederation of Portuguese Industry's Advisory Committee and of the National Education Board. He has held non-executive positions on the Boards of the BPA and the BPI Group's companies, and has wide experience as a consultant.

José Sucena Paiva, Non-executive Voting Member

He graduated from the Instituto Superior Técnico in Electrotechnical Engineering, gained a doctorate (Ph.D.) from the Imperial College of Science and Technology, University of London, and was Aggregate Professor at the Instituto Superior Técnico (IST). He has been a Full Professor of Electricity Systems at the IST at the Universidade Técnica de Lisboa (UTL) since 1980. He is a member of the Board of COGEN Portugal and of the Advisory Board of COGEN Europe, Chairman of the Scientific Board of the Electricity Centre of the IST, President of the Jury for awarding the REN Prize, a consultant in the electricity systems area, a member of the UTL Senate and representative of the IST's Department of Electrotechnical Engineering at CLUSTER - Consortium Linking Universities of Science and Technology for Education and Research. He was formerly the Secretary of State for Science and Technology (1988-1991), founder and first Chairman of Tagusparque (1992-1996), founder member of Enersis (1998) and Noroeste (1988) and a member of the Board of the Luso-American Foundation for Development. He is the author of the book *Redes de Energia Eléctrica: Uma Análise Sistémica* (Electricity Networks: A Systemic Analysis).

Luís Azevedo Coutinho, Member of the Audit Committee

He graduated in 1984 in Business Management and Administration from the Universidade Católica Portuguesa, and gained his MBA from the Universidade Nova de Lisboa. He is currently a business consultant and has been a lecturer at the Economics Faculty of Universidade Nova de Lisboa since 1985. He began his career in 1984 at José Bento Pedroso & Filhos, where he performed various roles in the financial area. He was a consultant first at IPE, and then with the V.I./B.T.A Group, the Abrantina Group, the Ministry of Finance, the Bank of Portugal, the Calouste Gulbenkian Foundation and Lisbon City Council. From 1999 to 2002, he was Director of Finance of Valora Serviços de Apoio à Emissão Monetária. Since November 2003, he has been a director of the Association of Music, Education and Culture.

Manuel Menéndez Menéndez, Non-executive Voting Member

Since 1990, he has been a Full Professor in the Department of Business Administration and Accountancy at the Universidad de Oviedo, where he gained his doctorate in Economic Sciences in 1985 (cum laude and with a Special Mention from the Board of Examiners). He graduated in Economics and Business Administration in 1982. He is currently Chairman of CajaAstur, of HidroCantábrico and of NaturCorp, a voting member of the Boards of the Spanish Confederation of Savings Banks and of UNESA and a member of the Official Registry of Auditors of Accounts. He was previously a voting member and member of the Boards of Directors of CajAstur (1986-1987; 1990-1995) and HidroCantábrico (1996-2001), a voting member of the Board of Directors and a member of the Executive Committee and Audit and Control Committee of AIRTEL (1997-2000), a voting member of the Board of the LICO Corporación (1995-1996), Vice-Chairman of SEDES, S.A. (1986-1995) and Executive Chairman of the Sociedad de Garantías Recíprocas de Asturias (Asturgar) (1986-1995).

Paulo Azevedo Silva, Non-executive Voting Member

He graduated in Economics from the Faculty of Economics of the Universidade do Porto. He attended the training course run by the Euromoney Institute of Mergers and Acquisitions at Cranfield, and the INSEAD Executive Education Programme. He has been managing director of the Banco Comercial Português since 1998, a director of LeaseFactor and of CrédiBanco, Chairman of the Board of Luso-Atlântica and a non-executive director of ONI. He was also Chairman of the Boards of Directors of BCP Leasing and BCP Factoring (2000-2003), He was a director of CISF (1998), of Sociedade Portuguesa de Risco (1995), of Comercial Dealer (1994), of Sociedade de Capital de Risco do CISF (1994) and of Interfinança (1990) and manager of CISF (1990).

Pedro Bastos Rezende, Member of the Executive Committee

He graduated from the ICAI, Madrid, in Industrial and Mechanical Engineering in 1985. He took his MBA at the INSEAD in Fontainebleau in 1990. He began his professional career in 1985, at VALEO Clutch Division as a development engineer. He left this company in 1989, when he was head of the Test, Trial and Prototype Department, after a period as a commercial technical engineer in Detroit, Michigan. In 1990, he joined the Boston Consulting Group in Madrid as a consultant. In 1995, he assisted in the opening of the Lisbon office, where he was elected a partner in 1997, and was jointly in charge of the development of the business in Portugal, taking on internal management duties in Iberia and Europe. In this stage of his career as a consultant, he had the opportunity to get to know and work not only with EDP and other major Portuguese and Spanish companies, but also with some large and prestigious multinationals in various sectors.

Rui Horta e Costa, Member of the Executive Committee

He graduated in Economics from the Universidade Católica Portuguesa and holds an MBA from the University of Minnesota. He was an executive director of UBS Warburg in London from 1995 to 2000, a director of the Jorge de Mello Group (1990-1995), resident Vice-Chairman of Citibank Portugal (1989-1990) and Manager and Assistant to the Board of Banco Finantia (1987-1989). He started his professional career as an assistant lecturer in the MBA programme at the University of Minnesota (1986), and then joined the staff of MDM-Sociedade de Investimentos (1986-1987).

REMUNERATION COMMITTEE

Brisa, represented by Vasco Maria Guimarães José de Mello

Parública, represented by João Plácido Pires

Ruy Manuel Corte Real de Albuquerque

COMPANY SECRETARY

Permanent: António Manuel Barreto Pita de Abreu

Deputy: António José Marrachinho Soares

Electricity Museum

Machine room

Built in 1919 and extended to its present size roughly ten years later, the machine room houses a system of siphon tubes linked to iron conduits which ran along the wall to the River Tagus, enabling water to be drawn up by dock pumps equipped with grid filters. These were connected to pipes inside the building, enabling water to be pumped up and used to cool the condensers. In the pump corridor there was also a vast network of insulated steam conduits.



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1. BRAND

Brand values

It is EDP's ambition to fulfil the commitments and promises it has made to customers, shareholders, investors, its staff and society. That is how a climate of trust is established.

The Group believes that it is on these principles that a business vision can be constructed which points towards stable and unequivocal leadership, with merits and with results.

EDP's aim is to lead, believing in its proximity.

Its aim is to be a global brand, but a brand which listens and responds to the particular features of the markets where it is present.

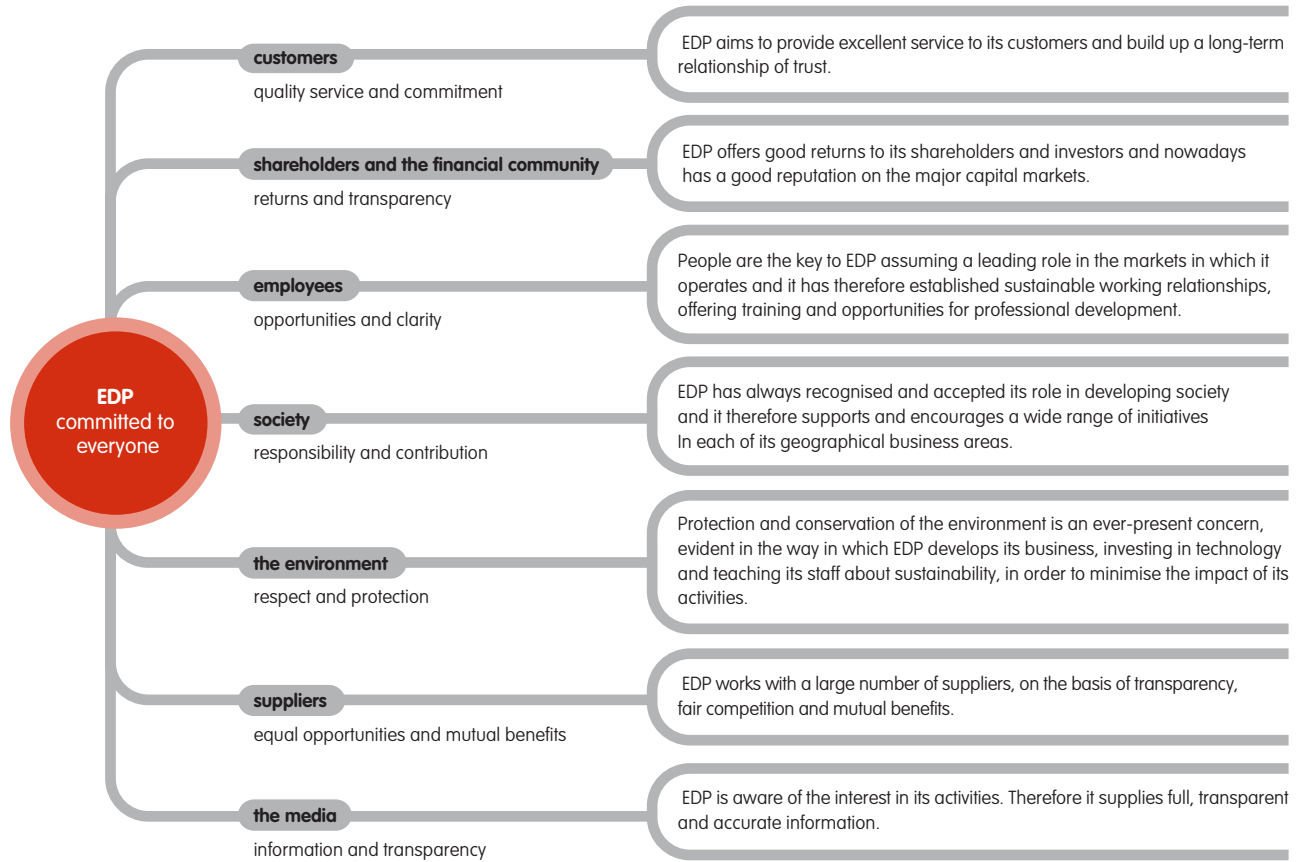
Its aim is to be big, but to retain the capacity to listen to its various stakeholders at the individual level.

These are the values which will permit EDP to make the transition, steadily and coherently, from the realities of today to the challenges of multidisciplinary.

These are the values that characterise EDP, distinguish it and mark it as a business which aims to be an example in the relations it establishes with all interested parties.

Demonstrating that it can indeed "do as it says", means investing in the taut and disciplined management of its Sustainability Policy, Corporate Identity and Corporate Governance.

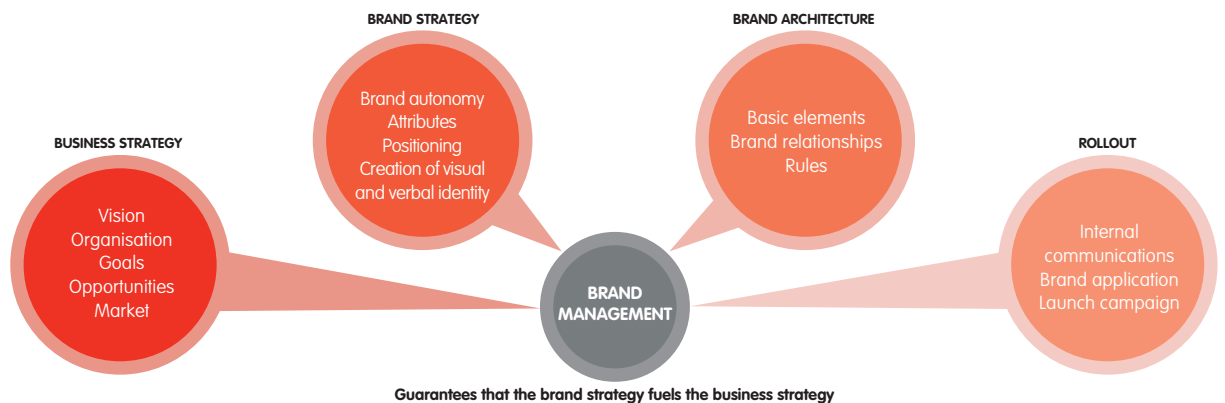




Brand management

The EDP Group defends its brand name with an active strategy reflecting the company's values and commitments towards all those it has dealings with: customers, shareholders, investors, its staff, the media and its suppliers.

Interbrand, the benchmark company in brand valuation, has estimated the value of the EDP – Energias de Portugal brand at EUR 401 million. This value was computed from a financial analysis of the company (to identify its business results), an analysis of demand (to identify the brand role index) and finally from an analysis of brand strength (to evaluate the discount rate for financial projects).



The magnitude of the brand value, which relates only to business in Portugal, and the manner in which it affects the creation and growth in results of the Group's companies, have encouraged EDP to act with unremitting rigour and discipline in its brand management.

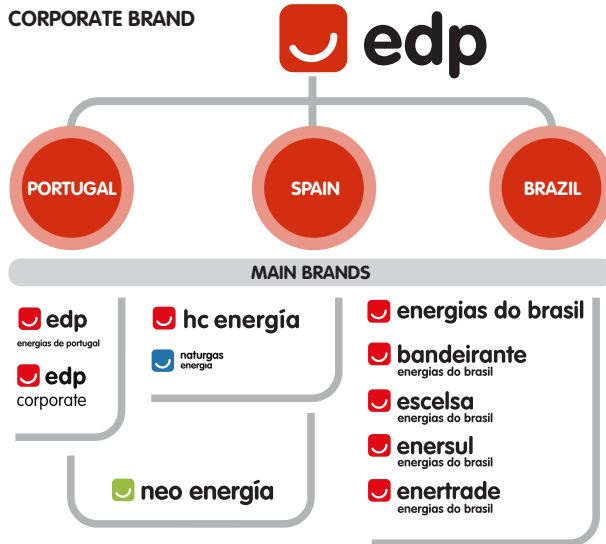
Brand strategy accompanies and strengthens of business strategy of the EDP Group, and is reflected in the way in which contact is established and business conducted with our various stakeholders.

Brand Architecture

The way in which EDP has defined brand architecture for its three geographical areas results from an approach to corporate organisation focused on coherent values across the Group, cultural integration and the standardisation of our visual identity.

BRAND ARCHITECTURE

CORPORATE BRAND



The EDP brand has shown itself to be an important management support tool, in terms of harmonising the Group's public statements, and constructing an overarching culture bringing together individuals, businesses and geographical areas.

The brand identity relationship between Portugal, Spain and Brazil is the response to the challenge of consolidating the Group's identity, whilst taking into

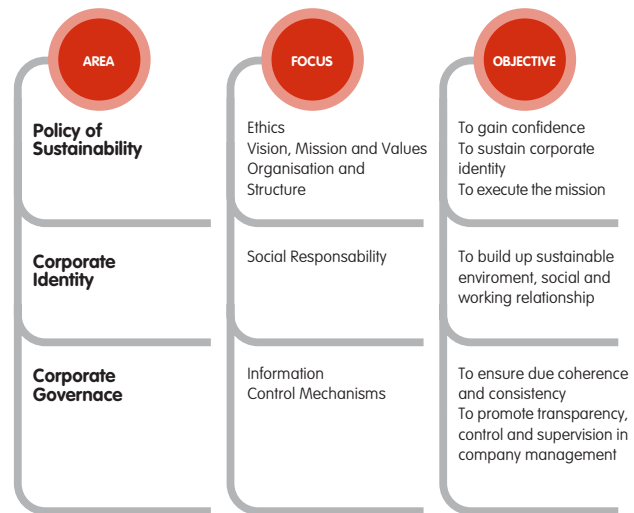
account the benefits and opportunities of "thinking the business locally".

Corporate Reputation

The size of the EDP Group, the performance of management in the various geographical areas of business, and the dynamics of the energy market give rise to countless contacts with the many stakeholders who, directly or indirectly, share legitimate interests with the Group.

Aware of the need to exchange information in a timely and conscientious manner, EDP has focused on localising, detailing and identifying the various points of contact managed by the Group, and developing a systematic and efficient relationship with each of these stakeholders.

It is in accordance with this integrated communications management model that EDP has built its Corporate Reputation, which is reflected in its Sustainability Policy, Corporate Identity and Corporate Governance.



Corporate reputation allows EDP to acquire a high level of stability from the point of view of Group identity, promoting stakeholders' trust in their company.

EDP holds the view that trust is an intangible asset with a profound impact on the sustainability of business, developing it and generating results in the medium and long term.

As a trustworthy business, EDP:

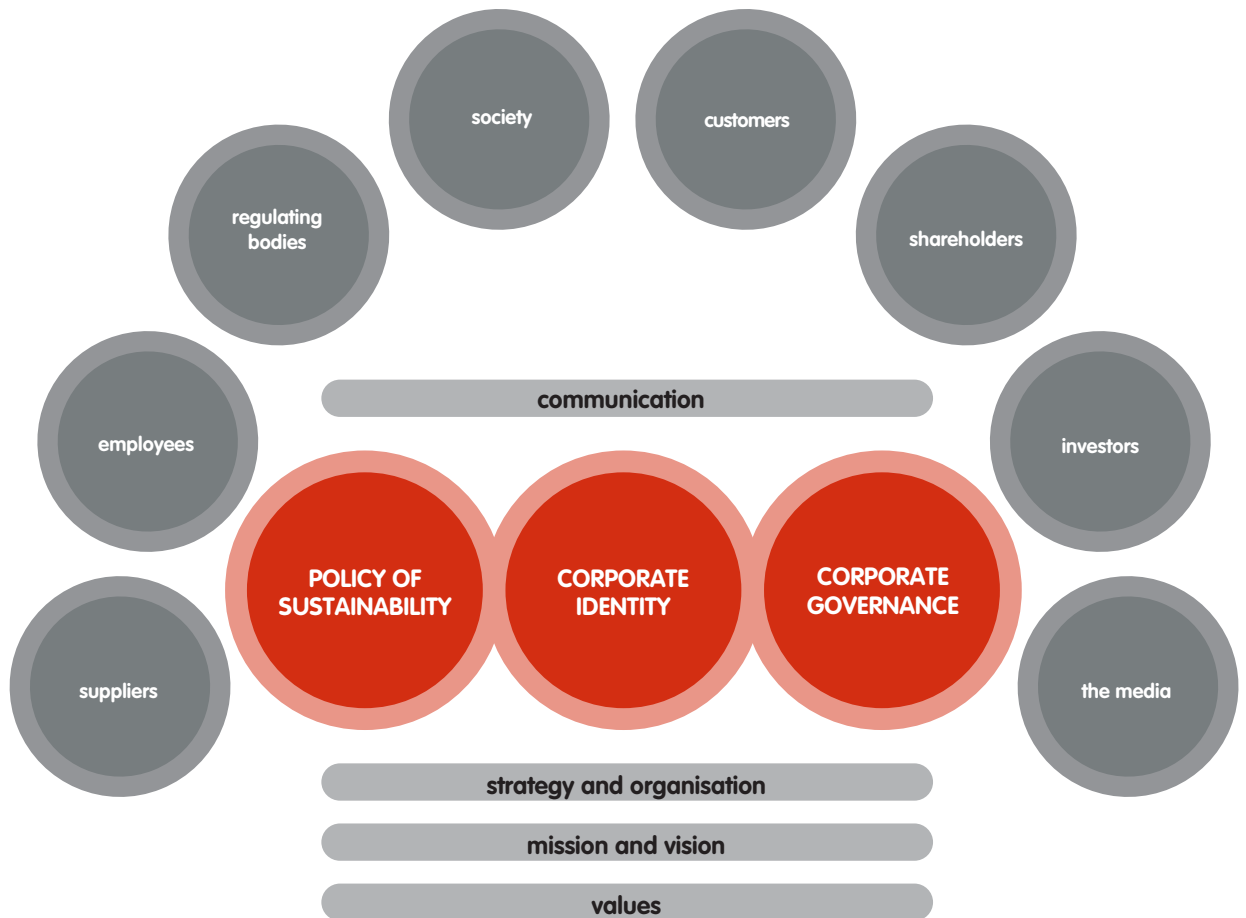
- Has built loyalty relations with its customers;
- Earns the support of its shareholders and investors;
- Creates mutually beneficial relations with its suppliers;
- Creates pride amongst its staff.

Its mission, vision, values, strategy and corporate organisation are the foundation and the distinguishing

features of EDP's Sustainability Policy, its Corporate Identity and its model of Corporate Governance.

Under the broad scope of the Corporate Reputation Model, which spans all the business of the EDP Group and affects every one of its activities, it is for each and every member of the Group's staff to ensure that it is properly implemented.

To that end, the company has taken deliberate steps to implement standards and benchmarks which allow the notion to be introduced and understood.



2. THE CUSTOMER

In 2004, EDP announced a new brand image and identity, supported by three pillars for implementation:

- Simplicity – think like the customer, act for the customer;
- Comfort – supply energy solutions, and not just products and services;
- Social responsibility – an active and participative role in society.

The year 2005 was one of continuity in deepening our relations with customers. EDP concentrated its commercial market management activities with the threefold aim of preparing EDP for an Iberian market, preparing for liberalisation of the low-voltage market in Portugal, and managing the present portfolio of customers in Iberia. Here, activity followed four main lines, involving infrastructure and the business of the three companies present on the Iberian market: EDP, HC Energia and Naturgas Energia.

The first line of activity was the setting up of an Iberian Commercial Committee, which has the job of monitoring changes in the Iberian business and market, taking decisions in a strategic context on commercial and marketing action in the various regions, and monitoring the results. In addition to this, the Committee has set up the development of shared management systems for Portugal and Spain (e.g. trading contracts, IT systems, profitability analyses) permitting increasingly integrated Iberian management and future operational synergies.

The second was to prepare EDP for liberalisation of the low-voltage market in Portugal. This meant preparing the commercial platform (commercial systems, sales teams and training of services channels), managing EDP's image (through new offers, improvements in service, and campaigns to enhance specific aspects of the image), preparing a portfolio of electricity products and the development of management tools allowing proper analysis of the market.

Highlights of 2005 included:

- New pan-Iberian image for EDP stores, staff and vehicles on completion of the rebranding process;
- The Air-conditioning Campaign, whose principal aim was close-up promotions with customers, presenting more economical solutions;
- The Energy Efficiency and Savings Campaign, which sought to alert the domestic customer to the effects his/her own habits can have on the size of his/her monthly energy bill. EDP has had advisory initiatives in the past, but this campaign put the message in a totally new, easily understood manner;
- The campaign on the EDP Online website, encouraging use of the site;
- Service campaigns – Internet and SMS channels. “Faça tudo sem sair de casa” (“You don’t even have to leave home”) and “Sem preocupações” (No worries”) were the ideas put forward in services advertising and further developed in specific offers, as in the “Conta Certa EDP” campaign the and “Plano Poupança Família” insurance campaign. These actions achieved results far beyond expectations – an increase of around 20 percent in the number of Conta Certa customers and 95,000 insurance plans subscribed in the campaign’s first year;
- A number of pilot studies were carried out with the aim of testing the customer appeal of an offer integrating these services with the electricity service. The sale of Oniduo (a product combining voice telephony and broadband) in EDP stores brought very satisfactory results, and this partner’s presence was consequently extended to all EDP stores in Portugal. Partnerships were also piloted with businesses from other sectors of activity, including motor fuels, where EDP sought to create benefits for its customers, thus offering a unique source of value.

The third line was to adapt the commercial structure in Spain. In 2004, EDP had set up a new commercial structure in Portugal, comprising the B2B and B2C platforms and supported by the new company EDP Soluções Comerciais whose responsibility included the management of face-to-face and remote channels.

In 2005, as part Iberian repositioning of the Group's commercial activity, the commercial structure in Spain was reorganised with the setting-up of four directorates:

- B2C Directorate: responsible for the domestic sector and businesses (annual consumption up to 0.2 GWh);
- B2B Directorate: responsible for major accounts (annual consumption exceeding 3 GWh) and businesses (annual consumption exceeding 0.2 GWh);
- Marketing Directorate: responsible for defining commercial strategy;
- Commercial Solutions Directorate: a support unit for commercial activity.

The final line of activity was management of the portfolio of liberalised market customers, balancing the type of relation with the customer and the market risks associated with the distribution margin resulting from the current regulatory uncertainty and energy prices against maintaining the company's Iberian quota by retaining key customers in Portugal and making good in Spain those customers lost in Portugal.

Setting up a Commercial Committee

Anticipating the eventual start-up of the Iberian electricity market, and following the takeover of HC Energía, during 2005 EDP made changes to the governance model for the main areas of its business, adapting them to the realities of a multinational environment centred on the geography of the Iberian Peninsula.

The new matrix-based model confers on EDP a supranational vision of each of its business areas, founded on committees to align and bring convergence to policy, directives and action in each of the markets where EDP is present, and thus maximising the Group's interests.

The Commercial Committee began work in April 2005 and meets monthly. It brings together the most senior energy supply management (both Gas and Electricity) of the Spanish and Portuguese companies in which EDP has a stake, and is chaired by a member of the EDP Executive Committee. The Commercial Committee is essentially a consultative body which issues recommendations to its constituent companies. These recommendations are virtually binding in nature on account of the dual role of those participating in its meetings, who are simultaneously members and responsible for commercial management of the companies they represent.

The committee began by agreeing on its own working rules, preparing the ground for the intense year-long activity which has followed, notably in the links between the business plans of each company for the commercial area. The committee's work has given the Group an overview of the business as a whole which is fundamental to understanding, forecasting and intervening in the construction of the market from the pan-Iberian point of view.

In parallel with this formalised monitoring and supervision of business, the Commercial Committee has been active in organisational matters, seeking to establish a framework for the development of information systems and processes for 2008, with as much convergence as is possible between the various operations. In this particular attention has been paid to assessing potential synergies capable of benefiting operations on the two sides of the Spanish/Portuguese border, with preparations for the launch of commercial activity in the domestic segment in Portugal.

Market conditions have not been ideal for commercial activities during 2005, mainly because of high production and wholesale market prices. However, the committee's activity over its first year has been positive, since it has allowed the EDP Group to develop concerted action in the Iberian Peninsula, minimising its exposure to commercial risk, through the adoption of best business practice and through respect for the national and regional identities it encounters.



1.



2.



3.



4.



5.

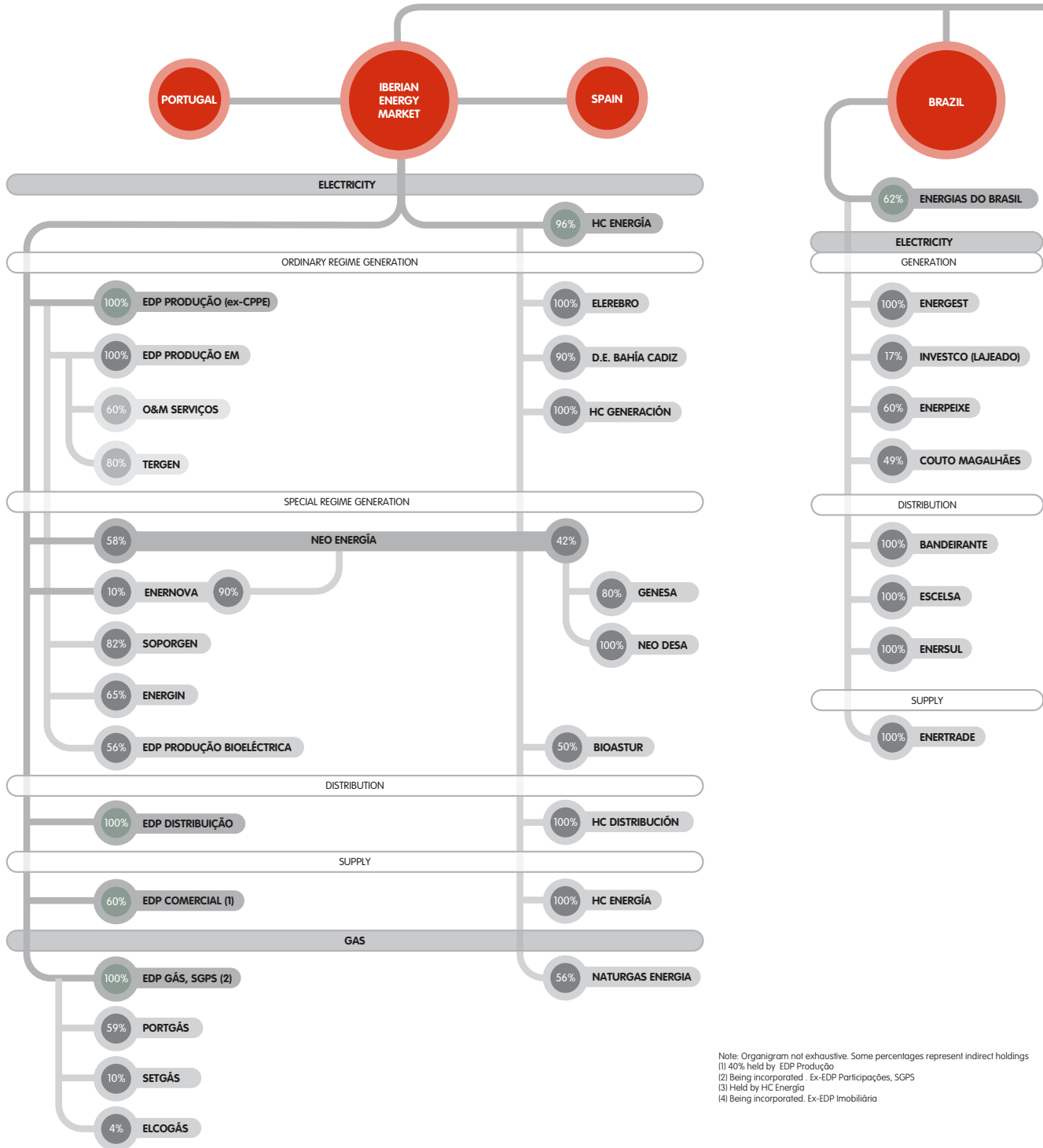


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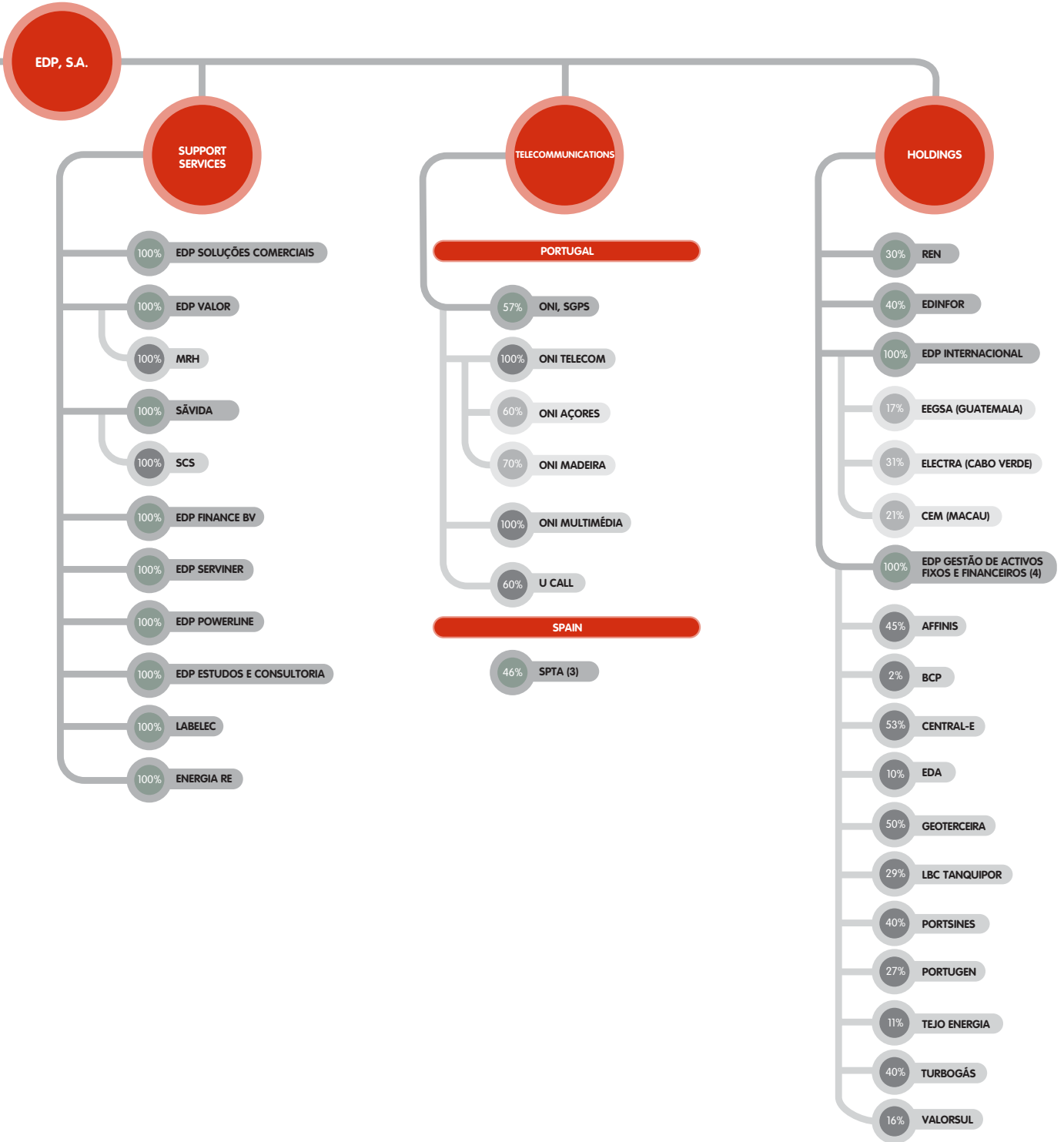


7.

1,2 and 3 Service Campaigns - Internet and SMS channels
 "Faça tudo sem sair de casa" ("You don't even have to leave home")
 4, 5, 6 and 7 Energy Efficiency and Savings Campaign



Note: Organigram not exhaustive. Some percentages represent indirect holdings
 (1) 40% held by EDP Produção
 (2) Being incorporated. Ex-EDP Participações, SGPS
 (3) Held by HC Energia
 (4) Being incorporated. Ex-EDP Imobiliária



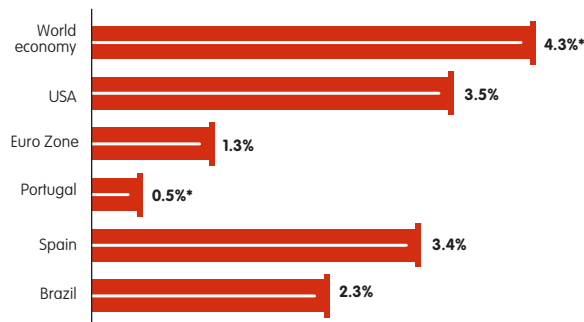
4. MACROECONOMIC FRAMEWORK

4.1. World economy

4.1.1. World economic growth

In 2005, the world economy grew by some 4.3 percent, the result of a trend which varied amongst the leading economies. Supported by growth in the United States and China, the world economy also benefited from good performances by Japan, the Middle East (benefiting from the rising price of oil) and India. Despite certain exceptions such as Spain, the Euro Zone and its principal economies continued to suffer from difficulties in returning to growth and keeping pace with the dynamism of North America.

GDP growth in 2005



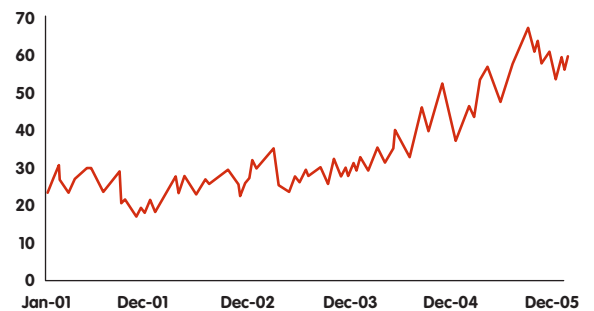
* Source: IMF forecast (World Economic Outlook) for a comparable base

4.1.2. Fuel prices

The upward trend begun in 2004 continued, and the price of Brent crude rose significantly in 2005, reaching all-time highs and nearing the current-price values recorded during the oil crisis of the 1970s. Prices of crude oil fell back in the second half of the year but the year ended with prices substantially higher than at its start. Behind the trend lies the mismatch between projected supply and demand, notably in the short term.

This sharp growth inevitably had economic consequences. Notwithstanding downward revision of the forecasts for the leading economies and natural inflationary pressures, the inflationary impact on the leading economies was offset by other factors such as moderate wage rises. The impact of the rising price of oil on economic growth was similarly generally contained, notably when compared with the events of the 1970s reflecting a reduced dependency on oil and a price trend resulting from the natural balance between supply and demand rather than unilateral action by the main oil producers.

Price of oil "brent" (USD/barrel)



Source: Bloomberg

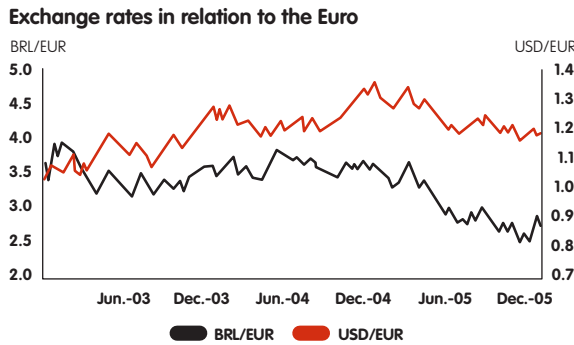
During the first half of the year the price of coal remained within a close range around USD 50/tonne at source. The mild winter in the northern hemisphere and a lower rate of unavailability of Japanese nuclear reactors contributed to a decline in coal prices which decoupled from the trend observable in oil and gas. The lower freight costs recorded in the second half of the year reinforced this decline in consumer prices.

4.1.3. Interest rates

As in 2004, changes in leading interest rates correlated with economic trends in the areas of their influence. Interest rates thus appeared as an instrument for stimulating investment and economic growth, but also as a means of countering inflationary pressures and making currencies more attractive.

Against a background of sustained economic growth, the United States monetary authorities gradually raised their reference interest rate from 2.25 percent to 4.25 percent at the close of 2005. Meanwhile the European Central Bank, facing Europe's greater difficulties in economic recovery, maintained its reference rate unchanged at 2.00 percent until the end of the year, raising it by 25 b.p. in December with the aim of containing inflation but also with a view to making the euro more attractive vis-à-vis the American dollar.

4.1.4. Exchange rates



Source: Bloomberg

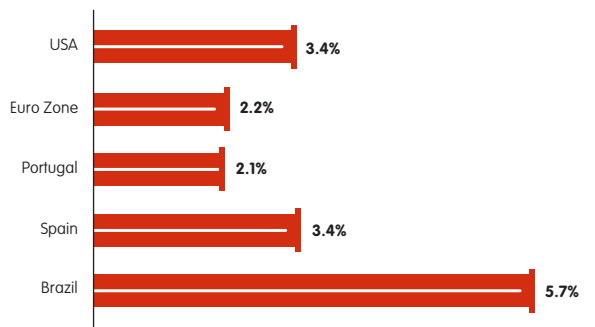
After a period of sustained appreciation against the American dollar, which allowed it to reach an all-time high in 2004, the euro lost ground again in 2005. A number of factors contributed to this depreciation, in particular the more fragile economic situation in the region, together with lower interest rates.

Whilst this depreciation in the euro was beneficial to the competitiveness of the Euro zone's economy, notably in the context of its limited dynamism, the trend in the euro aggravated the impact of the rising price of oil, which is expressed in American dollars.

4.2. Evolution of leading world economies

Having fairly quickly recovered from the period of cooling of the beginning of the decade, the United States' economy has since shown a rather positive trend. Following growth of more than 4 percent in 2004, economic growth stabilised in 2005 at around 3.5 percent, with similar figures expected for 2006.

2005 Inflation Rate



Although steadily low interest rates and the depreciating euro helped the competitiveness of European export, the Euro zone showed greater difficulties in returning to reasonable levels of growth, and in particular in keeping pace with the dynamism of the United States. After several years of weakness the Euro zone economy managed to grow by around 2.1 percent in 2004, but in 2005 growth was weaker at only 1.3 percent.

Although discrepancies in economic trends between its various countries marked the Euro zone, it was also affected in 2005 by a range of internal problems, including budget difficulties in several countries, which affected the confidence of economic players and heightened their exposure to certain external factors characteristic of the international economic climate. Politically and socially, too, Europe had difficult moments with certain Member States' rejection of the Constitution, and the problems encountered in approving the EU budget.

Maintaining its peculiar deflationary situation (although at a level very close to zero) and after less-than-expected growth in 2004 the Japanese economy will have turned in 2005 growth of around 2.00 percent, and growth at this level is expected to continue in coming years. Certain Asian economies made a substantial contribution to growth worldwide in 2005, as they had in 2004. In particular, China may have exceeded 9 percent, with its exports under heated discussion throughout the year, triggering protectionist reactions to the competitiveness of the emerging economies.

Latin America showed sustained growth in 2005, after strong growth in 2004 following the turnaround of several leading economies from the recession of previous years. Forecasts for coming years point to a continuation of the present trend of stabilisation in the leading economies, although the future trend in this region depends on the performance of other economies (notably that of the United States) and 2006 may be affected by political uncertainties flowing from the elections due this year.

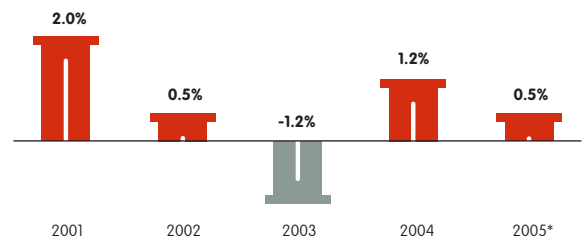
To sum up, the world economy seems since 2004 to have turned the corner of the difficult period which it underwent during the first part of the decade, and 2005 was characterised by sustained growth which can be hoped to continue for the medium term. However, performance by the leading economies remained patchy.

4.3. Iberian Economy

4.3.1. Portugal

With some signs of recovery even in 2003, the Portuguese economy came out of recession in 2004, keeping pace with international growth trends. However, after successive downward revisions by the leading Portuguese and international institutions, in 2005 the Portuguese economy closed the year with growth figures close to zero, significantly below the European mean and less than was achieved in previous years.

GDP growth in Portugal



* IMF forecast (World Economic Outlook) for a comparable base
Source: INE

The low level of growth, coupled with wage restraint, allowed prices inflation to be contained, attenuating the impact of higher oil prices and the rise of two percentage points in the main rate of VAT. Thus inflation in Portugal, measured as the mean variation in the HICP, was 2.1 percent, close to the European average.

As a consequence of the difficulties in overcoming the present economic situation, the rise in unemployment in Portugal accelerated, bringing it still closer to the Euro Zone average. Far from the levels of around 4 percent achieved in 2001, when the corresponding Euro Zone figure was close to 8 percent, Portugal's unemployment rate in 2005 was 7.6 percent, although still below the European average.

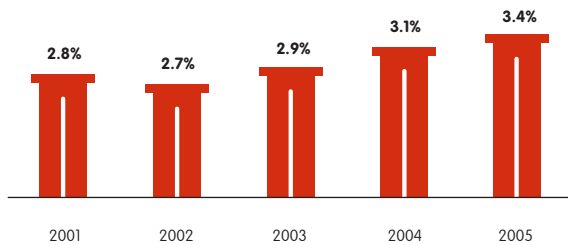
Consolidating public finance and fostering economic growth remain major challenges for the Portuguese economy. Accordingly, the main forecasts for 2006 indicate an improvement in Portugal's economic

situation, but still below the average for Europe, and, despite that, an increase in unemployment to levels closer to 8 percent.

4.3.2. Spain

Spain remains one of the best examples of sustained growth, at a level in excess of 3 percent. Although this is expected to weaken slightly in 2006, it should not compromise the fine performance by the Spanish economy, with forecasts indicating growth still above 3 percent and significantly better than the European average.

GDP growth in Spain



Source: EUROSTAT

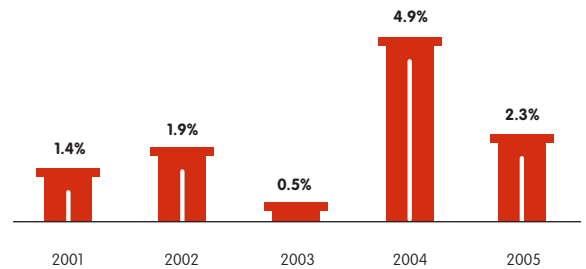
Reflecting the country's booming economy, inflation in Spain remained above the European average. The final figure was 3.4 percent, slightly higher than in 2004; there are hopes for a slight fall in 2006.

Sustained economic growth has naturally had positive effects on employment, with the unemployment rate falling below 10 percent in 2005 for the first time in recent years. As it gradually approximates the European average, Spain's unemployment has fallen to 9.2 percent, and may fall below the Euro Zone average even in 2006.

4.4. Brazilian Economy

After years of modest economic growth, the result of numerous factors both external and internal, including energy rationing and political instability, in 2004 Brazil achieved very positive results built on stability. Although less impressive than 2004's results, 2005 shows growth of around 2.3 percent with contributions from private consumption and investment, and despite the imposition of restrictive economic policies. This sustained economic growth has been reflected positively in employment, with a fall in unemployment from 9.6 percent in 2004 to 8.3 percent in 2005.

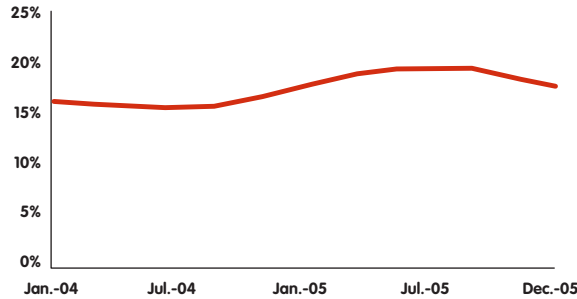
GDP growth in Brazil



Source: IBGE

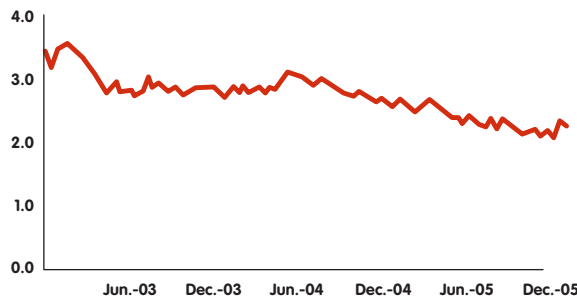
After falling significantly in 2004, inflation remained close to the rate achieved the previous year. With restraint on price inflation a major objective of economic policy, Brazil's reference interest rates (SELIC) continued in 2005 the gradual rise begun in 2004, seeking to counter the inflationary effects of oil price rises. The SELIC rates neared 20 percent in mid-year but fell back slightly in the final months of 2005 to levels close to those of the year's start.

SELIC Interest Rate



The exchange value of the Brazilian Real continued its trend of 2004, and in 2005 appreciated against the American dollar (11.8 percent on the year) and against the euro (24.1 percent on the year) reflecting the euro's depreciation against the dollar. In addition to the positive trend on external accounts, the continued high liquidity on the international market and investors' rising confidence in the country accounted, amongst other factors, for the trend in the Brazilian exchange rate.

BRL/USD Exchange Rate



Source: Bloomberg

For 2006 we are looking forward to continued sustained growth at a rate of around 3.5 percent, with a fall in inflation allowing less restrictive monetary policies. However, these forecasts depend on the international economic situation and the risk associated with the forthcoming presidential elections.

5. SUMMARY OF ACTIVITY

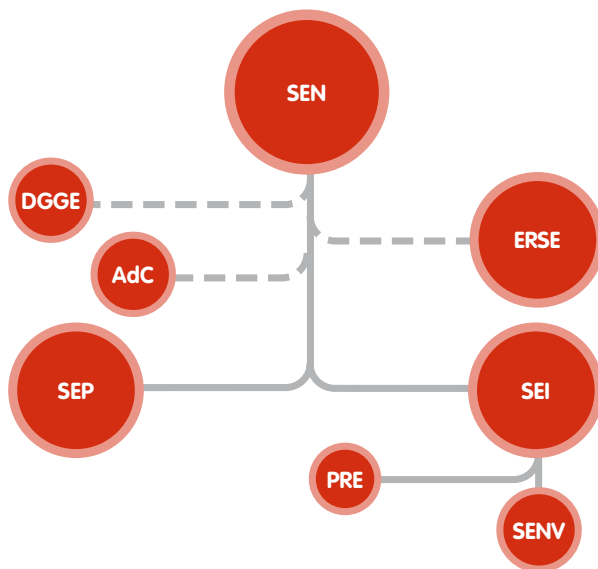
5.1. Electricity Business in Iberia

5.1.1. Regulatory Framework

5.1.1.1. Regulatory Framework in Portugal

Organisation

Notwithstanding the transition to an open and competitive market, the organisation of the National Electricity System (SEN) again remained unchanged during 2005, in accordance with legislation of 1995 as amended by Decree-Law no. 185 of 20 August 2003:



In the Public Service Electricity System (SEP), generation, transmission and distribution of electricity are carried out as a public utility, with the associated requirement to provide electricity with an appropriate standard of service quality and the principle of a uniform tariff for the territory. The principal players involved in the SEP are:

- Bound Generators who, until the agreements on early termination of their long-term Power Purchase Agreements come into force (as provided for in Decree-Law no. 240 of 27 December 2004), will remain in an exclusive relationship with the concession holder of the National Transmission Network (RNT);
- Rede Eléctrica Nacional, S.A. (REN), the concession holder of the RNT which, as the organised markets come into operation, will cease buying energy from the binding generators who, in turn, will sell the totality of their electricity on the market;
- Bound Distributors who, until the organised market comes into effect, will continue to acquire at least 92 percent of their electricity requirement from REN and supply the contracted quantities to their customers, applying tariffs and conditions established by the Energy Services Regulator;
- Bound Customers.

The Independent Electricity System (SEI), meanwhile, has two sub-systems:

- On the one side, the Non-Binding Electricity System (SENV), which is open to market forces, and in which access is open to generation and commercialisation of special low voltage, medium, high and very high voltage and in which players are entitled to use the transmission and distribution infrastructure for the physical transfer of energy, against payment of the appropriate tariffs;
- Alongside, there exist Special Regime Generators (PRE), who generate using small hydroelectric power stations of up to 10 MW, cogeneration and renewable sources. These producers supply power to the SEP grid under specific legislation, and are remunerated on the basis of the costs thus avoided by the SEP plus an environmental premium reflecting the benefits caused by the use of renewable energy.

Although in legislative terms there have been no changes in the organisational structure of the sector, the changes that have taken place have brought new issues to the SEP:

- Normal Regime Producers, who hold at least one production licence and have the right to sell energy they produce on the organised market or through bilateral contracts;
- Suppliers who, being licensed for the purpose, may acquire or sell electricity on the organised market or through bilateral contracts;
- The Regulated Supplier, who has the obligation to supply electricity to binding customers who are subject to the regulated tariff rules. This function is currently still filled by EDP – Distribuição de Energia, S.A.;
- The Supplier of Last Resort, who is obliged to ensure the supply of electricity to non-binding customers when there is no other distributor doing so on duly-justified commercial terms. This function is likewise currently still filled by EDP – Distribuição de Energia, S.A.;
- External agents, which are bodies formally established in other Member States of the EU and recognised as having the right to buy or sell electricity, and who may acquire it for placing on their own home markets or sell it from their home market, on the organised market or through bilateral contracts.

The Energy Services Regulator (ERSE) has the task of overseeing compliance with the operating rules of the SEP and those governing relations between the SEP and the SENV; and regulating the activities performed within the framework of the SEP, specifically setting tariffs and prices for electricity, and for other services provided by the REN and by holders of binding distributors' licences, to other licence holders and to customers.

The present organisation of the SEN is transitional until the new legislative framework is established to apply from 2006. A Decree-Law approved by the Council of Ministers on 22 December 2005 transposes European Parliament and Council Directive 2003/54/EC of 26 June 2003, which sets out common rules for the Internal Electricity Market.

The Decree-Law seeks to define a legislative framework which is coherent and articulated with the European legislation, and establish the organisational and operational principles for the SEN, together with the rules applicable to generation, transmission, distribution and marketing, thus transposing the principles of a European directive whose aim is to enhance the open and competitive market.

The legislation provides that the activities of generating and marketing electricity are to be carried out in a freely competitive environment, through the award of licences, and that transmission and distribution are carried out through the award of public service concessions.

In this way, these activities are carried out taking account of a rational use of resources and the protection of the environment, notably through energy efficiency and the promotion of renewable energy sources, and without prejudice to public service obligations.

As regards the generating of energy, access to the activity is open: in the framework of an open market the initiative lies with interested parties and the logic of centrally-planned generating plants is abandoned.

However, it remains for the State to cover market failures, assuming the role of guarantor of electricity supply, by permanently monitoring the electricity sector through the competent bodies of public administration and with the collaboration of players in the sector, notably the regulated companies.

The distribution of electricity is done by exploitation of the national distribution grid (i.e. the medium- and high-voltage network) and of the low-voltage distribution networks.

The national distribution grid is operated through a single State concession, under exclusive rights and public service rules. The present licence for the binding distribution of electricity at medium and high voltage will be converted to a concession contract, which will respect the guarantees of balanced exploitation given by the current licensed body.

At the same time, the low-voltage distribution networks will continue to be exploited as municipal concessions, without prejudice to the possibility that municipalities remain able to exploit their networks directly.

Supply is open, but remains subject to the award of a licence by the competent authority, which sets out the licensee's rights and responsibilities with a view to transparent exercise of the activity.

In the exercise of that activity, distributors can freely buy and sell electricity. For that purpose they have access to the transmission and distribution grids, on payment of the regulated tariffs.

Consumers, meanwhile, may freely choose their distributor on market conditions, the change itself not being subject to any contractual charge.

Finally, and from the point of view of consumer protection, a universal service is defined. This feature guarantees supply, terms of quality and continuity, protection regarding tariffs and prices, and access to simple, comprehensible information.

Opening 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 for all customers, permitting them to freely choose their electricity supplier.

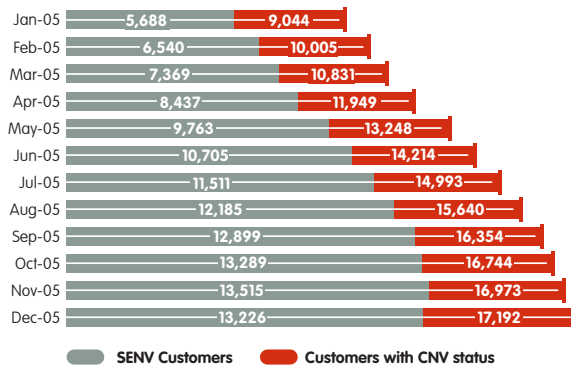
In Portugal, as in most European countries, deregulation has been a gradual process, starting with the consumers taking the greatest consumption at the highest voltages and progressively extending to all consumers of electricity.

The final phase of the process was approved in Decree-Law no. 192/2004 of 17 August 2004, and resulted in the total opening of the market, given effect by the extension of eligibility to consumer of standard low voltage (BTN) which includes domestic consumers and public lighting (IP), corresponding to a potential customer base of 5,907,365 with an annual consumption of 43,784 GWh.

The BTN customer's practical exercise of his right to choose supplier depends on implementation of the information technology system needed to manage change-of-supplier procedures for the totality of mainland Portugal's electricity consumers (around 6 million), offering full guarantees as to transparency, security and reliability. The Regulator has announced that this will be possible with effect from September 2006.

At 31 December 2005, 17,192 customers had been awarded non-binding (CNV) status, corresponding to 0.3 percent of all potentially eligible installations.

SENV Customers vs. Customers with Non-Bound Customer (CNV) Status

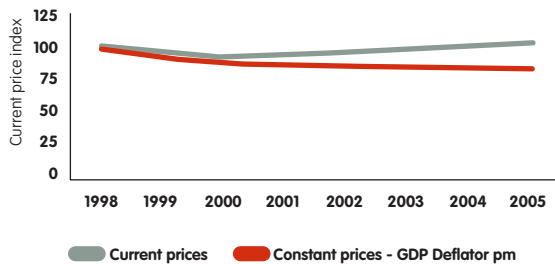


Of those 17,192, the SENV accounted for 13,226 with consumption in 2005 totalling 9,621 GWh, equivalent to approximately 22.0 percent of total supplies by EDP Distribuição.

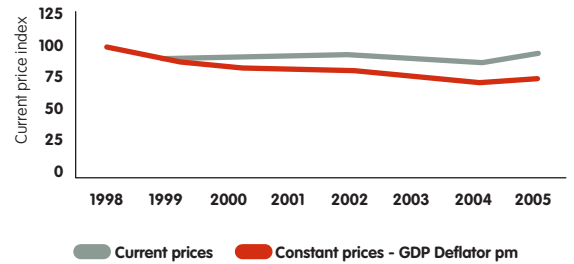
Changes in tariffs

The mean annual selling price of electricity has been falling in real terms for the last seven years, by around 2.5 percent in low voltage and 3.7 percent for the other voltages taken as a whole.

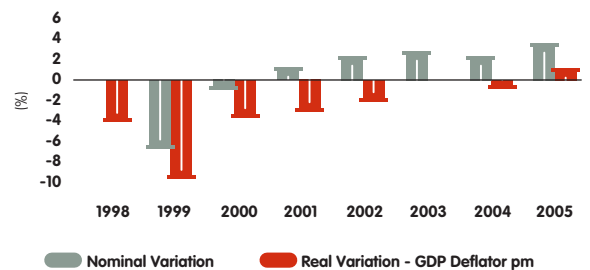
Trend in mean low voltage prices



Trend in Average Electricity Prices: Medium, High and Very High Voltage

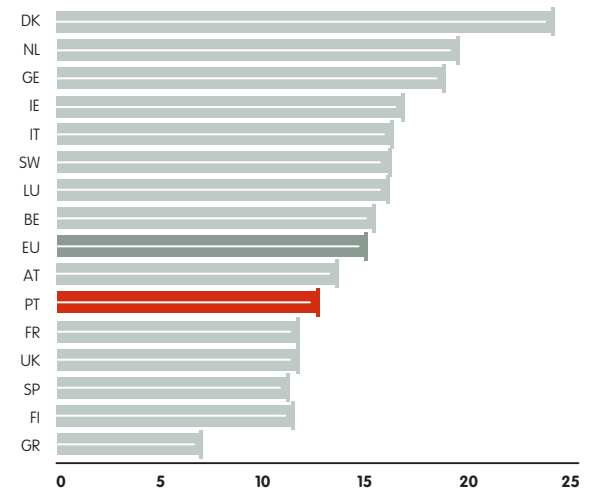


Nominal and Real Variation in Average Electricity Prices



As at 1 January 2005, the price of electricity for domestic consumers in Portugal was 9.4 percent below the mean for the 15-member European Union.

Average Electricity Prices (domestic consumers) Cent. Euro/KWh



These data are based on a survey by Eurostat of the mean prices paid by five typical domestic consumers in various EU Member States. With the aim of adapting this methodology to the realities of an open market, work is in progress to update the Directive on Transparency of Gas and Electricity Prices Charged to End-Users – Directive 90/377/EEC of 29 June 1990.

Operational start-up of MIBEL

Following on from previous negotiations, on 20 April 2004 an agreement was signed in Lisbon between the Portuguese Republic and the Kingdom of Spain on the establishment of the Iberian Electricity Market (MIBEL), approved by Parliamentary Resolution no. 33-A/2004 of 20 April 2004. The agreement was amended on 1 October 2004 and further developed on 18 and 19 November 2005 in the framework of the Santiago de Compostela and Évora summits, respectively.

Under the agreement, creating an Iberian electricity market implies recognising a single market in electricity for the countries concerned, in which all players have the same rights and responsibilities. Portugal and Spain must consequently act in coordination to set up domestic legislation enabling MIBEL to operate.

The agreement covers, inter alia, the following aspects:

- The setting-up of an Iberian Market Operator (OMI);
- Contractual modalities within MIBEL;
- Mechanisms for regulation, consultation, supervision and management;
- Authorisation and registration of players, and the guarantee of energy supplies; and
- Infringements, penalties and competent jurisdiction.

The Évora summit also yielded a new date for the start-up of MIBEL: 1 July 2006. The principal conclusions of this summit meeting may be summarised in three main areas:

- Interconnection: Continuation of work to strengthen interconnections between Portugal and Spain, in particular through new connections in the south (Algarve-Andalusia) and the north (north-western international corridor) which should be completed by 2011. Start of studies by REN and Red Eléctrica de España for new interconnections in the north-eastern international corridor;
- Council of Regulators: Start-up of work by the Council of Regulators, provided for in the Santiago International Agreement. This council will have as its priority tasks to issue an opinion on the operating rules of the OMIP/OMIClear and the drafting of a joint recommendation on the mechanism for the management of interconnections. It must also submit a recommendation on the harmonisation of the mechanism for guaranteed supply;
- OMIP/OMIClear: The start-up of the OMIP negotiation platform on 1 July 2006, with OMIClear recognised as an integral part of the OMIP. To that effect, by 1 May both countries must have approved the regulatory conditions establishing the requirement on regulated distributors to acquire at least 5 percent of their tariff customer supply requirement within the OMIP.

Legal Framework

With the coming into force of the MIBEL and the deepening process of deregulation, the ERSE recognised the need to provide consumers and businesses with a stable and coherent regulatory framework suited to the new situation of a totally deregulated electricity market. Accordingly, in August 2005, ERSE undertook a complete overhaul of the regulations governing the electricity sector. It was first submitted to public consultation, and brought existing regulations into line with the Portuguese and European legal framework, seeking to introduce innovations in the Regulation of Commercial Relations, tariffs and access to networks and interconnections.

A number of new legislative acts were thus published in Portugal during 2005, aimed at bringing the sector's structure and operations into line with the requirements of a free and competitive market:

- Order no. 139/2005 of 3 February 2005, which sets out the conditions for the award of a licence to supply electricity;
- Order no. 228/2005, of 28 February 2005, setting and amending the production adjustment coefficients for electricity generating plants, in the scope of the early termination of the PPAs, for the purposes of determining the amount of costs of maintenance for contractual balance (CMEC);
- Ministerial Dispatch no. 10317/2005 of 9 May 2005, establishing two working groups with the task of preparing draft basic legislation for electricity and natural gas, to be accompanied by the corresponding draft decree-laws transposing Directives 2003/54/EC and 2003/55/EC, and to be submitted by 31 May and 31 July respectively;
- Ministerial Dispatch no. 10319/2005 of 9 May 2005, establishing working groups within ERSE and REN, collaborating with their Spanish counterparts, with a view to the submission by 23 June 2005 of final reports on the study of organisational models for the Iberian Electricity and Natural Gas Market, and the study of the technical and organisational measures for the implementation of those markets;
- Council of Ministers Resolution no. 169/2005 of 24 October 2005, establishing a national strategy for energy, which promotes a revision of the legal and regulatory framework, establishes as a strategic orientation for the sector the extension of the scope of activity of the enterprises active in the sector, in order that in a competitive environment there may be more than one relevant integrated operator in the electricity and gas sectors, grants independence to regulated players in the natural gas sector and implements its association with the enterprises operating the electricity transmission grid;
- Decree-Law approved by the Council of Ministers on 22 December 2005, establishing the general principles for the organisation and workings of the SEN, and the activities of electricity generation, transmission, distribution and supply and transposing into Portuguese law the principles of Directive no. 2003/54/EC of the European Parliament and of the Council of 26 June 2003 concerning common rules for the internal market in electricity and repealing Directive 96/92/EC of 19 December 1996;
- Also affecting the electricity sector, the year also saw the approval of Law no. 58/2005 of 29 December 2005, and transposing into Portuguese law the principles of Directive 2000/60/EC, of the European Parliament and of the Council of 23 October 2000 establishing a framework for European action for sustainable management of water, including the conditions for use and outfall of water by electricity generating plant.

Competition

European framework

In June 2005, the European Commission's Directorate-General for Competition launched a survey of players in the electricity and/or gas sectors within the European Union. The survey's aim was to assess the conditions of competition in the gas and electricity markets in the European Union and reach conclusions about the possible factors influencing their operation. The preliminary conclusions of the analysis appeared in a report presented by the Commission in November 2005. The conclusions are also in line with the Commission's Progress Report on Member States' implementation of the Directives, presented in late 2005.

Portuguese framework

No significant changes were made in 2005 to the institutional and legal framework for competition in Portugal.

The Competition Authority, established by Decree-Law no. 10/2003 of 18 January 2003, has across-the-board powers over the Portuguese economy to apply the rules of competition, in coordination with the sectoral regulatory bodies, in this case the ERSE. Resembling other European "Anti-trust" regulatory bodies, the Competition Authority is an independent body whose task is to ensure that competition rules are applied in Portugal, respecting the principles of the market economy and free competition, and with a view to ensuring the proper working of the markets, the efficient distribution of resources and the defence of consumers' interests.

At the legislative level, the Competition Law, (Law no. 18/2003 of 11 June 2003), remains primordial. This law approved the legal framework for competition in Portugal, specifically as regards Prohibited Practices, Concentrations of Enterprises and State Aid.

5.1.1.2. Regulatory framework in Spain

Organisation

During 2005 the Spanish government began revising the regulatory framework of the electricity and gas sectors, with notably:

- Publication of the White Paper on reform of the regulatory framework for the generation of electricity in Spain;
- Introduction of the Economic Dynamism Plan, and the 100 measures to foster productivity.

The White Paper on reform of the regulatory framework for the generation of electricity in Spain was an initiative of the Ministry, taken in 2004, with the active participation of EDP and HC Energía, involving numerous meetings with the drafting team responsible for the White Paper, and participation in forums. The aim of the White Paper is to set out a full analysis of generation in Spain, and to propose a number of solutions for what it sees as deficiencies in the market:

- Establish regulated-price contracts for the generation of nuclear and hydro electricity;
- Establish a mechanism for the recovery of costs of transition to competition (CTC) which do not interfere with the market;
- Set up additional tariffs which reflect the costs incurred by consumers;
- Improve the guarantee supply system, by increasing penalties for failures.

The electricity and gas aspects of the Economic Dynamism Plan are reflected in Law no. 24/2005, Royal Decree-Law no. 5/2005 and Royal Decrees no. 924/2005 and 1454/2005. The main points of these reforms are:

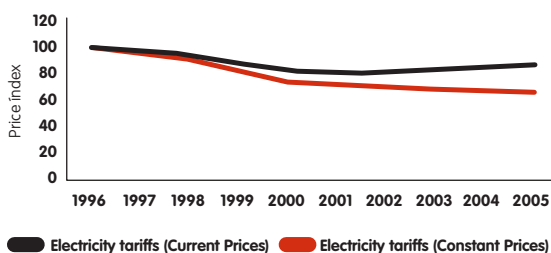
- Fostering competitiveness in the minority market for electricity and gas, especially in the domestic segment;
- Preparations for the MIBEL;
- Creating the regulatory framework for greater use of biomass and co-generation.

This reform of the regulatory framework of the electricity sector was interrupted by the takeover bid for Endesa by Gas Natural, and the government decided to defer decisions until the first half of 2006 when the result would be known.

Tariff changes over time

For electricity tariffs, Royal Decree no. 2392/2004 raised the mean or reference tariff by 1.71 percent for 2005, once again by less than the rise in the Consumer Price Index, thus continuing the downward trend in real-terms electricity prices for regulated customers.

Trend in Average Electricity Prices



In real terms, the average price in Spain in 2005 was 66.9 percent of its 1996 level.

The events of 2005 showed that this rise was insufficient to cover the costs of supplying electricity.

The high market price of the Spanish market majority, far higher than that taken into account in computing the tariff for 2005, led to the appearance of a high shortfall in the liquidation of regulated activities, some EUR 3.6 billion, which was financed by the ordinary regime producers in accordance with Royal Decree-Law no. 5/2005.

Royal Decree no. 1556/2005, which sets the electricity tariff for 2006, recognises enterprises' right to recover the costs incurred through tariff rises in future years. This Royal Decree, although computed in accordance with the established methodology, acknowledges part of the significant cost increases the sector has seen, and sets a mean or reference tariff increase of 4.48 percent for 2006. Similarly, it at mid-year the final deficit for 2005 will be computed and the tariff adjusted.

Finally, it should be noted that the "Comisión Nacional de la Energía" (CNE) continued its work on reviewing the model for compensation of electricity distributors, there being a general consensus that the present model is no longer ideal for the present state of development of the electricity distribution business.

Planning and Iberian Market

In July 2005 the Ministry, through the Institute for Energy Diversification and Savings (Instituto para la Diversificación y Ahorro Energético, IDAE), published the new Plan for Renewable Energies in Spain 2005-2010, which maintains the undertaking to cover at least 12 percent of total energy consumption with renewable energy in 2010, and includes the aim that in 2010, 29.4 percent of electricity generation should come from renewable sources. The plan sets the target for 2010 of 42.5 GW of capacity from renewable sources (including major hydro sources) from total electricity generation of 102,260 GWh. In these totals, wind power represents installed capacity of 20,155 MW in 2010 and generation in that year of 45,500 GWh.

Also in July 2005, the IDAE published the 2005-2007 Action Plan on energy savings and efficiency, with the aim of setting out action for that period and establishing the "E4" Strategy for Energy Savings and Efficiency in Spain 2004-2012. With this action plan the government sets the target of primary energy savings of 12 million tonnes oil-equivalent (TOE), with a 32.5 million tonne reduction in carbon dioxide emissions over the same period. The plan notes that the 2006 electricity tariff should release EUR 173 million to finance measures, in particular in the domestic and computer hardware sectors, and in building.

The year 2005 also saw a review of planning for gas and electricity infrastructures. HC Energía submitted to the Ministry and to the Autonomous Communities of Asturias and the Basque Country, the infrastructure requirements for the development of its business strategy and, at the close of the year, was awaiting the report of the CNE on the review and its approval by the Council of Ministers. The year 2006 will see publication of the Plan for 2006-2011.

On 21 January 2005, Royal Decree no. 60/2005 was published, amending Royal Decree no. 1866 of 6 September 2004 approving the National Plan for Awarding Emissions Allowances for the period 2005-2007.

On 9 March 2005, Law no. 1/2005 was published, setting out the rules for trading in greenhouse gas emissions allowances, and transposing Directive no. 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading.

Royal Decree no. 1264/2005, of 21 October 2005, regulates the organisation and workings of the National Emissions Allowances Register.

Regarding the development of the Iberian Market, it should be noted that political changes in both countries have delayed the timetable for its implementation. Meanwhile, at the Évora summit of 18 November 2005, both governments expressed their determination to achieve complete implementation of the MIBEL sooner rather than later.

To that end, the following agreements were reached:

- With the Santiago de Compostela Agreement implemented, to immediately establish the Council of Regulators, with the following priority tasks:
 - A draft of proposals on the operating rules of the OMIP/OMIClear, no later than 15 March 2006;
 - A joint recommendation on the mechanism for the management of interconnections, no later than 15 March 2006;
- No later than 1 November 2006, a joint recommendation on the mechanism for guaranteed supply;
- OMIClear to be recognised as an integral part of the OMIP, the spot market regulator, in accordance with Article 4.2 of the Santiago Agreement;
- Both countries must by 1 May 2006 have enacted legislation, coming into force no later than 1 July, approving the regulatory conditions establishing the requirement on regulated distributors by December 2006 to acquire within the OMIP at least 5 percent of their tariff customer supply requirement since 1 July 2006;
- The start-up of the OMIP/OMIClear platform on 1 July 2006;
- Drafting of a programme for regulatory convergence, setting out a timetable for harmonisation of each country's regulations in accordance with European legislation and with the principle of symmetrical opening of national markets, to be submitted to the next Portuguese-Spanish summit meeting.

5.1.2. Generation Activity

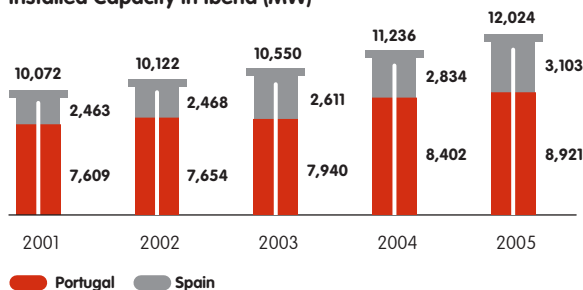
At the close of 2005, EDP Group's normal-regime generating resources in Iberia had a total installed capacity of 12,024 MW, an increase of 788 MW over 2004, essentially the result of the entry into industrial service in August of the Frades Power Station (comprising two reversible units - 192 MW), part of the Venda Nova supply upgrade, and the entry into commercial service of the third unit at the Ribatejo Power Station (392 MW).

A positive response was given in 2005 by the Directorate-General for Geology and Energy (DGGE) to the prior information requests relating to planned plant in the Baixo Sabor and Foz-Tua, and additional installations at Picote and Bemposta. In terms of thermal generating, a response is awaited from the authorities and the DGGE to requests for approval and connection to the grid of the planned combined cycle gas turbines (CCGTs) at Sines and Lares.

In special regime generating, it is worth noting 2005's increase in installed capacity in Spain, notably as a result of the consolidation of 224 MW of wind farms of NEO Desa.

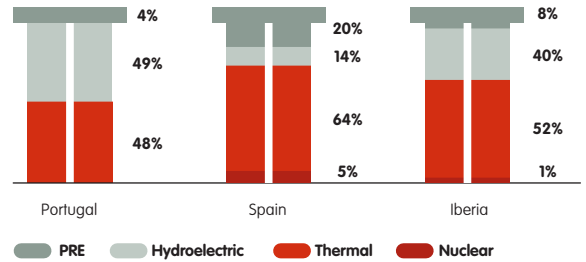
| Maximum Power on 31 Dec. | | Iberia | | | | |
|--------------------------|---------------|--------|--------|--------|--------|--|
| MW | 2005 | 2004 | 2003 | 2002 | 2001 | |
| Ordinary Regime | 11,073 | 10,568 | 10,167 | 9,860 | 9,914 | |
| Portugal | 8,584 | 8,080 | 7,699 | 7,438 | 7,492 | |
| Spain | 2,488 | 2,488 | 2,468 | 2,422 | 2,422 | |
| Special Regime | 951 | 668 | 383 | 262 | 158 | |
| Portugal | 337 | 322 | 241 | 216 | 117 | |
| Spain | 614 | 346 | 143 | 46 | 41 | |
| Maximum Power | 12,024 | 11,236 | 10,550 | 10,122 | 10,172 | |

Installed Capacity in Iberia (MW)



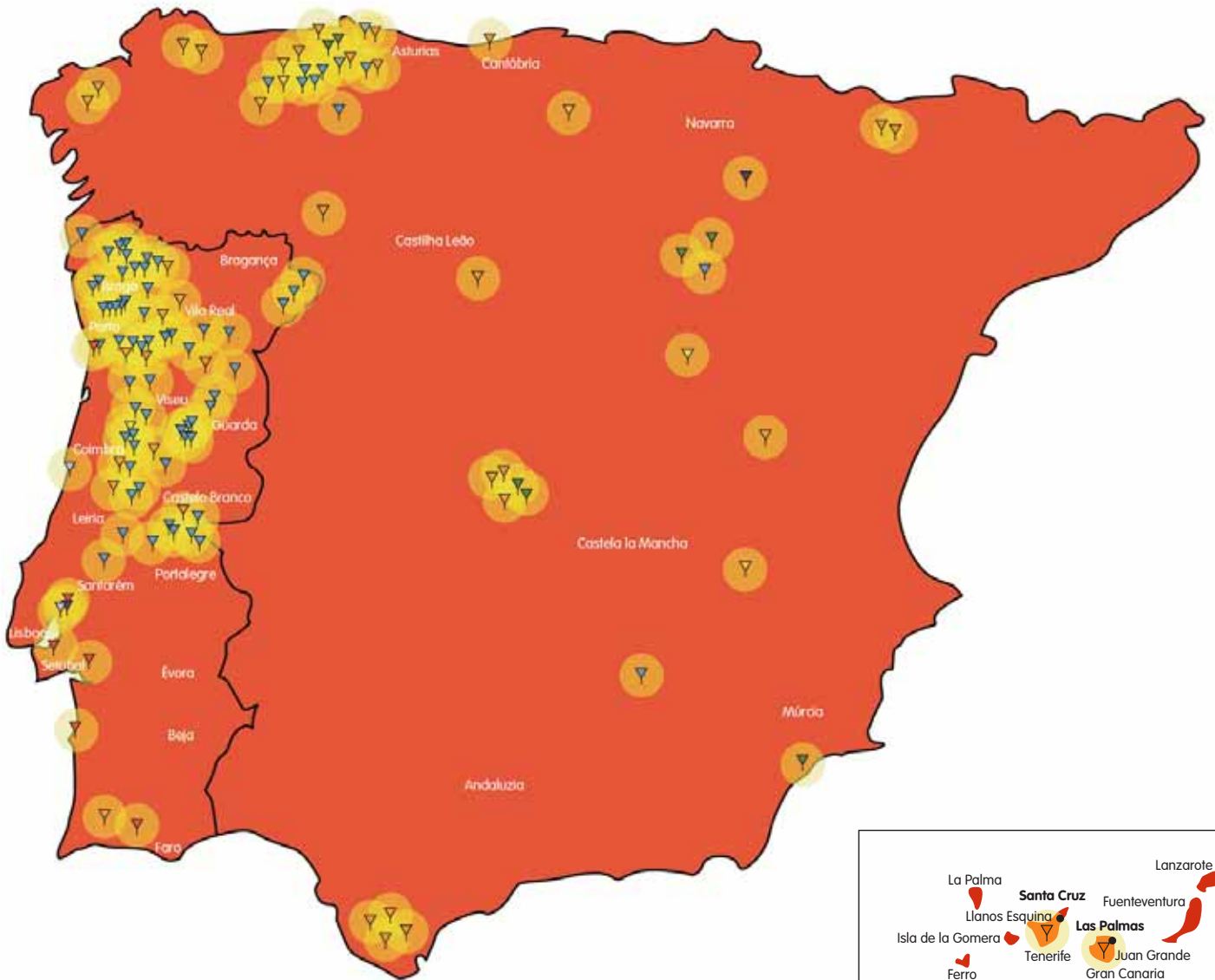
This plant represents a balanced portfolio of generating technologies, and combining the largest part of hydro capacity in Portugal with the largest part of thermal capacity in Spain.









Generation Portfolio in Iberia



The Kyoto Protocol came into force in 2005. The year also saw the start-up of European Trading in Emissions Allowances, and emissions allowances for each of the EDP Group's installations for the period 2005-2007 were published (Ministerial Dispatch no. 686-E/2005). The following allowances were awarded to EDP Group:

| CO ₂ licenses awarded to EDP Group | tCO ₂ e | | |
|---|--------------------|-------------------|-------------------|
| | 2005 | 2006 | 2007 |
| Portugal | | | |
| Carregado | 1,088,575 | 1,088,575 | 1,088,575 |
| Setúbal | 2,505,210 | 2,505,210 | 2,505,210 |
| Sines | 7,837,380 | 7,837,380 | 7,837,380 |
| Barreiro | 253,048 | 253,048 | 253,048 |
| Tunes | 5,000 | 5,000 | 5,000 |
| Ribatejo | 2,019,570 | 2,019,570 | 2,019,570 |
| Mortágua | 1,510 | 1,510 | 1,510 |
| Soporgen | 239,942 | 239,942 | 239,942 |
| Energin | 199,250 | 199,250 | 199,250 |
| Spain | | | |
| Aboño | 5,542,000 | 4,976,000 | 4,338,000 |
| Solo de Ribera | 3,404,000 | 3,057,000 | 2,666,000 |
| Castejon | 898,000 | 692,000 | 709,000 |
| Total | 23,993,485 | 22,874,485 | 21,862,485 |



-  Hydroelectric Power Plants
-  Thermoelectric Power Plants
-  Wind Farms
-  Biomass Power Plant
-  Cogeneration and Natural Gas Power Stations
-  Natural Gas Combined Cycle Power Stations
-  Thermonuclear Power Stations
-  Others

5.1.2.1. Generation Activity in Portugal

Generating activity continued to develop in 2005 in an environment of uncertainty and change in external circumstances, with the MIBEL's operational start-up deferred until July 2006. Start-up of MIBEL implied the termination of the PPAs established between the REN and the producers of the SEP, with the PPA termination agreements already signed by CPPE on 27 January and approved by Ministerial Dispatch no. 4672/2005 (2nd series) of 4 March 2005.

A substantial number of projects were also developed in conjunction with the REN, looking to the post-PPA era, notably those associated with the computation of Costs of Maintenance of Contractual Equilibrium (CMECs) of the CPPE power stations within the SEP, with testing procedures for the calculation of annual reviews of CMECs and with internalising the cost of CO₂ in simulations with Valoragua.

A further step was taken in the final quarter of 2005 in **simplifying the structure of EDP Produção**, with the incorporation into the CPPE of all generating assets and activities belonging to EDP – Gestão da Produção de Energia and EDP Produção EM. The latter company remains a vehicle for the external provision of engineering services. In December 2005, EDP Gestão da Produção de Energia, S.A., was merged into EDP – Energias de Portugal, S.A., and on 1 February 2006, CPPE – Companhia Portuguesa de Produção de Electricidade, S.A., changed its name to EDP – Gestão da Produção de Energia, S.A.

Installed capacity and net generation of EDP in Portugal over the past five years are as follows:

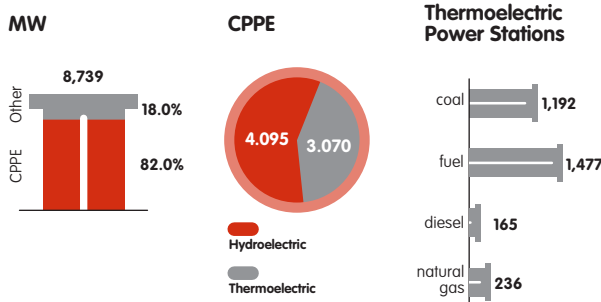
| Maximum Power as at 31 Dec. | | | | | Portugal |
|---------------------------------|--------------|-------|-------|-------|----------|
| MW | 2005 | 2004 | 2003 | 2002 | 2001 |
| SEP Power Station | 7,164 | 7,052 | 7,052 | 7,183 | 7,183 |
| Hydroelectric | 4,095 | 3,903 | 3,903 | 3,903 | 3,903 |
| Thermoelectric | 3,070 | 3,149 | 3,149 | 3,280 | 3,280 |
| SENV Power Stations | 1,420 | 1,028 | 647 | 255 | 309 |
| Hydroelectrics | 244 | 244 | 255 | 255 | 309 |
| Thermoelectric | 1,176 | 784 | 392 | 0 | 0 |
| Special Regime Producers | 337 | 322 | 241 | 216 | 117 |
| Small-scale hydro generators | 66 | 66 | 56 | 55 | 1 |
| Wind | 151 | 136 | 65 | 40 | 40 |
| Biomass | 9 | 9 | 9 | 9 | 9 |
| Cogeneration | 111 | 111 | 111 | 112 | 67 |
| Maximum Power | 8,921 | 8,402 | 7,940 | 7,654 | 7,609 |

| Net Generation | | | | | Portugal |
|---------------------------------|---------------|--------|--------|--------|----------|
| GWh | 2005 | 2004 | 2003 | 2002 | 2001 |
| SEP Power Stations | 18,824 | 20,475 | 26,583 | 24,201 | 26,947 |
| Hydroelectric | 4,279 | 8,718 | 13,964 | 6,764 | 12,607 |
| Thermoelectric | 14,545 | 11,756 | 12,619 | 17,437 | 14,340 |
| SENV Power Stations | 5,252 | 3,817 | 908 | 497 | 786 |
| Hydroelectric(1) | 164 | 398 | 705 | 497 | 786 |
| Thermoelectric | 5,088 | 3,419 | 203 | 0 | 0 |
| Special Regime Producers | 1,161 | 1,083 | 1,041 | 815 | 535 |
| Small-scale hydro generators(1) | 90 | 141 | 196 | 75 | 4 |
| Wind | 348 | 237 | 128 | 113 | 90 |
| Biomass | 51 | 49 | 38 | 37 | 18 |
| Cogeneration(2) | 671 | 656 | 679 | 590 | 423 |
| Net Generation | 25,237 | 25,374 | 28,532 | 25,513 | 28,268 |

(1) Generation split SENV/PRE in 2003 in accordance with Decree-Law no. 85/2002 of 6 April 2002(1).
(2) Includes energy delivered to industrial Customers

Binding Generation

Contrary to expectations, no change occurred in the legal rules on binding electricity generation in 2005. The three companies holding binding licences, CPPE, Tejo Energia and Turbogás, had a total installed capacity of 8,739 MW, of which CPPE held 7,164 MW (82 percent of the total), including 4,095 MW in hydroelectric capacity and 3,070 MW in thermal plant.



The CPPE's hydroelectric plant incorporated in the SEP comprises a total of 65 generator units. For organisational purposes they form three production centres, and are controlled centrally from a single remote control centre in Rêgua. In a year of average rainfall it can meet around 21 percent of SEP and SENV consumption.

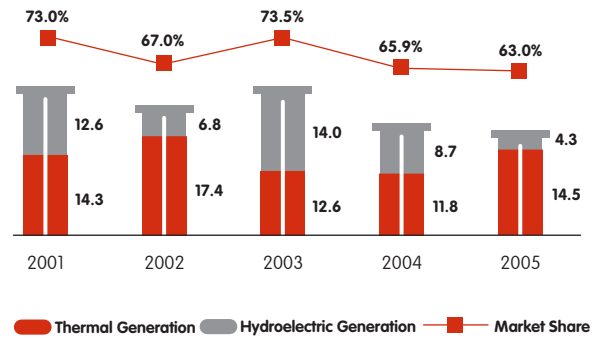
The thermal generating plant of the SEP comprises five power stations. One of the largest is coal-fired, located in Sines, a second fuel oil, in Setúbal, and a third, in Carregado, fired by fuel oil/natural gas.

The EDP Group also has holdings in the other binding producers, notably 11.1 percent in Tejo Energia, which runs the Pego (coal) plant, and 40 percent in Turbogás, which owns the combined cycle natural gas plant in Tapada do Outeiro.

In 2005, net CPPE generation was 18,824 GWh, 8 percent down on the previous year, as a result of the very significant decline in hydroelectric output:

- Hydroelectricity generation was 4,279 GWh, some 51 percent down on 2004, reflecting the very low rainfall of the year;
- Thermal generation totalled 14,545 GWh, some 24 percent up on 2004, and corresponding to greater use of fuel-oil power plants.

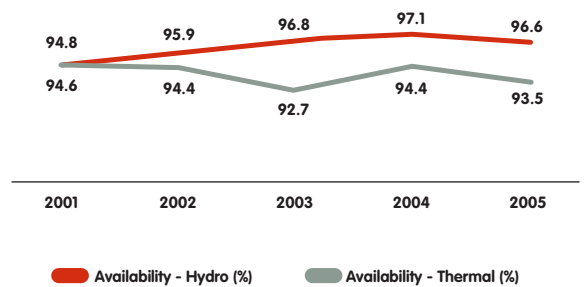
Net Generation and Market Share in the SEP (TWh)



The decline in hydroelectric generation meant that the CPPE's market share fell from 65.9 percent in 2004 to 63.0 percent in 2005.

CPPE installations continue to offer high levels of availability. In 2005, figures were 96.6 percent for hydroelectric and 93.5 percent for thermal.

Binding Generation - Indicators



The following points relating to binding generating are worthy of note:

- Following termination of the Power Purchase Agreement at 31 December 2004 and the completion of decommissioning of the Tapada do Outeiro Power Station, the installations were handed over to the REN, and the formal handover contract duly signed;
- The sites of the thermal power stations of Carregado, Setúbal and Tunes were purchased from REN;
- The DGGE issued operating licences for the first and second units at Tunes, valid until 31 December 2006, and a System Services Contract was signed with REN for these two. This was the first contract for this type of network service to be signed in Portugal;
- In April, a contract was signed with EDIA for the provision of operating and maintenance services at the Alqueva Hydroelectric Power Plant, where services have already been provided since September 2003;
- On 26 August the two reversible units of the Frades Power Station (total 192 MW) came into industrial service, following completion of works in the Venda Nova II project;
- As part of the upgrading of the Sines Power Station to new environmental standards, a contract was signed on 31 March awarding desulphurisation installations to Hitachi-Cobra. The prior notice of works was sent to the Inspectorate-General of Labour on 24 August;
- Basic design work on the Baixo Sabor hydroelectric project was completed. Work is now in progress on the environmental compliance report (RECAPE) to be submitted to the authorities.

Non-binding Generation (on the market)

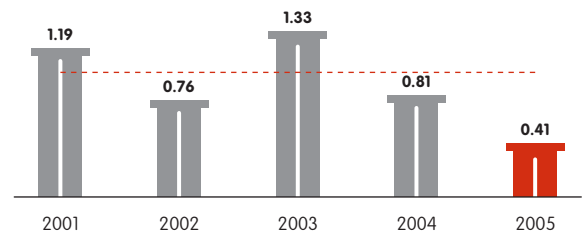
This segment of the industry saw an increase in installed capacity in 2005, the result of the coming on stream of the third unit of the Ribatejo Combined Cycle Power Station (392 MW), offering total installed capacity of 1,420 MW at 31 December 2005 compared with 1,028 MW at the end of 2004.

Regarding the extension of thermal capacity, work is in progress on the projects for the combined cycle natural gas plants at Lares and Sines. The following may be noted:

- Publication on 12 July 2005, in the Official Journal of European Union, of the notice of international public tender for the turnkey supply of a combined cycle natural gas power station with two units, one as an option;
- Handover to the Environment Institute of the Environmental Impact Assessment for the proposed Sines CCGT, and the start of work on evaluation of the environmental impact. The public consultation period for this ran from 26 October to 30 December.

Hydroelectric generability was extremely low throughout 2005, with a coefficient of only 0.41, compared with 0.81 in 2004. This was one of the lowest rates since records were first kept. As a result generating was some 51 percent less than 2004's output, itself already below average.

Hydroelectric Energy Capability Factor



As a result of this somewhat unfavourable hydrological situation, hydroelectric generating took a reduced share of total SENV output. At the same time, the steep increase in output at Ribatejo should be noted: this is now the country's third largest thermal generator, after Sines and the Tapada do Outeiro CCGT.

During 2005 the REN accepted the registration of the Sabugueiro I, Desterro, Ponte de Jugais and Vila Cova plants in the "Renewable Energy Certificate System". This non-profit-making association seeks to promote European trading in "green" certification.

The SEI's Ermal remote control centre for hydroelectric plants was transferred to the Régua centre, thus bringing all the CPPE's hydroelectric plants under the control of a single centre.



Engineering Services

As part of the restructuring of EDP Produção, all staff of EDP Produção EM, EDP Group's engineering business, were transferred to the CPPE. EDP Produção EM remains as a vehicle for the provision of engineering services outside the Group.

The following engineering activities in 2005 were particularly noteworthy:

- A favourable external audit opinion for the renewal by the Portuguese Certification Association of Certification of the Quality Management System (APCER) implemented in 2003, in accordance with the NP EN ISO 9001:2000 standard;
- Studies and projects and management and supervisory tasks developed by EDP Produção and other Group companies. These relate both to the construction of new generating plants and to capacity improvements, redesign, technological upgrading and environmental improvement, in particular:
 - Project supervision, management, inspection and commissioning of the third unit at Ribatejo;
 - Completion of project, management and inspection of capacity increase at the Venda Nova Hydroelectric Plant;
 - Project design and initial work on environmental compliance report for the Baixo Sabor project, and Picote capacity increase, where general design work on the main components of the site is now complete;
 - Redrafting of the Environmental Impact Assessment and design and construction tender documents for the Sines CCGT, and completion of studies and design and construction tender documents for the Lares CCGT, together with contracting and supervision of the Lares Environmental Impact Assessment;
 - Completion of various studies relating to hydroelectric supplies, notably technical and economic viability studies and environmental constraint studies for Foz-Tua and the capacity increase at Bemposta, preliminary assessment of potential on the Rivers Tâmega and Mondego, and assessments of mini-hydros;

- Activities associated with the environmental improvements at Sines and at Aboño and Soto Ribera (Spain), in particular completion early in the year, jointly with HC Energía, of simultaneous contracting for desulphurisation installations in the three power stations;
- Environmental studies, design, contracting, management and supervision of the construction of a significant number of new wind farms and additions to existing farms;
- Specialist technical studies, in particular environmental, and structural and hydraulic security studies, for support services in operation of EDP Produção generating plant, plus various large-scale maintenance activities for systems, equipment and installations in both hydro and thermal plants.

• As regards activities performed outside the Group, the following may be noted:

- Services performed for the REN, in particular hydrological and meteorological monitoring and associated studies, plus projects including geological and geotechnical studies and acoustic constraints for substations at Castelo Branco, Portimão and Pedralva;
- Continuation, under the contracts signed with the EDIA, of technical evaluation, contract management, inspection and testing services relating to the hydroelectric supply at Pedrógão, and performance of pump tests on the reversible units at Alqueva following filling of the Pedrógão reservoir.

Energy Balance

Consumption expressed as output (i.e. the energy put out to the grid) totalled around 48 TWh, 5.3 percent up on 2004 but decelerating slightly compared with the 5.7 percent increase between 2003 and 2004.

Because of the low rainfall during the year, hydroelectric generation fell steeply during the year compared with 2004 (down 51 percent, for SEP and SENV as a whole).

Net total binding thermal generation, around 25.6 TWh, was some 14 percent up on the previous year. Non-binding thermal generation totalled 5,088 GWh, an increase of some 49 percent over 2004, mainly reflecting the coming on stream in the final quarter of the third unit at the Ribatejo Power Station, which in all contributed some 10.6 percent of the total SEP and SENV consumption expressed as output.

| Energy Balance | | Generation | | |
|---|------|---------------|---------------|--------------|
| GWh | | 2005 | 2004 | Var. % |
| Coefficient of Hydroelectric Generability | | 0.41 | 0.81 | -0.40% |
| EDP Group Power Stations | | | | |
| Hydroelectric emission | SEP | 4,279 | 8,718 | -50.9% |
| Thermoelectric emission | SEP | 14,545 | 11,756 | 23.7% |
| Hydroelectric emission | SENV | 164 | 398 | -58.9% |
| Thermoelectric emission | SENV | 5,088 | 3,419 | 48.8% |
| Mini-hydroelectric emission | PRE | 90 | 141 | -35.9% |
| Wind Power emission | PRE | 348 | 237 | 46.9% |
| Biomass emission | PRE | 51 | 49 | 4.5% |
| Cogeneration emission | PRE | 671 | 656 | 2.3% |
| Net Generation by EDP Group | | 25,237 | 25,374 | -0.5% |
| Direct Sales to Industrial Customers | | -251 | -461 | 45.7% |
| Emission to Grid (EDP Group) | | | | |
| Other SEP producers | | 11,069 | 10,675 | 3.7% |
| Auto-generators Consumption | SEI | 5,643 | 3,858 | 46.3% |
| Balance of Imports / (Exports) | | 6,820 | 6,481 | 5.2% |
| Hydroelectric Pumping | | -568 | -408 | -39.3% |
| Consumption Expressed emission | | | | |
| Synchronic Compensation | | -29 | -35 | 17.4% |
| Own Consumption in Generation | | 5 | -8 | - |
| Own Consumption of Grid | | - | -10 | - |
| Losses | | -657 | - | - |
| Energy Delivered to Distribution | | 47,926 | 44,808 | 7.0% |

5.1.2.2. Generation Activity in Spain

The rising cost of fuels, particularly oil and gas, the low contributions made by hydroelectricity, the sustained growth in demand, lower output of nuclear and the start-up in 2005 of the emissions allowances scheme in accordance with the European Directive, combined to drive the annual average market pool price to EUR 55.7/MWh, an increase of 94 percent over 2004. Incorporating the technical costs of operating the system (restrictions, regulation, diversions) and the guarantee of supply, the final weighted price on the generating market for 2005 was EUR 62.4/MWh, its highest since market deregulation began. All European markets recorded similarly high prices during 2005.

Operation of the mainland Spanish system was constrained by the low input from hydroelectric generation, 19,515 GWh, 34 percent down on 2004. The coefficient of hydroelectric generability was 0.45, at the 98 percent confidence level. Reservoirs finished the year with a final storage of 36 percent, less than the 43 percent at which they had ended 2004. The decline was particularly notable in the hyperannual reservoirs, which ended the year at only 33 percent of capacity.

Nuclear generating totalled 53,166 GWh, 13 percent down on 2004. This, the lowest figure for several years, was the result of operational problems in certain power stations. Special regime generating, meanwhile, totalled 52,566 GWh, a 20 percent increase on the previous year. By type of generation, special regime came in third place behind coal and nuclear, representing more than 20 percent of the coverage of mainland Spanish consumption.

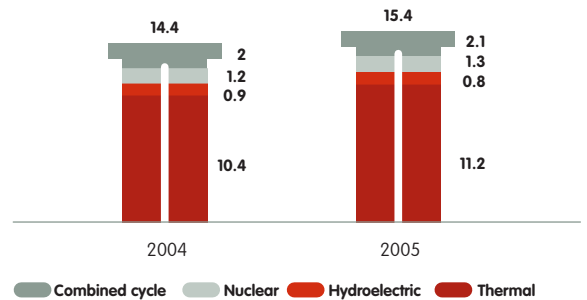
Within conventional thermal generating, coal recorded an increase of 1.5 percent over 2004, at 77,538 GWh, the second-highest figure of all time after the 78,768 GWh of 2002. Also noteworthy was CCGT generating which, with 46,448 GWh, was 66 percent up on 2004. If this is added to gas cogeneration in the Special Regime, gas is likely to become the main fuel of mainland Spanish generating. Finally, despite the strong growth in combined cycle generating, it was still necessary to rely on the contribution of fuel and gas-fired thermal power stations for 9,006 GWh, 16 percent more than in 2004.

Six new combined cycle units came on stream in 2005 with a total rating of 2,290 MW. By the end of the year, the combined cycle plant in operation totalled 11,400 MW and a further combined cycle five units totalling 2,390 MW were undergoing tests.

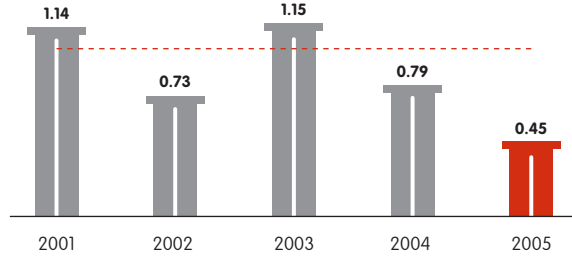
During 2005 the Normal Regime generating installations of HC Energía exceeded their previous record output with 15,372 GWh.

| Net Generation in Normal Regime | | HC Energía (100%) | |
|---------------------------------|---------------|-------------------|-------------|
| GWh | 2005 | 2004 | Var. % |
| Hydroelectric | 847 | 854 | -0.8% |
| Thermoelectric | 11,164 | 10,356 | 7.8% |
| Nuclear | 1,252 | 1,237 | 1.3% |
| Combined cycle | 2,109 | 1,961 | 7.5% |
| Electricity Generated | 15,372 | 14,407 | 6.7% |

Net Generation (TWh)



Hydroelectric Energy Capacity Factor in Spain



At 847 GWh, hydroelectric generation was very similar to the previous year's and close to that of an average year. It must be noted that with the very dry year in Spain, and the producer market prices, the pump storage power station at Tanes was generating intensively, totally 175 GWh of energy generated, of which 120 GWh of hydroelectric generating came from pumping. For this reason, Tanes was the most intensively used power station in the Spanish hydroelectric system.



Nuclear generation, from the holding in the Trillo Power Station, totalled 1,252 GWh. Trillo had an availability rate of 93.6 percent.

Coal-fired generation, 11,164 GWh, was 7.8 percent up on the previous year's total and also an all-time record for the Group. Within HC Energía's coal-fired units, Aboño 1 and Soto 3 exceeded their own record outputs. Aboño 1, which has now been in operation for 32 years, returned an availability rate of 99.7 percent.

In gas-fired generation, the Castejón 1 unit also beat its own record, with an availability rate of 97.5 percent.



Of the work on HC Energía's existing plant and new projects, the following are worthy of note:

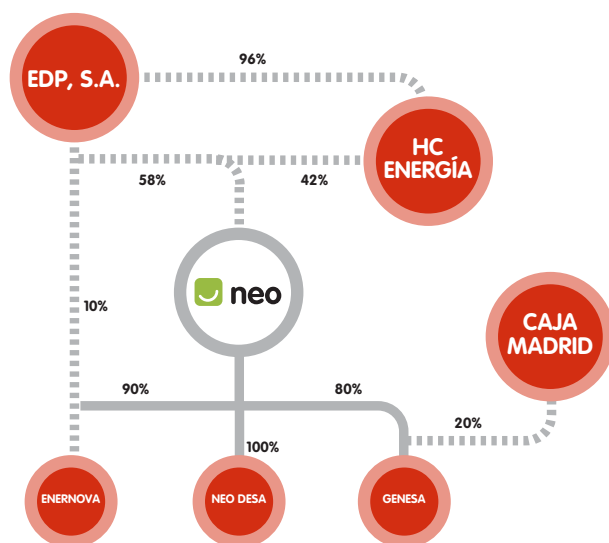
- A start on work on desulphurising units at Aboño 2 and Soto 3. This project is being undertaken jointly with EDP as one of the areas where synergies between the two groups have been identified;
- Also in collaboration with EDP Produção, the logical control system at Aboño 2 is being changed;
- The Ecoram project at Aboño 1, improving efficiency and raising capacity, was completed;
- A contract has been awarded to change the compressor and effect various other changes which will raise capacity at Castejón 1 to around 14 MW;
- The Environmental Impact Statement having been obtained, the prior administrative authorisation has been granted for the new Castejón 2 unit;
- Similarly, the Environmental Impact Statement has been obtained for the combined cycle units at Soto de Ribera.

5.1.3. Special Regime Generating in Iberia

5.1.3.1. NEO in the EDP Group

In renewable energy, the EDP Group has assumed an active role in the market and become one of the leading players, through NEO Energía, its recently created holding of renewables and its three part-holdings in Enernova (on the Portuguese market), Genesa and NEO Desa (both on the Spanish market). NEO Energía, which was created early in 2005, arises as the logical consequence of EDP's holding in HC Energía, and consolidates the EDP Group's position in the renewable energies sector in the Iberian Peninsula.

The chart below shows the organisational chart of the recently created structure for renewables within the EDP Group.



The expansion plan for NEO Energía is directed at having gross wind-powered capacity of around 2,750 MW in operation by 2010. This corresponds to a forecast Iberian wind-power market share of 11.5 percent in 2010. Currently NEO Energía is the third largest Iberian operator, alongside Endesa, with installed gross generating capacity of around 982 MW at 31 December 2005, and developing a portfolio of projects totalling some 1,750 MW gross.

Of these some 990 MW gross are under construction or at the advanced project stage, and 760 MW gross awaiting approval. In addition, the EDP Group currently has in operation 313 MW of biomass, cogeneration, waste and mini-hydros. Of these 127 MW are incorporated into NEO Energía through the holding in Genesa, and the remaining 186 MW are still directly held by Group member companies in Portugal.

NEO Energía has defined a strategy based on strengthening its position on the Iberian market, which is to be achieved by developing its portfolio of projects, acquisition of controlling holdings in companies already active in the market (by taking an active role in the process of mergers and acquisitions at Iberian level), by acquiring new licences under future public invitations to tender to be announced, and by exploiting opportunities arising from the review of Spain's energy plan.

In addition, NEO Energía has begun its plans for international expansion, and in 2005 completed the acquisition of three wind-farms (30 MW) in Brittany (France), and has been working on local contacts with a view to adding to its position in the European markets which are less mature and where there is high potential for growth.

| MW | 2005 | | 2004 | |
|---------------|----------------------|--------------------|----------------------|--------------------|
| | Gross ⁽¹⁾ | Net ⁽²⁾ | Gross ⁽¹⁾ | Net ⁽²⁾ |
| Portugal | 215 | 151 | 158 | 136 |
| Spain | 738 | 266 | 638 | 223 |
| Iberia | 952 | 418 | 796 | 359 |
| France | 30 | 30 | - | - |
| Total | 982 | 447 | 796 | 359 |

(1) Total installed capacity, irrespective of the percentage held.
 (2) Installed capacity contributing to gross operating results.

5.1.3.2. Activity in 2005

Portugal

During 2005, Enernova continued to implement the EDP Group's strategy of expansion in wind power, by developing its portfolio of own projects and buying into the projects of other promoters present in the Portuguese market.

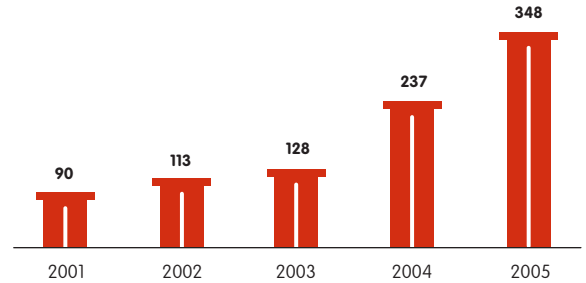
Worth noting is Enernova's participation in a consortium between promoters and a wind turbine manufacturer, established with a view to tendering in the competition being launched by the Portuguese government for the award of additional wind power capacity (800 to 1000 MVA) for the period 2008-2013.

Development of Enernova's own portfolio led to an increase over 2004 of 15 MW installed capacity, the result of the operational start-up of wind farms in Vila Nova (6 MW), in April, Alto do Talefe (1,5 MW), in August, Fonte da Quelha (1,5 MW), in September, and Pena Suar (6 MW), in November.

Within the scope of one of Enernova's partnerships the wind farm at Alagoa de Cima (13.5 MW) came into service in January. This is owned by Eólica da Alagoa, S.A., with a 40 percent stake held by Enernova.

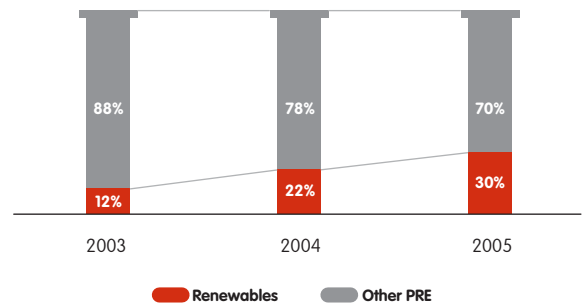
As a result, at the close of 2005 Enernova was operating 11 wind farms including Alagoa de Cima (5.4 MW), with 156.5 MW installed capacity. Electricity sales from the 11 totalled 380 GWh, including 348 GWh net for Enernova, 46.7 percent up on 2005.

Generation - Wind (GWh)



This growth meant an increase in wind power's share of total PRE in Portugal from 22 percent in 2004 to 30 percent in 2005.

Proportion of Renewables in PRE



As to the development of new wind power projects for Enernova's own portfolio, the situation at the close of 2005 was as follows:

- Under construction, the wind farms at Madrinha (10 MW) and Serra d'el Rei (21.71 MW), due to enter into service in the first and third quarters of 2006 respectively;
- Under award, the wind farms at Abogalheira (3.34 MW), Pedras Lavradas and Serra de Alvoaça (34 MW), planned to enter into service in the fourth quarter of 2006;
- Awaiting approval, 11 wind farms with a total planned capacity of 202 MW, some in partnership, for construction between 2006 and 2008.

The following wind power projects have been acquired on the Portuguese market:

- Purchase from a Spanish promoter of two companies owning wind farms at Ortiga (11.69 MW), under construction, and Safra (41.75 MW), in the final stages of approval, and both expected to enter into service in 2006 (first and final quarters respectively);
- Purchase of five companies from Tecneira (ProCME Group), owning 12 wind power projects with a total installed capacity of 120.7 MW. The development and construction of these projects will continue under the responsibility of Tecneira, and it is planned to begin the transfer of assets in January 2006 and complete it by the end of 2007. At the close of 2005 six of these wind farms, totalling 49.6 MW installed capacity, were in operation, whilst 33.1 MW were under construction and the remaining 38 MW were awaiting approval.

As a result, and counting wind farms in service, under construction and awaiting approval in the full portfolio of Enernova and the new acquisitions, installed or planned capacity totalled some 610 MW, corresponding to a market share of around 20 percent of the total capacity awarded in Portugal and planned for installation before 2008.

Spain

The year 2005 was also a very important one for the promotion and exploitation of renewable energy sources in Spain. Genesa maintained its steady pace in construction of the wind-farms in its own portfolio, whilst NEO Energía completed the purchase of various projects from other promoters present on the Spanish market. The most significant was the acquisition of Nuon España (now NEO Desa) in December 2005, when after a drawn-out sale process launched by the Dutch firm Nuon BV, NEO Energía succeeded in acquiring one of the most promising renewable energy firms in the Iberian peninsula.

Development of Genesa's own portfolio led to an increase over 2004 of 140 MW gross installed capacity, the result of the operational start-up of wind farms in Las Lomillas (49.5 MW), Sotenera (18.9 MW), Boquerón (22.0 MW) and Belchite (49.5 MW). As a result, at the close of 2005 Genesa was operating with a net 266 MW of the gross 464 MW total installed capacity. Electricity sales totalled 529 GWh. This growth meant a 91 percent increase compared with 2004.



As to the development of new wind power projects for Genesa's own portfolio, the situation at the close of 2005 was as follows:

- Under construction, wind farms at La Brújula (73.45 MW), Curiscao Pumar (73.1 MW) and Belmonte (34 MW), due to enter into service in the first and final quarters of 2006;
- Under award, wind farms at HoyaGonzalo (49.5 MW), Munera I and Munera II (70 MW), Era del Pico (14 MW), PeBeMa (100 MW), Dehesica (28.5 MW) and Navica (30 MW) planned to enter into service in the third quarter of 2007 and the first half of 2008;
- Awaiting approval, seven wind farms with a total planned capacity of 349 MW, some in partnership, for construction between the fourth quarter of 2006 and 2008.

The following wind power projects have been acquired on the Spanish market:

- Purchase from a Spanish promoter of IDER, S.L., owning wind farms with 114 MW awaiting approval and with entry into service expected in 2007 and 2008;
- Purchase of Nuon España, S.L., owner of more than 29 wind power projects with a total gross design capacity of 1,460 MW;
- At the end of 2005, 12 of these wind farms totalling 274 MW gross installed capacity were operational, with 91 MW under construction and the remaining 1,095 MW in the final stages of approval.

As a result, and counting wind farms in service, under construction and awaiting approval in the full portfolio of Neo Energia in Spain and the new acquisitions, installed or planned gross capacity totalled some 2,700 MW, corresponding to a market share of around 18 percent of the total capacity awarded in Spain and planned for installation before 2008.

5.1.3.3. Other Special Regime Generating in Portugal

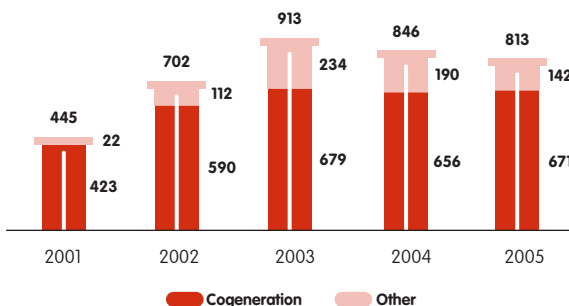
The net generation of hydro power stations under 10 MW, cogeneration power stations and the biomass power station at Mortágua, totalled 813 GWh, some 3.9 percent short of the 2004 total, principally as a result of the downturn in hydroelectric generation.

The CPPE holds a majority stake in the Soporgen and Energin Natural Gas Cogeneration Power Stations. Both are associated with the supply of heat and power to the Soporcel and Solvay Portugal industrial sites, and total 111 MW of installed capacity. At the close of the year they generated a total of 671 GWh, 2.3 percent up on 2004.

There was no change in installed hydro capacity, but the hydroelectricity generated fell sharply as a result of the low coefficient of hydroelectric generability in 2005.

The Mortágua Forest Waste Power Station, owned by EDP Produção Bioelétrica, S.A., (EDP Group's holding reduced to 50 percent from October) has installed capacity of 9 MW. Its availability and output in 2005 were the highest since the installations were commissioned, the result of improvements made at the station, in terms of technical equipment and also as regards the management of biomass. Net generation was 51.4 GWh, some 4.5 percent up on 2004, and in December the highest monthly output of all time was recorded. Availability was 85.5 percent, an improvement of some 4.1 percent on 2004, essentially because of lower unplanned non-availability. The biomass consumed totalled around 91,800 tonnes, mostly forest waste (96 percent).

Generation under Special Regime (GWh)



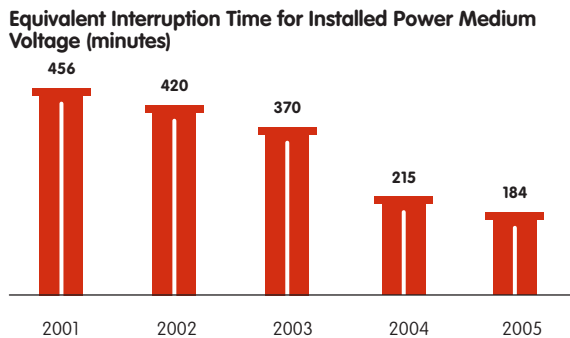
Note: Does not include wind power

5.1.4. Distribution

5.1.4.1. Distribution Activity in Portugal

Enhancing the Quality of Technical Service

As measured by the Equivalent Interruption Time for Installed Power (TIEPI) indicator, quality of service showed an excellent improvement on previous years, down from 215 minutes in 2004 to 184 minutes in 2005 (-14 percent). **The annual target of 215 minutes was achieved by a clear margin.**



The trend of the TIEPI was followed by the remaining general indicators of service quality on the medium- and low-voltage grids.

In addition to the favourable meteorological conditions, this improvement in service quality was due essentially to:

- The high levels of investment and maintenance effort of recent years, together with the combined effect of a number of technical and organisational measures begun a little over a year ago;
- A range of initiatives, including in particular the programme to improve the quality of technical service and the PROEDIS and "Learning Forum" Projects, which involved virtually all staff from the technical areas, in seeking out and implementing best practice, and efficient and effective ways of overcoming the main problems and bottlenecks identified at both technical and organisational levels. Regions of the country which had recorded lower quality levels were the subject of specific

improvement plans, comprising maintenance, restructuring and reinforcement, with effect on the grids involved and very dynamising results.

The Quality and Continuity of Current (QCT) on the distribution grid were evaluated in 2005 by means of the QCT Monitoring Plan as provided for in the Regulation on the Quality of Service (RQS). Monitoring concentrated on long-term observation in specific zones, with the aim of characterising the current in areas with a high concentration of certain types of industry or business activity. The programme proceeded according to plan, with monitoring in 159 installations, 15 of them continuously throughout the year and 144 for three-month periods, representing a total of 442,440 hours of QCT monitoring of installations and networks. This approach is consolidating the company's understanding of QCT on the grid, with a view to ensuring that all customers benefit from an electricity supply offering high levels of quality.



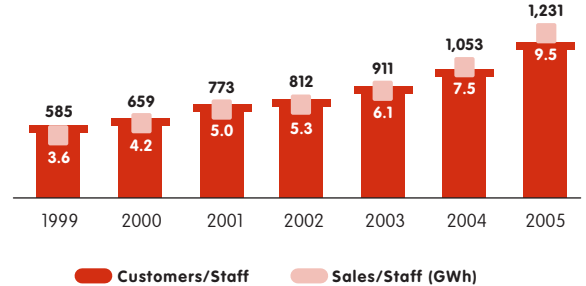
Demonstrating the company's social responsibility and principles of sustainability, the agreement between EDP Distribuição, the Portuguese Nature Conservation Institute (ICN), Quercus and the Portuguese Bird Society (SPEA), was renewed. This agreement is aimed at studying and minimising the effects of high- and medium-voltage lines on birdlife in order to permit the completion of work currently under way. The year 2005 saw the holding of an "International Conference on Birdlife and Overhead Power Lines" marking the first two years of the partnership between the ICN, EDP Distribution, SPEA and QUERCUS.



Ensuring the efficiency of operations

Increasing operating efficiency allowed us to serve a greater number of customers and supply more energy with fewer staff. The ratio of customers to staff, which is widely used as a measure of productivity in distributive enterprises, rose from 586:1 in 1999 to 1,281:1 in 2005. After adjustment for the transfer of 814 staff to other companies in the Group, the figure for 2005 was 1,089 customers for each member of staff, with 8.1 GWh of energy distributed per staff member.

Operating Efficiency of EDP Distribuição (SEP+SENV)



During 2005, EDP maintained cordial and constructive relations with the National Association of Portuguese Municipalities, whilst at the same time seeking solutions to the problems raised by numerous municipalities relating to institutional questions or their own concession contracts. Particularly noteworthy was the renewal of low-voltage concession contracts with the municipalities of Viana do Alentejo, Castro Marim and Maia. In this last case, it was also possible to agree on recovery of the debt from the period before the municipal low-voltage grid was incorporated within EDP.

5.1.4.2. Distribution Activity in Spain

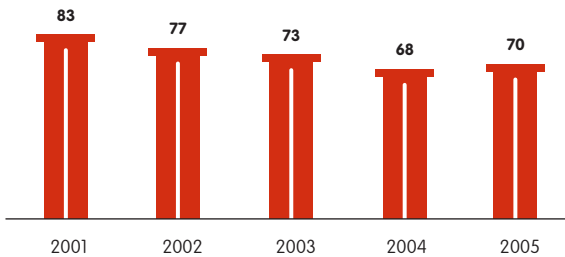
Electricity distribution in 2005 reached a total clientele of 584,922, of whom 3.42 percent were at access tariff. This indicates net growth of 13,283 customers year-on-year. Energy distributed totalled 9,247 GWh, up 2.5 percent on the previous year.

| Electricity Distribution | HC Energía (100%) | | |
|--------------------------|-------------------|--------------|-------------|
| | 2005 | 2004 | Var. % |
| High voltage | 5,788 | 5,692 | 1.7% |
| Medium voltage | 1,116 | 1,043 | 7.0% |
| Low voltage | 2,343 | 2,288 | 2.4% |
| Total | 9,247 | 9,023 | 2.5% |

Quality of supply indicators for both transmission and distribution maintained the excellent levels of previous years. The TIEPI was computed at 70 minutes, slightly higher than in 2004, but still below earlier years. **Once again, HC Energía recorded the best TIEPI of all Spanish supply companies.**

Total investment attained EUR 40 million, 40 percent of which represented installations directly connected with the signing of new customers, 20 percent investment in developing new markets and the remainder investments in infrastructure, automation and improvements in existing installations needed for quality plans or for the security of the installations themselves.

Equivalent Interruption Time for Installed Power (minutes)



As regards the transmission grid, the availability index was 99.7 percent, with practically all non-availability previously planned. No interruptions in service were recorded for customers connected to this grid, as a result of which the values for energy not supplied and mean interruption time is zero.

| | Electricity Customers (TI+TA) | | Var. % |
|----------------|-------------------------------|----------------|-------------|
| | 2005 | 2004 | |
| High voltage | 21 | 20 | 5.0% |
| Medium voltage | 819 | 757 | 8.2% |
| Low voltage | 584,082 | 573,783 | 1.8% |
| Total | 584,922 | 574,560 | 1.8% |

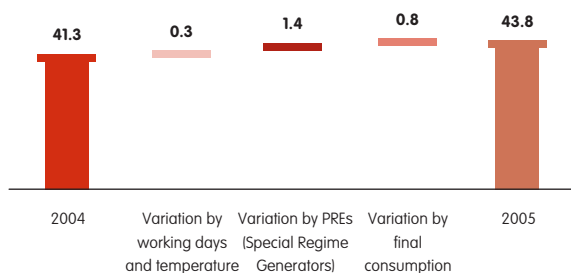
Distribution activity outside the Asturias region grew, and the number of customers in the Alicante, Valencia and Madrid areas now totals 7,136 with total energy distributed of 186 GWh and maximum contracted supply of 90 MW in all. It may be noted that these three areas account for 23 percent of the increase in distribution business clientele, and that they are still at a low level of saturation and will accordingly remain the main focus of growth in coming years.

5.1.5. Supply

5.1.5.1. Supply Activity in Portugal

In 2005, the global volume of energy distributed rose by 6.0 percent. Some of the rise was attributable to weather conditions – according to REN estimates, this accounted for around +0.7 percent of consumption. At the same time, a steep rise continued in the reception of energy from Special Regime Generators. In the case of cogeneration this was mainly the result of a large number of cogenerators signing up to the option to sell the totality of their installations' output to the SEP, following the publication of Ministerial Order no. 399/2002. This alone accounts for an increase of 3.4 percent in the consumption passing through the EDP Distribuição grid, with a corresponding decline in own consumption.

Variation in Electricity Consumption (TWh)



In this context, the underlying growth in consumption was a matter of only 1.9 percent, and can be linked principally to the weak growth in economic activity.

| Energy Balance | EDP Distribuição | | |
|--|------------------|--------|----------|
| | 2005 | 2004 | Var. % |
| Energy delivered to the distribution grid | 47,268 | 44,808 | 5.5% |
| Own consumption by distribution | -25 | -29 | 12.0% |
| Sales to EDP Group power stations | -22 | -13 | -71.9% |
| Distribution losses | -3,437 | -3,451 | 0.4% |
| Energy living the distribution grid⁽¹⁾ | 43,784 | 41,315 | 6.0% |
| SEP energy sales | 34,164 | 34,552 | -1.1% |
| Very high voltage | 1,265 | 1,222 | 3.5% |
| High voltage | 5,148 | 4,340 | 18.6% |
| Medium voltage | 5,091 | 6,506 | -21.8% |
| Special low voltage | 2,347 | 3,155 | -25.6% |
| Low voltage | 19,013 | 18,112 | 5.0% |
| Public lighting | 1,299 | 1,218 | 6.7% |
| Energy supplied by the SENV | 9,621 | 6,763 | 42.3% |
| EDP Group customers | 6,314 | 4,381 | 44.1% |
| Very high voltage | 37 | 0 | - |
| High voltage | 98 | 25 | 288.6% |
| Medium voltage | 5,488 | 4,337 | 26.5% |
| Special low voltage | 691 | 19 | 3,508.8% |
| Other customers | 3,306 | 2,381 | 38.8% |
| Very high voltage | 0 | 0 | - |
| High voltage | 46 | 24 | 92.8% |
| Medium voltage | 3,000 | 2,343 | 28.0% |
| Special low voltage | 260 | 14 | 1,726.7% |

(1) Sales to EDP Group for final consumption included as sales to the SEP

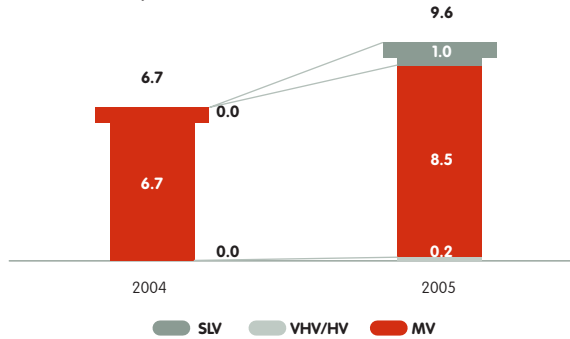
Non-Binding Supply

The regulatory framework for the electricity sector was amended in 2005 with the aim of facilitating the total deregulation of the market. The changes affected Commercial Relations, Tariffs and Access Regulations to Networks and Interconnections.

One of the most significant consequences of the changes resulted from the creation of the concept of "Supplier" of electricity, allowing players in the market the unlimited right to exercise this activity from companies based in Portugal. As a consequence the EDP Group, though its subsidiary EDP Comercial, ceased to trade as a Non-binding Producer on the deregulated market, and became a Supplier.

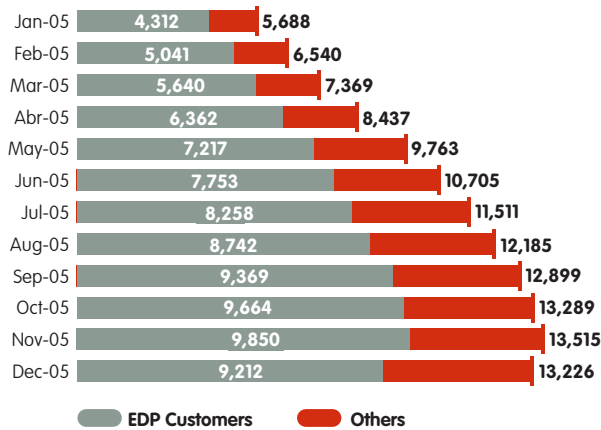
At the close of 2005, SENV customers were being supplied with very high, high and medium voltages, and special low voltage at a total of 13,226 installations representing total consumption of 9.6 TWh. This represented an increase of 173 percent in customers and 42 percent in energy over 2004.

SENV Consumption (TWh)



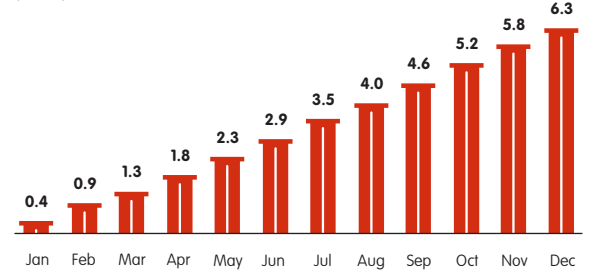
The final months of 2005 saw a slow-down in the rate of new customers entering the market system. This was attributable to the rising acquisition cost of energy, following the steep price rise on the Spanish "pool" (the principal reference for prices at Iberian level) which resulted in a loss of competitiveness on the open market vis-à-vis the regulated market.

SENV Customers



At the close of the year EDP Comercial was supplying 9,212 customers and had sold a total 6.3 TWh. This represented an increase of 155 percent in customers and 44 percent in energy over 2004.

Energy Sold - EDP Comercial (TWh)



Competitive pressure rose during the year with the entry of a new player, Union Fenosa. Despite this, EDP Comercial maintained a fairly stable market share of around 66 percent.

| EDP Comercial | | 2005 | 2004 |
|-----------------------------------|--|--------|-------|
| Sales GWh - SENV | | 9,621 | 6,763 |
| | | 100% | 100% |
| EDP Comercial | | 6,314 | 4,381 |
| Other suppliers | | 3,306 | 2,381 |
| | | 66% | 34% |
| Number of customers - SENV | | 13,226 | 4,838 |
| | | 100% | 100% |
| EDP Comercial | | 9,212 | 3,616 |
| Other suppliers | | 4,014 | 1,222 |
| | | 70% | 25% |

During 2005, EDP Comercial consolidated its activities in a number of areas, allowing the company to respond more adequately to the demands of an increasingly competitive market:

- As part of its strategy of differentiated marketing, the development and marketing of its portfolio of energy services contributed to better operational returns on their electrical equipment for customers through lower energy costs, thus enhancing the value offered to customers;
- In relations marketing, a wide range of "one-to-one" actions were developed, aimed at improving our understanding of the customer and ensuring closer relations by seeking to offer more personalised service and obtain greater customer loyalty;

- The development of information systems and processes was heavily marked by organisational changes within the Group, notably the transfer of all operations in the invoicing and collection cycle to EDP Soluções Comerciais;
- Organisationally, the new company structure was formalised. It is hoped that this will allow the company to respond efficiently and rapidly to needs arising from the EDP Group's strategy for action in the deregulated market.

Accordingly, during 2005, the EDP Group continued to consolidate its leading position as electricity supplier in the SENV and as benchmark company in the various areas of the electricity market in Portugal.

Binding Supply

From the outset, a steady improvement in the quality of service to customers has guided the work of EDP Distribuição. Accordingly, measures have been adopted continuously to allow us to achieve our objectives, which can be summed up as more and better service.

In this context, as a result of the efforts deployed throughout the year, there has been a sustained improvement in the quality of service to customers, expressed in attaining the supply service quality indicators set out in the Service Quality Regulations (RQS):

- Estimates for low-voltage lines and connections within 20 working days;
- Works for low-voltage lines and connections within 20 working days;

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

During 2005, EDP Distribuição continued to invest in a range of measures and actions intended to consolidate the image by which customers and the market in general identify and recognise the company: efficiency, professionalism, credibility, reliability, integrity, readiness and environment-friendliness.

With the forthcoming opening of the non-bound market to standard low-voltage customers, activities were principally focused on earning customer loyalty. They included:

- Completion of the programme of changing image and layout of EDP stores;
- Adoption in the "front-office" of EDP uniform, thus harmonising the appearance of all staff responsible for dealing with customers;
- Extending the new EDP image to staff, with the adoption of the equipment and logo associated with the new brand image;

- Implementation in stores of a new customer segmentation and queuing management system allowing quicker and fairer service;
- Introduction in certain stores of machines for the automatic payment of electricity bills, making it possible for the customer to seek service only when he/she needs it;



- Adoption of a new standard contract, which in addition to enhancing customer satisfaction has allowed partnerships to be consolidated and ensured appropriate EDP representation across Portugal;
- Dynamising customer relations by distributing newsletters, publishing leaflets with commercial information and participating in various trade fairs and exhibitions;
- Continued development of the Internet page, with new content and functions, giving the customer quick access to EDP itself as well as information.

Bound supply business remains influenced by the steady switching of customers to the SENV. Thus, although the number of SEP customers rose by 1.3 percent, there was a 1.1 percent shortfall in electricity sales.

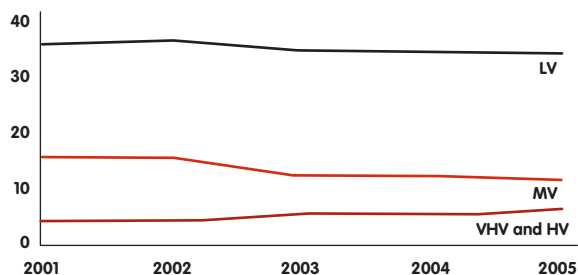
| | Customers and Electricity Sales in the SEP | | | EDP Distribuição | | |
|---------------------|--|------------------|-------------|--------------------------------------|---------------|--------------|
| | Number of customers ¹ | | | Electricity sales (GWh) ² | | |
| | 2005 | 2004 | Var.% | 2005 | 2004 | Var.% |
| Total | 5,894,139 | 5,818,504 | 1.3% | 34,164 | 34,552 | -1.1% |
| Very high voltage | 16 | 20 | -20.0% | 1,265 | 1,222 | 3.5% |
| High voltage | 157 | 154 | 1.9% | 5,148 | 4,340 | 18.6% |
| Medium voltage | 16,600 | 18,184 | -8.7% | 5,091 | 6,506 | -21.8% |
| Special low voltage | 22,036 | 27,306 | -19.3% | 2,347 | 3,155 | -25.6% |
| Low voltage | 5,809,699 | 5,728,865 | 1.4% | 19,013 | 18,112 | 5.0% |
| Public lighting | 45,631 | 43,975 | 3.8% | 1,299 | 1,218 | 6.7% |

¹ Includes the EDP Group

² Includes sales to the EDP Group for final consumption

As regards sales by type of voltage, there was a steep decline in medium voltage and special low voltage, the result of customers switching to the SENV. This explains the falls of 21.8 percent and 25.6 percent respectively in SEP sales in these segments compared with 2004.

SEP Electricity Sales by Voltage Level (TWh)



The quantity of electricity entering the grid in 2005 was up by 5.5 percent. At the same time, the energy acquired for SEP consumption was down 1.5 percent, the result of customers switching from the SEP to the SENV.

| GWh | Energy Purchase | | EDP Distribuição | |
|--------------|-----------------|---------------|------------------|--|
| | 2005 | 2004 | Var.% | |
| For SEP | 37,178 | 37,757 | -1.5% | |
| REN | 29,961 | 30,342 | -1.3% | |
| SENV | 902 | 2,933 | -69.2% | |
| PRE | 6,314 | 4,482 | 40.9% | |
| For SENV | 10,091 | 7,051 | 43.1% | |
| REN | 10,091 | 7,051 | 43.1% | |
| Total | 47,268 | 44,808 | 5.5% | |

5.1.5.2. Supply Activity in Spain

In mainland Spain, consumption expressed as output (i.e. the energy put out to the grid) in 2005 totalled 245 TWh, up 4.2 percent on 2004, or 3.1 percent after adjustment for the effects of availability and temperature. This was the smallest rise of the past six years, and was attributable to the exceptional increases in the first two months of the year (9.2 percent) and December (7.5 percent).

Peak hourly consumption occurred on 27 January, at 43,378 MW, an increase of 5,650 MW (15 percent) over the peak of 2004 (37,724 MW). This exceptional value was due to the weather.

In Distribution, the high prices recorded on the generating market, together with the limitations resulting from the regulated market, triggered problems in deregulated activity. Total energy acquired by distributors and qualified customers on the spot market in 2005 was 80,889 GWh, but it should be noted that during the final two months of the year certain players began to contract bilateral deals in significant quantities.

A strategic analysis was carried out in 2005 to position the Group's commercial activity in the Iberian market. As a result, organisational changes brought the following directorates into existence:

- B2B Directorate (Businesses);
- B2C Directorate (Domestic and Business);
- Marketing Directorate;
- Commercial Solutions Directorate.

Also significant in 2005 was the change of brand intended to unify the Group's commercial image. The new brand, launched on 26 July 2005, was welcomed and already forms part of the company's culture.

Energy sold to end customers totalled 3,942 GWh, up 6.7 percent on 2004.

Commercial strategy focused on winning new business customers, given their greater market potential and wider net margin. Energy sold on the large business market was 44 percent up on 2005, and in the small business market, 120 percent. Major customer business, on the other hand, was slightly down (-4 percent).

At December 2005, the number of large business and major customers was 3,838.

5.1.6. EDP / HC Energía Synergies

EDP's move to strengthen its holding in HC Energía, completed on 16 December 2004, represented an important step in the expansion of EDP activity on the Spanish market in anticipation of the start-up of the MIBEL.

Complementing this, the consolidation of EDP and HC Energía induced a dynamic of cost-reducing synergies in both generating and distribution, through economies of scale and the optimisation of investment on the two sides of the border, which was a determinant in justifying this acquisition in economic terms.

Thus, during the preparatory phase of the acquisition process, a preliminary estimate was carried out of the potential synergies to be exploited; as part of the rationale of the acquisition, they were communicated to investors and analysts.

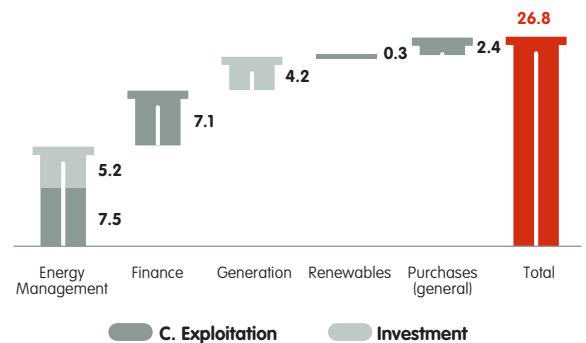
Once the terms of the deal had been agreed, Project Sinergias was set up as an internal project covering both companies, with the aim of achieving the savings thus identified for the three-year period 2005-2007, along the following lines:

- Synergies through economies of scale:
 - Resulting from aggregated volumes;
 - Resulting from arbitrage between purchase prices available on the two sides of the border;
- Synergies through the implementation of best practice;
- Synergies through the creation of new businesses – renewables and energy management – joint organisational structures, avoiding their duplication.

On conclusion of the task of identifying and quantifying the synergies, it was decided to seek the assistance of an external auditor (KPMG) to verify and certify the quantification methodologies, the amounts and the impact of the savings thus obtained on financial results.

The decision was made to direct the work of the auditor only to those synergies obtained through economies of scale, since these could be estimated and verified more directly and with less room for contestation. For 2005, the value of synergies was EUR 26.8 million, exceeding even the EUR 19.4 million notified to the market when the operation was being prepared.

Synergies in 2005 (EUR millions)



The synergies thus identified resulted from alignment of policy and action in the principal organisational areas. The figures from the Energy Management Business Unit, it must be stressed, are essentially the fruit of concerted action in the purchase and sale of fuels and electricity; those in finance from the debt restructuring of HC Energía, and those in generating from the joint award of environmental improvement projects.

In addition, synergies worth a total EUR 49.9 million were identified with forecast impacts in the financial statements of 2006 and 2007. These synergies, likewise verified by the Auditor, result from responsibilities assumed in 2005 vis-à-vis third parties in the context of decisions relating to investments or supplies whose effects will be felt in the next two years.

| Synergies | | | |
|----------------------|-------------|-------------|-------------|
| EUR millions | 2006 | 2007 | Total |
| Generating | 15.0 | 12.9 | 27.9 |
| Finance | 5.3 | 4.4 | 9.7 |
| Wind Power | 7.7 | - | 7.7 |
| Purchasing (general) | 1.2 | - | 1.2 |
| Total | 31.2 | 18.8 | 49.9 |

Looking at the broader picture encompassing synergies other than those deriving exclusively from economies of scale, the alignment of positions and adoption of best practice, notably in fiscal matters, should raise the total savings in 2005 to around EUR 50 million.

Information Systems was not an area verified by the Auditor, since during the period in question a strategic plan for Information Systems was being defined. This aimed at establishing a convergent architecture at the pan-Iberian level. That plan completed, synergies evaluated at EUR 6 million for the period 2006-2008 were identified.

5.2. Gas Business in Iberia

5.2.1. Positioning of the EDP Group

The natural gas markets of Portugal and Spain share certain features: high growth and relatively low penetration rates, both characteristic of markets in an early stage of development and thus offering fairly high potential.

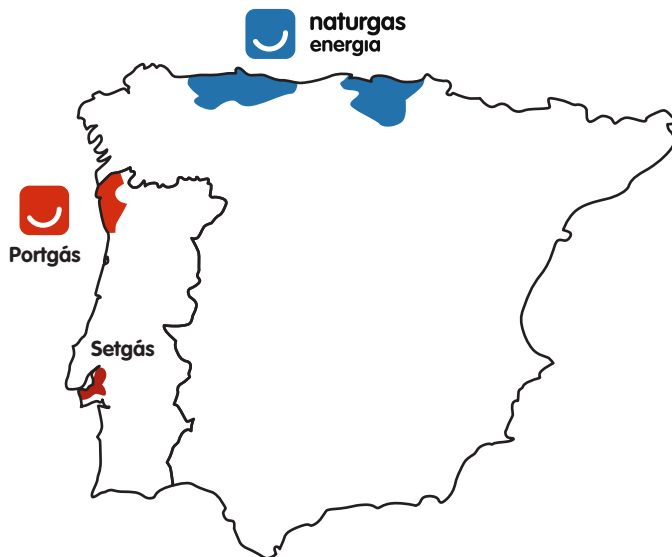
That potential must be seen in the context of the policies defined for the sector, notably in terms of deregulation and business restructuring.

In Spain, the market is consolidating its process of deregulation, with customers transferring gradually from the regulated to the open market. In Portugal, in 2005 the sector was still a lawful monopoly, although the government had meanwhile taken measures towards gradual opening to competition, notably by approving a new National Strategy for Energy⁽¹⁾ and by approving, in the Council of Ministers, the Decree-Law

establishing the general principles for the organisation and workings of the Portuguese Natural Gas System which, for practical purposes, transposes into Portuguese law the EU Directive on the sector⁽²⁾.

In this context, throughout the year EDP strengthened its position as second largest operator in the natural gas business in Portugal and Spain. In both countries, through its subsidiaries, Portgás and Naturgas Energia⁽³⁾, it is second behind the incumbent operator.

In 2005, EDP was responsible for the supply of 35.5 TWh (3.05 billion cubic metres – bcm) of natural gas to a total 700,000 customers, generating turnover of around EUR 760 million and a gross operating result of EUR 140 million. To this end, EDP has assets of around EUR 1.5 billion and a staff of 455⁽⁴⁾.



| | Portugal | Spain |
|--------------|----------|-------|
| Transmission | n.a. | |
| Distribution | | |
| Supply | | |
| Regulated | | |
| Open | n.a. | |

¹ Council of Ministers Resolution no. 169/2005.

² Decree-law not yet published.

³ EDP has a Stake in Setgás, through a holding shared with the Koch Group, which holds 33 percent of the company.

⁴ Including 100 percent of subsidiaries.

As regards holdings, there were two events in 2005 of importance for EDP's future position in the natural gas sector:

- Signature of a contract with Endesa Gás, for the acquisition of Endesa's indirect holdings in Portgás and Setgás, thereby allowing EDP to raise its holdings in the two companies to 72.0 percent and 19.8 percent, respectively;
- Signature of a contract with Grupo Américo Amorim for the sale of EDP's holding in GALP Energia (14.3 percent), thus adapting our company's holdings structure to the new guidelines adopted by the government for the energy sector, which aim to ensure the existence of more than one integrated gas and electricity operator in a competitive environment.

Finally, it should be noted that EDP, across its range of energy-generating and gas supply businesses, holds a portfolio of gas contracts totalling more than 3 bcm, with diversified origins and complementary terms of flexibility, which, in the prospect of gradual deregulation and integration of markets, allows ever-greater efficiency in portfolio management.

Principal Indicators 2005

Gas Business in Iberia (100 percent)

| | |
|--|--------------|
| Number of Customers (thousand) | 700.0 |
| Regulated Distribution | 605.5 |
| Supply | 94.5 |
| Kms Network (kms) | 7,218 |
| Transmission Network | 246 |
| Distribution Network | 6,972 |
| Volume of Natural Gas (million m ³) | 3.05 |
| Distributed | 2.03 |
| Supplied | 1.01 |
| Volume of Natural Gas (TWh) | 35.3 |
| Distributed | 23.5 |
| Supplied | 11.8 |
| Total Assets (EUR millions) | 1,658 |
| Turnover (EUR millions) | 751 |
| Gross Operating Results (EUR millions) | 137 |
| Total Staff | 444 |

5.2.2. Portgás

Portgás holds the exclusive natural gas supply concession for the 29 municipalities in the districts of Oporto, Braga and Viana do Castelo.

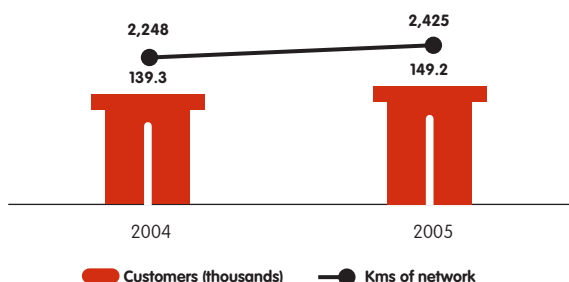
It is the second-largest regional distributor in the Portuguese system, serving a total of some 150,000 customers, and supplying 185,000 cubic metres of gas.

The distribution network of Portgás totals 2,430 km, including 275 km primary and the remainder secondary. This represents a significant part of the company's assets of EUR 290 million.

EDP's partners in Portgás are Gaz de France and Elyo, each holding around 12.5 percent of capital.

During 2005, Portgás maintained its efforts to extend its coverage in the concession area, investing some EUR 15 million and extending the supply network by 8 percent and the customer base by more than 7 percent.

Portgás - Customers and Network



| Principal Indicators | Portgás | | |
|---|---------|-------|--------|
| | 2005 | 2004 | Var. % |
| Number of Customers ('000) | 149.2 | 139.3 | 7.1% |
| Kms Network (kms) | 2,425 | 2,248 | 7.9% |
| Volume of Natural Gas (millions de m ³) | 0.185 | 0.175 | 5.7% |
| Volume de Natural GWas (TWh) | 2.2 | 2.0 | 5.7% |
| Total Assets (EUR millions) | 290.8 | 283.5 | 2.6% |
| Turnover (EUR millions) | 82.3 | 68.0 | 21.0% |
| Gross Operating Results (EUR millions) | 31.0 | 24.6 | 26.0% |
| Número de Colaboradores | 99 | 98 | 1.0% |

5.2.3. Naturgas Energia

New image

In May 2005, NaturCorp launched its new image, changing name and brand to Naturgas Energia and at the same time launching the dual offer of gas and electricity. The aim of these changes was to align the company internally and integrate it more in the corporate image of the EDP Group.

With the launch of the dual offer, Naturgas Energía positioned itself as an integrated energy supplier, offering its customers both gas and electricity. The target of 10,000 new customers was clearly exceeded.

Organisation and Regulation of the Gas Sector

The year 2005 was the third year of market opening for all consumers in the gas sector, which continues to expand as regards numbers of both consumers and supply points.

In 2005, the number of supply points rose by 5 percent to total more than 5.9 million. Notable was the steep rise in the number of low-pressure customers migrating from the regulated to the deregulated market, with the result that at the close of 2005 the number of deregulated market customers was nearing 2.2 million, or around 37 percent of all gas market customers, with a consumption of 315 TWh, or 82 percent of total annual consumption.

Distribution Activity

This global trend on the market was reflected in the customer distribution and market sales of Naturgas Energía. The significant fall in the number of tariff customers followed a campaign in the Basque Country and resulted in a reduction of around 107,941 customers who switched to the open market. As a result, the number of tariff customers declined by 19 percent to 456,000.

Supply points

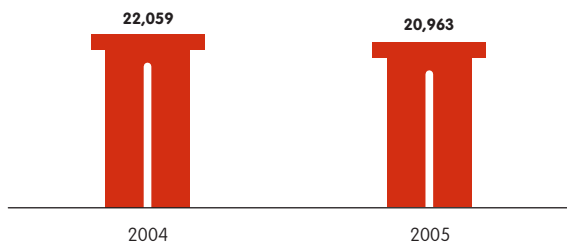


| Gas Distribution (TI + TA) | | Naturgas Energia | |
|-------------------------------------|----------------|------------------|-------------|
| Supply points | 2005 | 2004 | Var.% |
| Total Supply points TI | 456,269 | 564,210 | -19.1% |
| P<=4 Bar | 456,086 | 563,983 | -19.1% |
| P>4 Bar | 183 | 227 | -19.4% |
| Total Supply points TA | 143,635 | 13,592 | 956.8% |
| P<=4 Bar | 143,125 | 13,120 | 990.9% |
| P>4 Bar | 510 | 472 | 8.1% |
| Total TI + TA ⁽¹⁾ | 599,904 | 577,802 | 3.8% |

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

This decline in the number of tariff customers was compensated by a rise in the number of access tariff customers. This rose 10.5 times over, although the volume of energy supplied through the network was down by 2.3 percent compared to 2004, principally as a result of reduced consumption by the thermal electricity generating station connected to the networks

Energy distributed (GWh)



| Gas Supply (TI + TA) | | Naturgas Energia | |
|-------------------------------------|---------------|------------------|--------------|
| Supply points | 2005 | 2004 | Var.% |
| Total de GWh TI | 6,998 | 7,227 | -3.2% |
| P<=4 Bar | 5,214 | 5,353 | -2.6% |
| P>4 Bar | 1,784 | 1,874 | -4.8% |
| Total de GWh TA | 14,549 | 14,832 | -1.9% |
| P<=4 Bar | 619 | 265 | 133.6% |
| P>4 Bar | 13,930 | 14,567 | -4.4% |
| Total TI + TA ⁽¹⁾ | 21,547 | 22,059 | -2.3% |

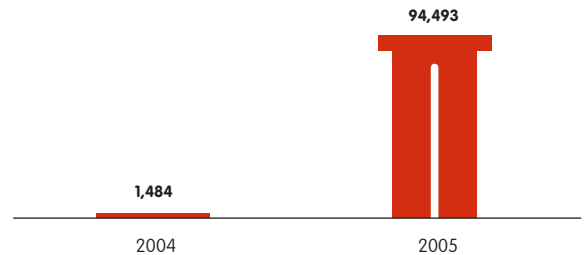
(1) Gas supplied including 100% of subsidiary holdings

Supply Activity

The year 2005 saw significant customer migration from the regulated market to the open market, the result of the campaign run in the Basque Country which had a target of 100,000 new customers.

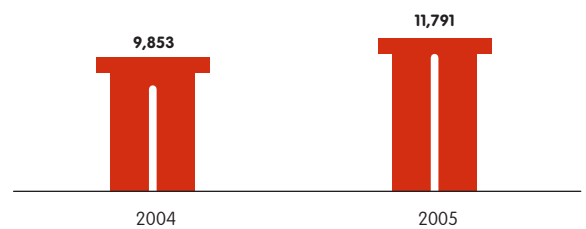
The relative change resulting from this migration is very high.

Supply Points



Similarly, as regards the volume of energy supplied, the annual increase was 19.7 percent compared with 2004.

Energy supplied (GWh)



5.3. Electricity Business in Brazil

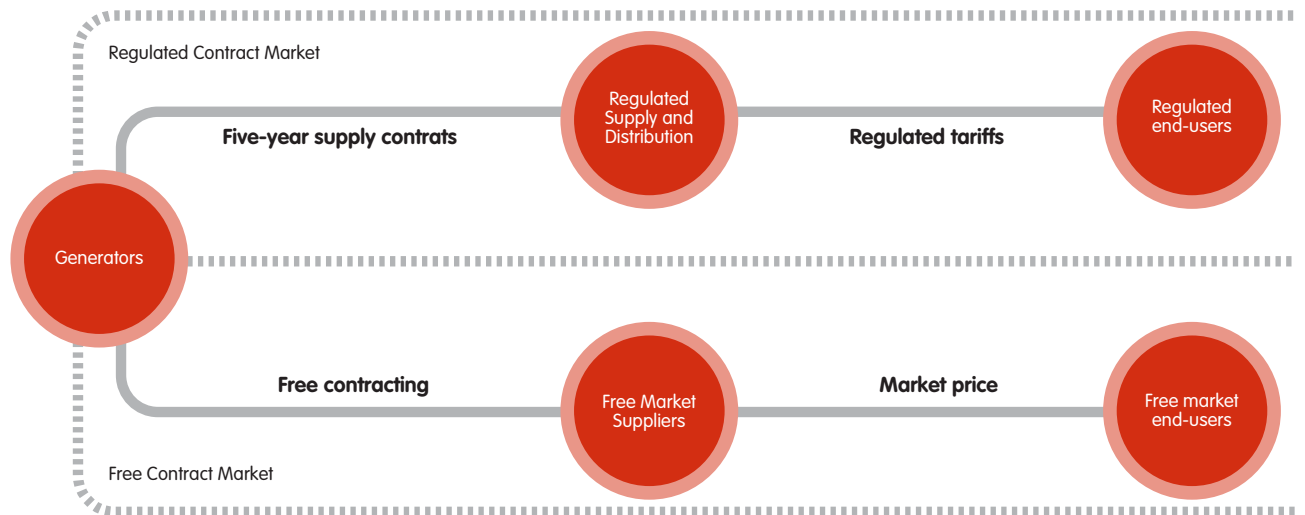
5.3.1. Institutional Structure of the Electricity Sector in Brazil

On 15 March 2004, the Federal Government promulgated Law no. 10,848 in an effort to restructure the electricity sector with the aim of providing incentives to private and public-sector agents to construct and maintain generating capacity, and assure energy supplies at moderate tariffs, through competitive public auctions of energy.

This law, known as the Law on the New Structure of the Electricity Sector, was interpreted by decrees issued beginning in May 2004, and further regulation by the National Electricity Agency (ANEEL) and the MME. The main features of the new law include:

- The creation of two separate markets for the supply of electricity, the first, called the Regulated Contract Market, aimed at the provision of energy to distributors by means of auctions, and the second with more flexible supply rules for generators, non-regulated consumers and energy distributors, called the Free Contract Market;

- The requirement on distribution enterprises to acquire sufficient energy to satisfy 100 percent of their market;
- The existence of physical generating capacity for all the energy marketed in contracts;
- The stated need to deverticalise enterprises, separating generating, transport and supply functions, within 18 months from the entry into force of Law no. 10,848, and at most after one further 18-month period subject to the approval of ANEEL;
- Restrictions on self-dealing, i.e. suppliers' purchase of electricity from related parties;
- Compliance with the contracts signed before the New Structure Law was announced, in order to guarantee stability to deals negotiated prior to its promulgation;
- Prohibition on suppliers selling electricity to open market consumers at unregulated prices.



During this transitional phase, on 7 December 2004 and in accordance with the rules of the New Structure of the Electricity Sector law, an electricity auction was held for existing enterprises, its purpose being the purchase of energy from enterprises already in operation, to meet the market needs of suppliers from January 2005, 2006 and 2007, all contracts being for eight years. A second such auction was held on 2 April 2005 for existing enterprises, for supplies beginning in 2008, likewise under eight-year contracts.

The regulatory climate remains influenced, in 2006, by the consolidation of the new structure, with regulations expected on, inter alia, the requirement to present available capacity; operational effect of criteria for passing on electricity acquisition costs by suppliers, which is guaranteed by the law; incorporation of private grids in suppliers' assets; etc.

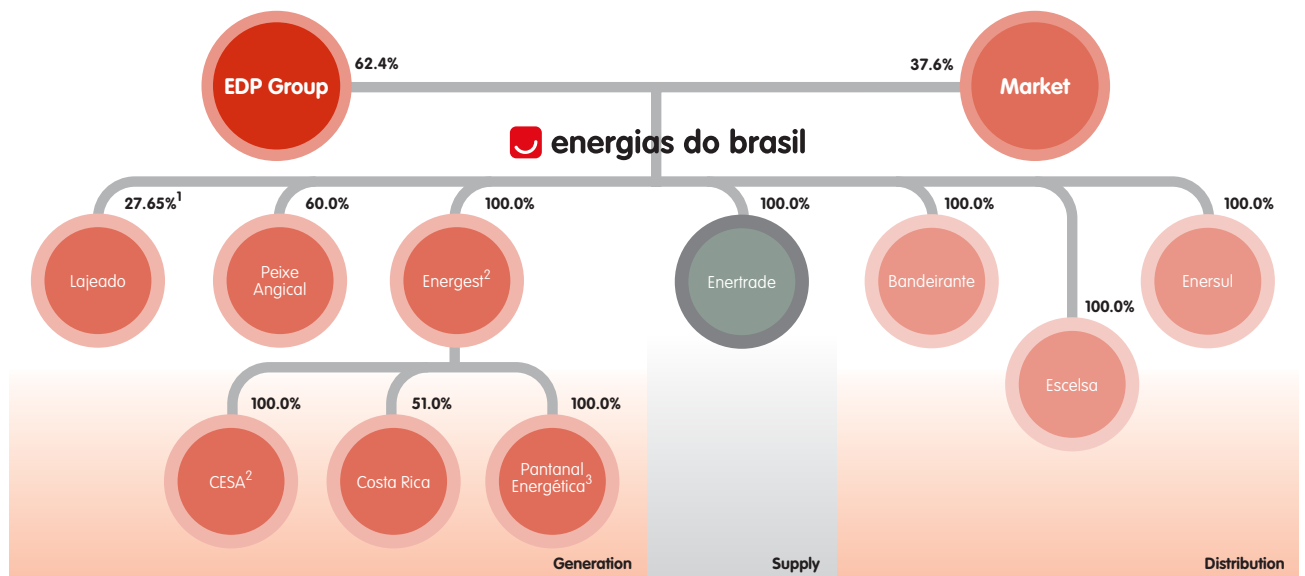
5.3.2. Positioning of the EDP Group

For Energias do Brasil, 2005 was marked by a comprehensive restructuring. In a coordinated process, the following measures were adopted to consolidate the bases of a company whose ambition is to be the benchmark in Brazil's energy sector.

Corporate Restructuring

April saw the approval of a restructuring with the following aims:

- Simplify business structure;
- Improve the exploitation of synergies between distribution, generating and supply, giving more potential to the creation of value;
- Permit fiscal exploitation of the goodwill written up on the acquisition of Enersul and Escelsa;
- Facilitate the process of deverticalisation of assets, as required by the new law regarding the sector;
- Promote visibility, concentration and greater liquidity on the capital market.



¹ Floating capital representing the percentage of energy produced held by Energias do Brasil - ² Includes assets generated by Escelsa - ³ Includes assets generated by Enersul

This restructuring, begun in 2004, made it possible to give a renewed corporate logic to all the companies within the group, as well as enhancing corporate governance.

The change was implemented after an extensive information campaign directed at the minority shareholders in the suppliers Bandeirante, Escelsa and Enersul, as well as Iven and Magistra – two companies created for the purchase of Enersul and Escelsa. Iven held 52.27 percent of Escelsa, which was the sole shareholder of Magistra. Magistra, in turn, owned 65.2 percent of Enersul. The proposed share swap for Energias do Brasil met with very positive results (99.98 percent take-up), particularly considering the high number of shareholders involved (around 48,000).

At the same time, 67.5 percent of the capital of Energias do Brasil was transferred to EDP – Energias de Portugal, while the other 32.5 percent remained in the hands of investors in the suppliers who agreed to the share swap, on the basis of an independent valuation.

The swap of minority holdings brought two benefits. First it allowed the best possible model of deverticalisation to be adopted, escaping fiscal and operational inefficiencies, and secondly it provided a greater degree of freedom in the redesign of the Group's organisational structure.

The restructuring comprised four stages: 1) incorporation of Iven by Energias do Brasil; 2) partial spinoff of Energias do Brasil and incorporation of the demerged part into Escelsa; 3) conversion of Enersul into a wholly-owned subsidiary of Escelsa, by the incorporation of Enersul issue shares into Escelsa and 4) conversion of Escelsa and Bandeirante into wholly-owned subsidiaries of Energias do Brasil, by incorporation of Escelsa and Bandeirante shares by the holding.

Deverticalisation

A second stage dealt with the segregation of distribution and generating activities; this was approved by the General Meetings held on 30 June. The measure had two main objectives. The first was to comply with the New Structure of the Electricity Sector law's rules for deverticalisation as established by ANEEL, which had to be in effect by September 2005. Under the regulations, supply concession holders cannot exercise generation or distribution functions, nor may they hold stakes in other enterprises. Beyond this, the measure sought to enhance transparency in the calculation and disclosure of operating results, thus facilitating oversight by regulatory bodies and the companies' access to the capital markets.

The process comprised the following measures: 1) Magistra was incorporated into Energias do Brasil; 2) Enersul, whose capital was wholly owned by Escelsa, became a wholly-owned subsidiary of the holding; 3) the generating companies Castelo Energética (Cesa) and Costa Rica, which were directly and indirectly controlled by Escelsa, passed to the control of Energest, a company set up to administrate the generating assets and directly controlled by Energias do Brasil and 4) the other generating assets held by Escelsa and Enersul were transferred to Energest, to Cesa and to Pantanal Energética Ltda.

In addition, debts of Excelsa totalling approximately BRL 825 million were transferred to Energias do Brasil, (of which BRL 670 million were capitalised by EDP - Energias de Portugal in its public offer).

On completion of the restructuring and deverticalisation processes, Energias do Brasil had three business-specific units: generating, supply and distribution.

In generating, the sub-holding Energest took over management of Cesa, Costa Rica and Pantanal Energética, with two enterprises (EDP Lajeado and Enerpeixe) kept apart. In supply, Enertrade is active in the open market, and in distribution, Bandeirante, Escelsa and Enersul.

New brand, new name

The change of visual identity and name were a logical step in the entire restructuring process. For the brand, the same visual identity was adopted as EDP Group had taken in 2004 in Portugal: a smile, on a red background. This symbol reflects the qualities driving our business: simplicity, proximity and comfort in our customer relations, and social responsibility. The name Energias do Brasil further strengthens the commitment to the country, and our ambition to be a benchmark for the sector, as well as maintaining symmetry with the controlling shareholder.

Initial Public Offering

The entire restructuring process culminated in the IPO – Initial Public Offering – set for 13 July 2005 on Bovespa, the São Paulo stock exchange. Energias do Brasil paper began trading with the code ENBR3 on the New Market, the segment of Bovespa dealing with companies offering the best corporate governance practices. The aim was to provide the company with a financial structure which would enable it to grow on the Brazilian market in a self-sufficient manner, without the need for injections of fresh capital from the controlling shareholder.

The flotation brought in BRL 1,184,700,000, the largest operation of its kind on the São Paulo exchange in 2005. The initial offering was 61.4 million shares, and a further 3.6 million were made available to cover the over-subscription.

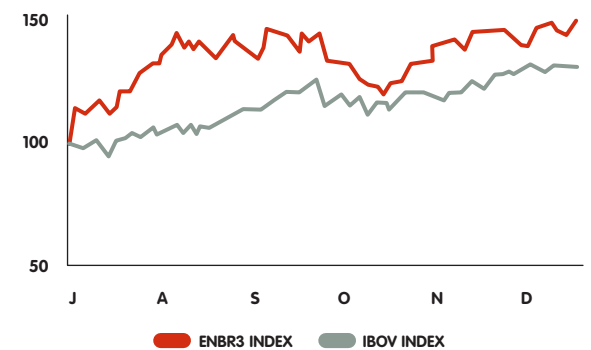
Of the total, around BRL 500 million came in as new capital, through the sale of 27.8 million ordinary shares at an offer price of BRL 18.00 per share. The remaining BRL 670 million came from the capitalisation of debt by EDP – Energias de Portugal at the same offer price, which was deducted from a liability of Escelsa towards EDP – Energias de Portugal, and this credit was converted to 37.2 million shares in Energias do Brasil. A total of 613 company employees also took part in the acquisition, buying BRL 1.3 million worth of shares.



With the completion of this launch, trading in shares in Bandeirante, Escelsa and Enersul ended as trading in ENBR3 began.

Further, in a secondary issue, 809,500 shares were sold by other holders who had received initial issue shares following restructuring of the company.

Change in Energias do Brasil Share Prices by Index



At 31 December 2005, EDP – Energias de Portugal held 62.4 percent of Energias do Brasil, and the remaining 37.6 percent was tradable on the Bovespa (“free float”). This percentage exceeds the minimum required by the New Market regulations (25 percent).

With its accession to the New Market, Energias do Brasil now has only ordinary shares – with “tag along” voting rights granted 100 percent (conditions identical to those offered to the majority shareholder, should control be disposed of). The company has a board comprising at least 20 percent of independent directors (in fact it has nine members, two being independent), and shareholder disputes are handled by an arbitration chamber.

5.3.3. EDP Group Activity in Brazil

Focus on Operational Efficiency

Three management programmes concentrate the efforts of Energias do Brasil on the quest for financial and operational efficiency, whilst respecting the managerial individuality of each subsidiary. These programmes are designated Eficiência (Efficiency), Vanguarda (Vanguard) and Aliança (Alliance). The Efficiency Programme, launched in 2003 with the aim of exploiting synergies between the Group’s distributors, ended in 2005 when it was merged with Project Vanguard. This has a broader scope: the organisational redesign of Energias do Brasil. Project Alliance was set up to unify the integrated management support systems for all the companies in the Group, which currently run on different platforms.

Programme efficiency: with the adoption of more than 60 optimisation measures, the programme involved a team of more than 100, driven by four principles:

- Transfer know-how and experience between the companies;
- Enhance the existing culture of efficient cost management;
- Standardise procedures and technologies;
- Strengthen team spirit amongst the companies of Energias do Brasil.

Beyond the quantitative gains, the programme was responsible for establishing a spirit of constantly seeking best practice in each company, enhancing group culture and exploiting synergies.

Project Vanguard: this project was designed in the first quarter of 2005, and has accompanied the corporate restructuring from start to finish. The aim is to establish and consolidate a new concept of integrated management amongst the constituent enterprises of Energias do Brasil, considered from two aspects: exploiting synergies and new organisational structure.

Structures, working processes and IT systems are being reengineered with two main aims:

- Sharing functions, thus creating economies of scale and reducing costs;
- Adopting a centralised strategy with operational autonomy.

To that end, every area of every business is being reviewed, with the ultimate aim of aligning working methods.

This project involves more than 350 staff in 30 teams responsible for mapping 120 processes divided into 460 sub-processes. The survey was completed in December 2005 and will provide the basis for determining benchmarks for the entire organisation.

Project Alliance: this project concerns unifying the integrated management support systems technologies for all the companies in the Group. It is being conducted by a working group involving a total of 106 staff. The challenge is to converge on a single technological platform supporting all the various programmes used in the management of business.

The administrative and financial modules were completed in early 2006. This will improve internal decisions and processes, cutting costs and enhancing productivity.

The technical modules (electricity grid and own telecoms network management, technical support for customers and environmental monitoring) and commercial modules (billing, meter reading, measuring and client management) will be implemented in harmonised versions for all supply companies during 2006 and early 2007.

Generating activity includes the management of hydroelectric power stations and mini-hydros in the states of Espírito Santo, Mato Grosso do Sul and Tocantins, with total installed capacity of 531 MW, as well as the development of new business which should double installed capacity by the end of 2006.

A priority in the investments of Energias do Brasil, as part of the company's strategy for growth and portfolio diversification, generating received investments of BRL 700.8 million in 2005 (BRL 746.7 million in 2004). Most of this (BRL 638.6 million) was for Peixe Angical Hydroelectric Station, which is planned to enter into service in 2006.

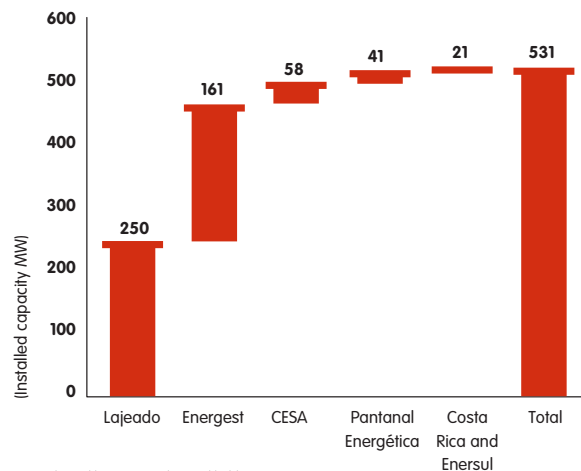
| Maximum Power and Net Generation | | Brazil | |
|-------------------------------------|--------------|--------------|--|
| | 2005 | 2004 | |
| Lajeado (1) | 250 | 250 | |
| Peixe Angical (2) | 452 | 452 | |
| Energest (4) | 215 | 215 | |
| Pantanal | 41 | 41 | |
| Cesa (5) | 84 | 59 | |
| Costa Rica | 17 | 17 | |
| Maximum Power on 31 Dec (MW) | 1.058 | 1.033 | |
| Lajeado (1) | 1.203 | 1.194 | |
| Faten (Cogeração)(3) | - | 236 | |
| Energest | 1.002 | 959 | |
| Pantanal | 199 | 191 | |
| Cesa | 275 | 214 | |
| Costa Rica | 76 | 85 | |
| Net Generation (GWh) | 2.756 | 2.878 | |

(1) 27.65% holding, equivalent to the portion held by EDP in the enterprise
 (2) Under construction
 (3) Sold to Petrobras im Dec. 04
 (4) Sub-holding of Energias do Brasil controlling the generating assets resulting from the deverticalisation process of Escelsa and Enersul prior to May 2005. Includes 50MW under construction
 (5) Includes 25 MW under construction during 2004 and 2005

Lajeado: the Luís Eduardo Magalhães Hydroelectric Station located on River Tocantins has total installed capacity of 902.5 MW. Energias do Brasil's stake in the enterprise is 27.65 percent, corresponding to the 250 MW of EDP Lajeado. The project, constructed in a consortium led by Investco, also includes holdings by Grupo Rede, CEB and CMS Energy. Commercial service began in 2001, reaching full capacity with all five turbines in service in 2002.

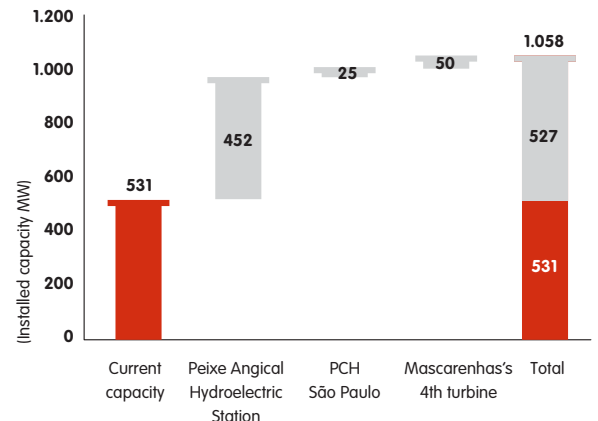
In 2005 the station generated 1,203.2 GWh, corresponding to 97.4 percent of the generating capacity recognised by ANEEL.

Description of Existing Assets



Note: Adjusted by Energias do Brasil holding

Description of Current Projects



(1) 100% of energy contracted from PPAs
 (2) Expected completion in 2006

In early 2006 an agreement was reached between Investco SA, holder of the operating concession for Lajeado, together with its shareholders including EDP Lajeado, and Centrais Elétricas Brasileiras SA - Eletrobrás, to resolve the dispute arising from Eletrobrás's holdings in redeemable stock issued by Investco (PN-R stock). This stock, totalling 234,452,116 shares, corresponded to 37.52 percent of Investco's issued capital, their cash value being adjusted by the IGP-M (market prices index) plus 12 percent annually until redemption.

EDP Lajeado, which is 99.99 percent owned by Energias do Brasil, held 27.65 percent of redeemable stock, equivalent to 64,829,527 shares and BRL 295,113,220.09, on 30 November 2005, with the amounts due on that holding fully paid-up.

Under the terms of the agreement reached on 29 December 2005, deeds of purchase and sale were signed between the shareholders of Investco SA and Eletrobrás, as a result of which EDP acquired the redeemable stock in Investco SA proportionally to its original holding in the company's ordinary capital, making the counterpart payment in the form of credits attributable to Eletrobrás. In this way, Eletrobrás used BRL 110 million to subscribe to 83,234,057 new non-voting and non-redeemable preference shares in the company, corresponding to 40.07 percent of total capital, plus BRL 184 million to acquire shares in profits, with a yield equal to 10 percent of annual profits, payable preferentially over all other stock, with guaranteed convertibility into non-voting preference shares at the end of the Lajeado power station concession (in 2032). Conversion of shares in profit to preference shares would correspond, at the moment of conversion, to 5.084 percent of all the shares issued by EDP Lajeado.

Enerpeixe: the Peixe Angical Hydroelectric Power Station, on River Tocantins, is under construction and, when the third turbine comes on stream (planned for October 2006) will have 452 MW installed capacity. The filling of the reservoir should be complete by March 2006. The project is the responsibility of Enerpeixe SA, whose capital is held 60 percent by Energias do Brasil and 40 percent by Furnas Centrais Elétricas SA.

The programme of works entered its final phase in 2005 with the granting of the operating licence by the Brazilian Institute for the Environment and Renewable Natural Resources (Ibama), and the consequent start made on filling the reservoir. The energy currently offered by Peixe Angical, 2,374 GWh, is enough to serve a city of four million inhabitants and is contracted amongst the Group's distributors.

The project was developed in manner that minimised and compensated the environmental and social impacts of a project of this magnitude – the reservoir will cover 294 km². More than 30 environmental and socio-economic projects have been pursued, aiming to monitor and protect the affected region's flora and fauna, develop environmental awareness initiatives and ensure the quality of life of the local population, including land purchase, relocation of the population in urban and rural areas, construction of schools, health centres, hospital infrastructure and equipment, basic drainage, and recomposition of recreation and tourist areas.

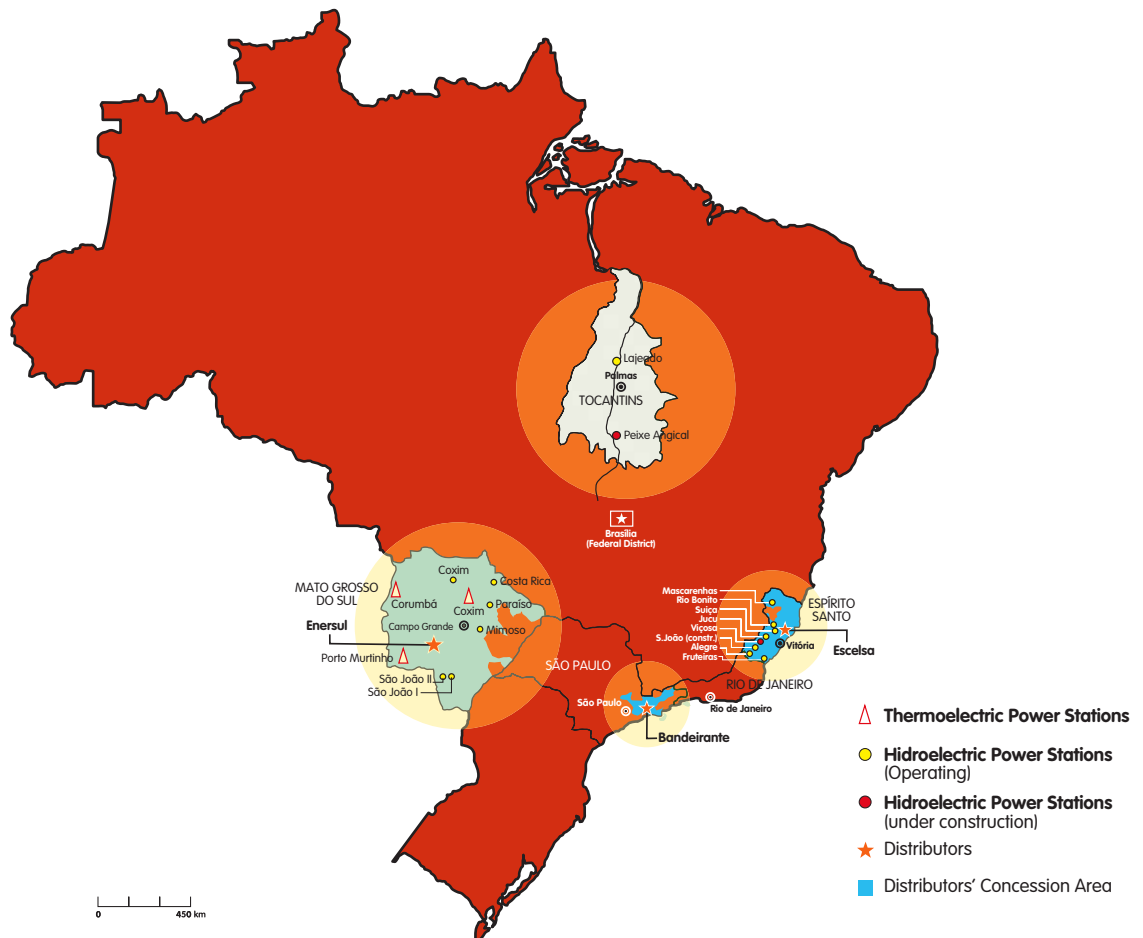
Energest: Energest holds installed capacity of 276.9 MW, being responsible for management of the Mascarenhas and Suiça Hydroelectric Power Stations, in addition to the three companies Cesa, Costa Rica and Pantanal Energética. These assets were transferred to the company during the corporate restructuring of Energias do Brasil in April 2005, and the deverticalisation in June of the same year.

Total generating in 2005 was 1,541 GWh, including 502 GWh generated prior to the deverticalisation of Escelsa and Enersul.

Important events of 2005 included continuation of work on installing the fourth turbine at Mascarenhas and the resumption in September of works on the São João mini-hydro. Investments over the period totalled BRL 34.5 million. The decision was taken at the end of 2005 to decommission the thermal power stations of Corumbá and Coxim, belonging to Pantanal Energética, with installed capacity of 9.6 MW.

Enercoto: this company, owned by Energias do Brasil, holds 49 percent of the EnerRede Couto Magalhães Consortium, responsible for the concession of the Couto Magalhães Hydroelectric Plant (150 MW installed capacity). The Rede Group holds the remaining 51 percent. Work remains suspended on the project following the consortium's application to ANEEL for the concession contract to be annulled amicably.

ANEEL's position on this application is awaited. The annulment was requested following the appearance of new requirements by the environmental authorities not mentioned in the concession contract and likely to compromise the economic viability of the project. In addition to adding substantially to the project costs, these requirements would lead to similarly costly delays in completion.

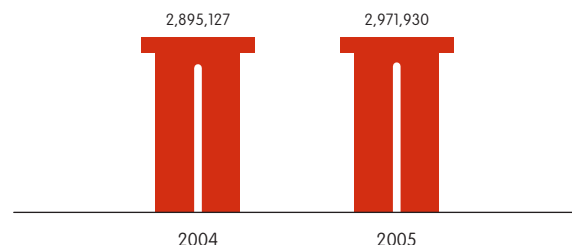


Distribution Activity

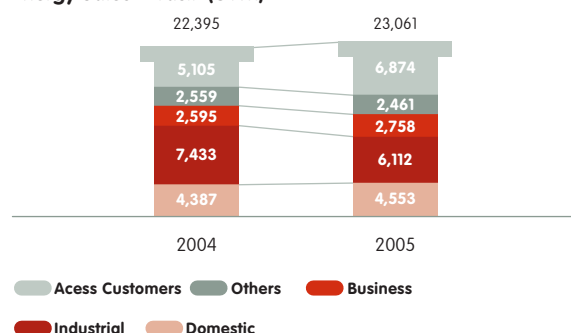
The distribution segment accounts for Energias do Brasil's main activity in 2005, with presence in the states of São Paulo, Espírito Santo and Mato Grosso do Sul, through the supply companies Bandeirante, Escelsa and Enersul respectively. In total, energy was supplied to around 3.0 million customers, representing a population of almost 10 million inhabitants.

The year 2005 saw increases of 2.7 percent in the number of customers and 3.0 percent in the volume of energy supplied, which totalled 23.1 TWh. These figures include the energy supplied to end users and also that distributed for other concession holders, that carried on the distribution grid for consumption by open market customers and that used for own consumption.

Numbers of Customers



Energy Sales- Brasil (GWh)



| | Number of Customers | | | | | | Energias do Brasil | | | | | |
|--------------------------------|---------------------|-----------|-------|------------------|---------|-------|--------------------|---------|-------|------------------|-----------|-------|
| | Bandeirante | | | Escelsa | | | Enersul | | | Total | | |
| | 2005 | 2004 | Var.% | 2005 | 2004 | Var.% | 2005 | 2004 | Var.% | 2005 | 2004 | Var.% |
| Total Captive Customers | 1,283,288 | 1,272,529 | 0.8% | 1,030,697 | 983,024 | 4.8% | 657,945 | 639,574 | 2.9% | 2,971,930 | 2,895,127 | 2.7% |
| Domestic | 1,175,375 | 1,164,452 | 0.9% | 812,000 | 774,805 | 4.8% | 536,343 | 525,497 | 2.1% | 2,523,718 | 2,464,754 | 2.4% |
| Industrial | 8,204 | 8,406 | -2.4% | 10,607 | 10,605 | 0.0% | 4,276 | 4,430 | -3.5% | 23,087 | 23,441 | -1.5% |
| Business | 83,473 | 83,365 | 0.1% | 89,047 | 86,177 | 3.3% | 55,019 | 54,620 | 0.7% | 227,539 | 224,162 | 1.5% |
| Other | 16,236 | 16,306 | -0.4% | 119,043 | 111,437 | 6.8% | 62,307 | 55,027 | 13.2% | 197,586 | 182,770 | 8.1% |

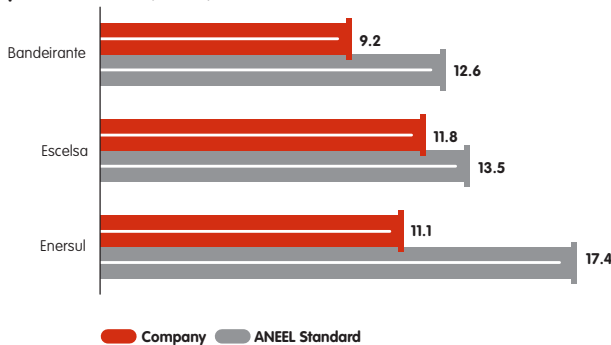
| | Sales | | | | | | | | | Energias do Brasil | | |
|---|---------------|--------|--------|--------------|--------|--------|--------------|-------|--------|--------------------|--------|--------|
| | Bandeirante | | | Escelsa | | | Enersul | | | Total | | |
| | 2005 | 2004 | Var.% | 2005 | 2004 | Var.% | 2005 | 2004 | Var.% | 2005 | 2004 | Var.% |
| Aquisition of Electricity and Own Generation | 9,889 | 10,443 | -5.3% | 7,170 | 7,011 | 2.3% | 3,802 | 3,566 | 6.6% | 20,861 | 21,020 | -0.8% |
| Electricity entering for Distribution | 13,764 | 13,443 | 2.4% | 8,815 | 8,254 | 6.8% | 3,958 | 3,607 | 9.7% | 26,536 | 25,303 | 4.9% |
| Distribution Losses | -1,449 | -1,254 | -15.6% | -1,176 | -1,076 | -9.3% | -850 | -578 | -47.1% | -3,475 | -2,908 | -19.5% |
| Electricity Sales | 8,009 | 8,814 | -9.1% | 5,441 | 5,626 | -3.3% | 2,737 | 2,851 | -4.0% | 16,187 | 17,291 | -6.4% |
| Domestic | 2,307 | 2,283 | 1.1% | 1,321 | 1,192 | 10.9% | 925 | 912 | 1.4% | 4,553 | 4,387 | 3.8% |
| Industrial | 3,544 | 4,355 | -18.6% | 2,096 | 2,498 | -16.1% | 472 | 580 | -18.6% | 6,112 | 7,433 | -17.8% |
| Business | 1,318 | 1,235 | 6.7% | 842 | 775 | 8.6% | 598 | 585 | 2.3% | 2,758 | 2,595 | 6.3% |
| Other (I) | 840 | 941 | -10.8% | 883 | 856 | 3.2% | 739 | 762 | -3.1% | 2,461 | 2,559 | -3.8% |
| Distributors | 0 | 0 | - | 299 | 305 | -1.9% | 3 | 12 | -71.9% | 302 | 317 | 4.6% |
| Access Customers | 4,306 | 3,375 | 27.6% | 2,198 | 1,552 | 41.6% | 371 | 178 | 108.2% | 6,874 | 5,105 | 34.7% |
| Total Energy Distributed | 12,315 | 12,189 | 1.0% | 7,639 | 7,178 | 6.4% | 3,108 | 3,029 | 2.6% | 23,061 | 22,395 | 3.0% |

(I) Includes own consumption

The quality indicators of all three distributors remained within the reference values set by ANEEL.

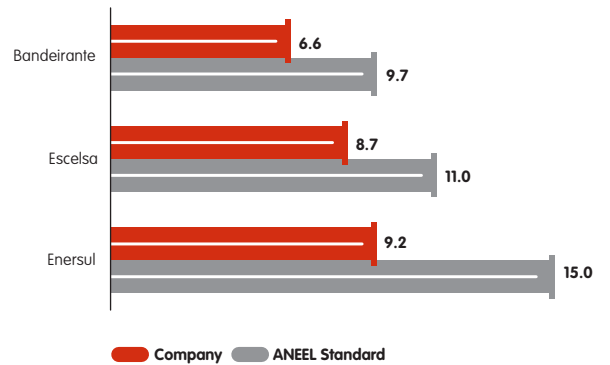
For all three distributors, external events originating in the National Interconnected System (SIN) – and thus beyond the companies' control – affected the equivalent interruption time per customer, DEC (Equivalent Interruption Duration per Customer), expressed as the mean number of hours the customer was without current during the year. For Bandeirante, these interruptions increased by 0.17 hours, and for Enersul, by 0.19 hours. For Escelsa, without the two black-outs which occurred in January, the DEC would have been 9.96 hours.

DEC - Average on Equivalent Interruption Duration per Customers (hours)



Another measure is the FEC (Frequency of Interruption per Customer). At Bandeirante, an average 6.62 interruptions were recorded per customer per year, compared with 5.76 in 2004 and the ANEEL benchmark of 9.74. In computing the indicator, 0.80 interruptions per consumer per year is attributed to the SIN. At Enersul, with an ANEEL reference level of 15.01, the FEC was 9.16 (8.03 in 2004), with 0.37 contributed by the SIN. At Escelsa, despite 2.02 interruptions originating in the SIN, there was an improvement in performance, with the FEC falling from 9.68 in 2004 to 8.66 in 2005, and the ANEEL reference at 11.04.

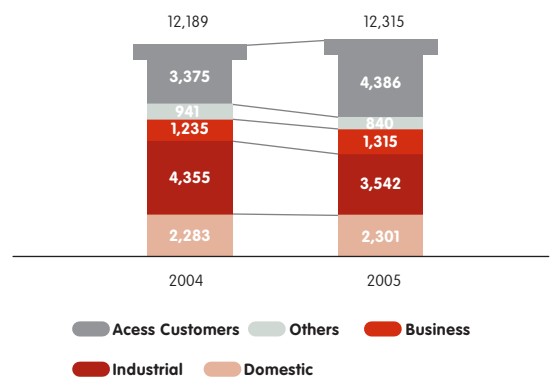
FEC - Average of Frequency of Interruption per Customers (no. of hours)



• **Bandeirante**

Total electricity supplied by the Bandeirante system in 2005 was 12,315 GWh, up 1.0 percent on 2004. Electricity supplied to end customers was 8,009 GWh, 9.1 percent down from 2004. This decline was due to captive, mainly industrial customers switching status to the open market. The company closed the year with a total customer base of 1,283,288, up 0.8 percent on 2004. Electricity supplied to the open market in 2005 by the Bandeirante system totalled 4,306 GWh, a 27.6 percent increase compared with 2004.

Energy Sales - Bandeirante (GWh)



Revision and Adjustment of Bandeirante: With the tariff revision of 2003, ANEEL provisionally recognised an 18.08 percent rise in Bandeirante's supply tariffs, and established a calendar for application of the approved index, with an average 14.68 percent applying in the year and the balance divided and applied over the next three years. This apportionment of the adjustment into stages was intended to attenuate any resulting impact on consumers.

With the 23 October 2004 adjustment, ANEEL decided to review Bandeirante's BRR. The new index for the tariff revision of 2003 went down from 18.08 percent to 10.51 percent and the apportionment of the adjustment became unnecessary.

On 18 October 2005, the ANEEL board decided the final net value of the BRR as BRL 998.0 million (base September 2003), compared with the preliminary figure of BRL 1,092.0 million previously established, and adjustments in the operating costs of the reference company, which resulted in a change in the 2003 repositioning index from 10.51 percent to a definitive 9.67 percent (Resolution no. 226).

As a result, the difference between revenues received, based on the provisional tariff repositionings of 14.68 percent and 10.51 percent, and the final figure of 9.67 percent, is equivalent to a repayable total of BRL 102.3 million (base October 2005), and this will be dealt with in the tariff adjustment applicable between 23 October 2005 and 22 October 2006.

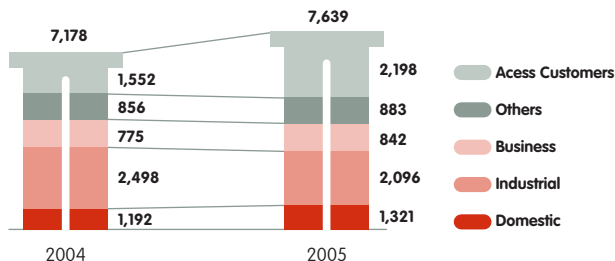
The repayable total of BRL 102.3 million contributed to the mean readjustment of the tariff chart of October 2005 being established at -8.86 percent, to be applied to a "reference tariff" utilised by ANEEL. The tariff adjustment was broken down into -1.20 percent relating to variations of a financial nature, and -7.66 percent relating to the annual tariff adjustment proper, which covers in particular the -4.42 percent reduction resulting from lower acquisition costs of energy for distribution and -3.63 percent in Parcel B (which observes the trend of consumer prices the IGP-M, application of Factor X and exclusion of PIS/Cofins previously implicit in the tariff). When ANEEL published the technical notes to the tariff revision, Bandeirante lodged an appeal, but the analysis is not yet concluded.

In 2005, Bandeirante invested some BRL 117.2 million in extending and upgrading its electricity system to meet market demand at the statutory quality levels, to connect new customers, in installing metering systems, modernising, on public lighting and in support services. The Integrated Modernisation Programme (PIM) begun in 2002 was consolidated during this year, with a total investment of BRL 13.9 millions, and made a decisive contribution to giving the company greater operational efficiency, agility and flexibility, reducing costs and improving the quality of service offered to customers.

- **Escelsa**

Total electricity supplied by Escelsa in 2005 was 7,639 GWh, up 6.4 percent on 2004. The number of customers was 4.8 percent up on the previous year. Electricity supplied to the captive market was 5,441 GWh, 3.3 percent down on 2004. This decline was mainly due to captive customers migrating to the open market, with a 16.1 percent fall in the number of industrial customers. Electricity supplied to the open market and other suppliers in 2005 by Escelsa totalled 2,497 GWh, a 34.5 percent increase compared with 2004.

Energy Sales - Escelsa (GWh)



Revision and Adjustment of Escelsa: In its Resolutions nos. 157 and 162, of 1 August 2005, ANEEL authorised a tariff readjustment for Escelsa and approved the conclusion of its third Periodical Tariff Review. The final value of the Basis for Calculating Remuneration (BRR) and the depreciation rate, as well as adjustments to costs for the reference enterprise, resulted in an increase in the 2004 tariff repositioning index from 6.33 percent to 8.58 percent. The difference in revenue, totalling BRL 17.2 million, will be compensated financially for Escelsa in its tariffs for the period from 7 August 2005 to 6 August 2006.

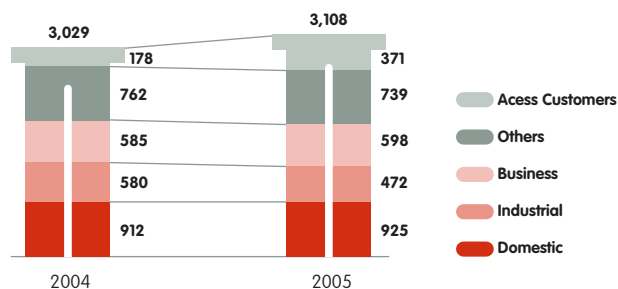
The mean tariff adjustment was 4.93 percent, applicable from 7 August 2005, in accordance with Resolution no. 162/05. This increase takes account of the adjustment to the 2004 tariff review.

In 2005, Escelsa invested BRL 139.4 million on extending, improving and modernising its electricity supply system, on substations, on upgrading lines, and elsewhere in full tariff and universalisation. For the latter, investments totalled BRL 46.9 million, and benefited 10,594 customers.

Enersul

Total electricity supplied by the Enersul system in 2004 was 3,108 GWh, up 2.6 percent from 2004's 3,029 GWh. The customer base was up 2.9 percent to 657,945. Electricity supplied to the captive market was 2,737 GWh, 4.0 percent down on 2004. This fall reflects customers migrating to the open market and using the system only for distribution. Electricity supplied to the open market and other suppliers in 2005 by Enersul totalled 371 GWh, a 108.2 percent increase compared with 2004.

Energy Sales - Enersul (GWh)



Revision and Adjustment of Enersul: On 6 April 2005, ANEEL approved (Resolution no. 72), the conclusions of the first Periodical Tariff Review of Enersul, raising the previously established provisional repositioning index from 43.59 percent to 50.81 percent. Repositioning was approved with effect from the 2003 final review, representing an increase in annual revenue for Enersul of the order of BRL 32.0 million (April 2003 value), for the tariff period from April 2003 to March 2008, when the next tariff review will take place. These amounts will be recovered over the period between April 2005 and March 2008.

As a result of the adjustment to the first periodical review and the annual tariff adjustment, both provided for in the concession contract, ANEEL approved a mean tariff adjustment for Enersul of 20.69 percent, applicable from 8 April 2005 (Resolution no. 74 of 6 April 2005).

In 2005, Enersul invested BRL 192 million in extending, upgrading and modernising its electricity system to meet market demand at the statutory quality levels. Other projects were aimed at incorporating private networks, and technological modernisation in energy metering. In the universalisation programme, Enersul acceded to the "Light for All" Programme, whose aim is to provide universal access to the electricity grid in rural areas and foster the economic and social development of deprived communities. Investments in 2005 totalled BRL 70 million, and benefited 9,487 customers.

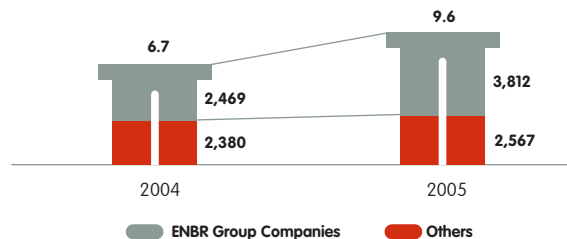
Supply Activity

Enertrade is the most active supply company in the free segment of the electricity market. In 2005, it supplied a total volume of 6,379 GWh, up 31.6 percent on 2004 (4,849 GWh) – in which year growth had already been 77 percent compared with 2003.

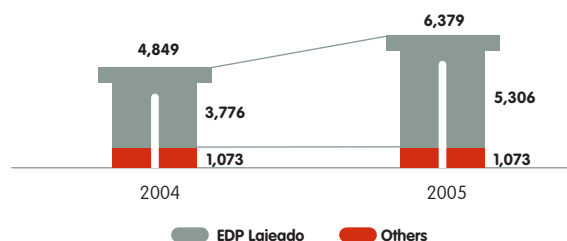
In 2005, with the greater availability of energy, the open market represented an even more attractive proposition for customers with demand exceeding 3 MW, who may freely buy from the energy supplier of their choice.

Enertrade considers three actions to have been especially important in 2005: 1) retaining consumers who had previously been supplied by the group's distributors, and winning new customers in areas outside their concession areas; 2) perfecting the risk management system and 3) the adoption of new billing procedures.

Energy Sales (GWh)



Energy Supply (GWh)



This first landmark resulted from the greater clarity conferred by the regulation of the sector, which in 2005 established more objective criteria facilitating customers' transition from distributor to supplier whilst remaining customers of Energias do Brasil.

With its activities directed at assuring the loyalty of customers who buy their energy on the open market, by offering tailor-made energy and solutions, Enertrade tripled its customer base within the distributors' concession areas. In its customer support, the company helps with energy ecoefficiency issues and other measures aimed at reducing costs for the consumer.

5.4. Telecommunications in Portugal

5.4.1. ONI Activity in 2005

ONI has now been present on the Portuguese telecommunications market for five years, during which time the company's efforts have been directed at asserting its role as the alternative fixed operator. The year 2005 was marked by a new dynamic of recovery beginning in the second half of the year, marking the start of a new life-cycle for the company with five main themes aimed at attaining the conditions for stability and sustained growth: simplifying the company structure, concentrating on core business, expanding the broadband customer base, improving efficiency and rebalancing the financial structure.

Simplifying the company structure

The second half of the year saw the start of a plan to simplify the company structure of ONI SGPS. All holdings in subsidiaries operating in Spain were centralised in Comunitel and at the same time, TLD, Autor, ONI Plataformas and Oni Web were wound up.

Concentrating on core business

The concentration on core business in 2005 took the following form:

- Sale of Comunitel, which operates on the Spanish market, to Tele2;
- Maintaining market shares in the Corporate and Operators segments;
- Penetrating the public sector: Oni's was the winning bid in the first and still the only major public invitation to tender (Ministry of the Economy);
- Enhanced capillarity in the distribution of broadband products, by extending the retail network;
- Implementing a commercial partnership with Millennium bcp with coverage of all the bank's branches (around 900), which constituted the leading domestic sector channel in the final quarter of 2005.

Expanding the broadband customer base

In 2005, Oni gained around 31,700 new broadband customers (compared with some 12,000 in 2004), and exceeded the second-half target with more than 19,000 new customers. Regarding the opening of OLL exchanges (direct customer access), 74 exchanges were disaggregated during 2005, 59 of them during the second half. This gives Oni a presence in 106 exchanges.

Improving efficiency

- Reduction in the mean time taken to install OniDuo to 25 days, an improvement of around 75 percent compared with the end of 2004 when the time taken exceeded 100 days;
- A start on an active policy of outsourcing operational services, allowing a reduction of more than 20 percent in global operating costs of these activities. This went hand in hand with greater flexibility in the operating model. In this context, projects were developed with Siemens, Ericsson, Lógica CMG and Alcatel;
- Implementation of a programme to rescale staffing, which allowed a reduction of 128 staff and a closer match between the human resources profile and the company's commercial aims.

Rebalancing the financial structure

At the close of 2005, ONI SGPS increased its capital by EUR 210.7 million, by converting loans and interest on loans into additional capital payments (EUR 130.2 million) and by raising additional payments (EUR 80.5 million). This, together with the revenue from the sale of Comunitel (EUR 215 million), allowed Oni to reduce its debt by around EUR 460 million and adapt its maturity date.

5.4.2. Business trends by segment

In 2005, Oni increased its targeting of the residential broadband market with OniDuo (voice and ADSL internet) by:

- Repositioning the OniDuo product on the market;
- Strengthening distribution channels, in particular through the partnership with Millennium bcp, by greater presence in retail shops and by strengthening indirect sales forces and exploiting the Internet channel;
- Reformulating promotions and publicity, as regards both the target and the means of communication, with direct positive effects on the levels of recognition;
- Strengthening the sales team working on this business segment.

These factors were able to give a sharp boost to the signing of new customers, particularly in the second half when more than 19,000 new broadband customers were signed up.

In the business segment it may be noted that growth was achieved during a period of great restraint by businesses in general. This was achieved principally in fixed telephony, alongside a notable reduction in data services, the result of migration from certain older technologies to cheaper solutions such as xDSL.

ONI consolidated its position in the Portuguese market, notably in the banking, insurance, hotels, tourism and industrial segments, and in some cases attaining a market share close to that of the incumbent operator. This is a clear demonstration of the company's ability to win and retain customers in the high-value segments of the market.

Two major factors contributed to this success:

- **Convergence:** at the forefront of technology, ONI has incorporated into its multiservices network the new solutions related to IP telephony, allowing its clientele to evolve towards convergent voice and data solutions;
- **Services:** a strategy of targeting added-value services, as a means of differentiating the company and fostering customer loyalty, with growth in this area of more than 30 percent vis-à-vis 2005.

Especially noteworthy was the company's success in the first (and, to date, only) major public invitation to tender for telecommunications services, by the Ministry of the Economy, resulting from the ongoing process of opening the State telecommunications networks to all operators.

In the operators segment, growth in gross income of 9 percent compared with 2004 should be noted. This was achieved in a highly competitive environment on both the Portuguese and international market. In this context ONI again succeeded in consolidating its position as the alternative "carrier's carrier" amongst the other operators in the Portuguese market, and increasing its customer base with some of the sector's benchmark internationals: Telefonica, Deutsche Telekom, AT&T, Swisscom, Telecom Italia, etc.

Operating Indicators

| Portugal | 2005 | 2004 | Var. % |
|--|---------|--------|--------|
| Voice traffic (M. min.) | 978 | 991 | -1.4% |
| Business | 349 | 381 | -8.3% |
| Domestic | 153 | 226 | -32.5% |
| Operator | 476 | 385 | 23.8% |
| Direct-access voice traffic (Million min.) | 244 | 229 | 7% |
| Customers | 111,303 | 94,069 | 18.3% |
| Business | 10,321 | 9,479 | 8.9% |
| Domestic | 100,912 | 84,542 | 19.4% |
| Operator | 70 | 48 | 45.8% |
| New broadband customers (retail segment) | 31,724 | 12,138 | 161.4% |

5.4.3. Regulatory Background

The regulatory framework to the electronic communications sector in Portugal was characterised in 2005 by the adoption of a number of ANACOM rulings. Most important of these were the ruling on relevant market analyses in accordance with the methodology established by the European Union, and the subsequent specific decisions on the various wholesale offers made by the incumbent operator with particular emphasis on the unbundled local loop offer.

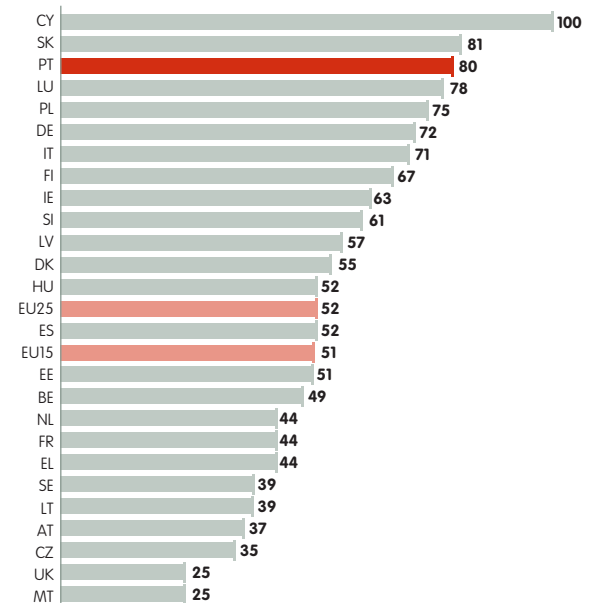
At the same time, and despite the fact that the Portuguese regulator has the means and legal framework to adopt measures which would efficiently promote competition in the sector, it can be seen that the level of competition in fixed communications remains rather low, and well behind that of other countries.

The result of this situation is that after five years of deregulation in the sector in Portugal, the incumbent operator still enjoys a high level of dominance:

- in the fixed local telephony service, the PT Group continues to hold some 91 percent of direct access and 77 percent of voice and dial-up internet traffic (74 percent voice only);
- In broadband access, the PT Group holds in all around 80 percent of market share, the third highest percentage in the EU.

This incipient level of competition can also be attributed to the many problems experienced in implementation of the unbundled local loop offer (it was only during 2005 that offer periods and prices were reduced and more dissuasive compensation introduced for non-compliance), to the absence of a generalised policy for approximating prices to European best practice and the delays which have arisen in implementing innovative regulatory measures such as the wholesale subscriber line reallocation offer and the flat-rate interconnection tariff.

Market Share of Incumbent Operators for Broadband Access (%)



Source: Document COCOM 05-34 final "Broadband access in the EU: situation at 1st July 2005" 23.11.2005

As a result of this, Portugal finds itself in a sui generis structural situation unparalleled in Europe, in which the incumbent operator holds not only the basic telecommunications network, but also a heavily dominant cable TV network, allowing the Group to control end-user access and set the pace for the timing and nature of commercial offers on the two networks, and enhancing its vertical integration which also combines retail and wholesale functions, in many instances within the same legal entity.

More specifically, the following are the main obstacles to the development of effective competition in Portugal, and consequently to the development of activity by ONITELECOM. Many of these obstacles are, moreover, recurrent from previous years:

- Continued restrictions in the unbundled local loop access offer;

- Monthly charges for local access in the ADSL PT network wholesale offer which bear no relation to costs and lack coherence across the various classes of service, and are prejudicial to the 512 Kbps service, in relation to which a decision is awaited from ANACOM;
- Accumulated delays in the availability of a wholesale offer making single billing possible;
- Charges for interconnection to the PT Communications network significantly higher than the European average and more than 30 percent higher than best practice;
- Absence of terms for access to mobile networks, specifically for the establishment of mobile virtual network operators (MVNOs).

| | |
|--|-----------|
| Corporate Themes | 93 |
| Quality | 94 |
| Human Resources | 96 |
| Risk Management | 104 |
| Information Systems | 109 |
| Technological Innovation and Development | 114 |
| Pension Fund | 116 |
| Support Services | 118 |

1. QUALITY

Customers and Efficiency are two of the values that shape the way the EDP Group carries out its various activities. Efficiency has a particularly critical role in the world of our customers, to whom it means generating and implementing innovative, quality solutions.

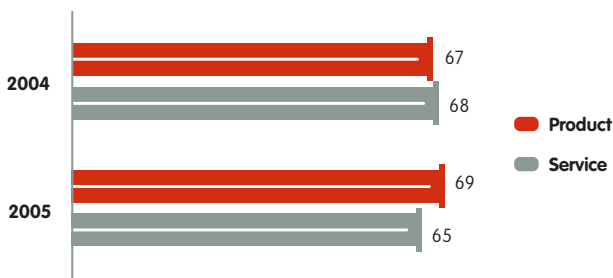
Finding out and monitoring the perception that customers have of EDP's performance has proved to be essential for checking and adjusting processes, for providing and advising on new products and services and for innovating in the conduct of operations.

Anticipating the response to needs, preferably exceeding expectations, and managing the effectiveness of the response in the variety of situations in which it may be required, are two of the major organisational engines for creating value, for competitiveness in the market and for sustained growth.

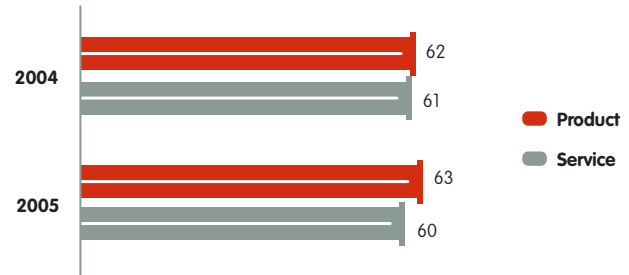
External Customer Satisfaction⁽⁵⁾

In 2005 we continued to carry out customer satisfaction surveys and monitor the evolution of the main indices, which included customer satisfaction with the Product and Service.

Domestic Customer Satisfaction



Business Customer Satisfaction



The Technical Quality Improvement Programme, undertaken by EDP Distribuição, largely explains the positive oscillations regarding satisfaction with the Product. Higher expectations, showing customers to be more demanding in the context of the global economy, explain the less favourable evolution regarding satisfaction with the Service. These oscillations, however, provide opportunities to raise awareness and decide on interventions, in terms of nature and opportunity.

Besides the internal initiatives of EDP Soluções Comerciais and EDP Distribuição, progress was made in the latter company in 2005 in connection with the Quality Management System, by setting up Improvement Groups. The Customer Relations Improvement Group is especially important because it deals with such a critical area. The root cause analysis methodology included reviewing some of the processes and procedures, in particular those more directly linked to front office activities – Contact Centre, Stores and Complaint Management System.

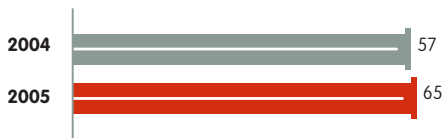
Regarding Customer Service, preparation began for a training programme based on the satisfaction factors revealed by the studies. This was formatted from real data and is aimed at the most directly involved front office employees, customer managers and internal suppliers. The main purpose underlying this training programme, to be administered in 2006, is to make employees more aware of customer expectations, and to qualify and train them to raise the quality of the response, especially in terms of information and dealing with problems.

(5) Includes Bound and Non-bound Customers in Portugal

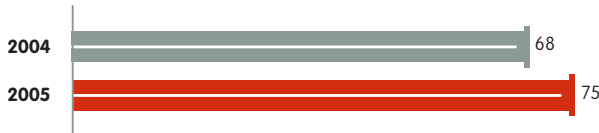
Employee Satisfaction and Motivation⁽⁶⁾

In 2005, we also monitored the evolution of employee satisfaction and motivation, and satisfaction with the work area.

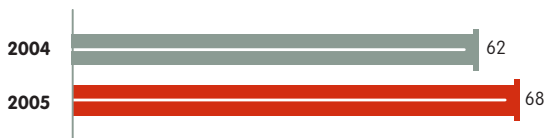
Employee Motivation



Satisfaction with the Company



Satisfaction with Work Area



The Satisfaction with the Work Area indicator deserved particular attention during 2005. The positive evolution of this is worth a special mention, because of its intrinsic value and impact on motivation, but also as a driver for efficiency in the relationship with other areas, particularly those that have a more direct connection with the service provided to customers.

This evolution will have been helped by a Leadership Training Programme held in the first half of 2005, specifically aimed at middle management. This was formatted from the data obtained from the studies, and was aimed mainly at developing leadership competencies and communication / feedback practices. The course focused primarily on behaviour related to the efficiency of the response to queries and problems. Courses were conducted by a team of internal facilitators previously certified for this purpose. With different adaptations it was possible to hold courses on the same theme for two other critical segments: store managers and contact centre supervisors.

For alignment purposes, another special course – Quality and Leadership – was organised for holders of macrostructure posts in EDP Distribuição and EDP Soluções Comerciais.

Quantitative information regarding these training programmes may be found in the Human Resources chapter.

The Quality Management System at HC Energía and EDP – Energias do Brasil

The year 2005 marked the launch of the Group’s Quality Management System in Spain and Brazil, specifically with the implementation of VOC – Voice of the Customer, in order to obtain satisfaction indicators and to resolve problems on first contact.

In the context of Quality, the conditions were created, at the end of 2005, for EDP to possess a set of relevant non-financial indicators for the management of external and internal customers, and employees, in the Group’s various geographical areas, taking advantage of local good practices and sustaining continuous improvement programmes.

In 2006, on the basis of the current reality, Leadership Training Programmes are expected to be held for the middle management of HC Energía and Energias do Brasil.

⁽⁶⁾ Portugal - Electricity Business Companies

2. HUMAN RESOURCES

The year 2005 was marked by intensive work on Human Resources policies, carrying on the development of the Group's Human Resources, continuing to rationalise and match the Group's resources to future challenges and creating bases for aligning Human Resources strategies and policies in the various geographical areas in which the Group operates

2.1. Development of Human Resources

Management Appraisal

In 2005, this project – aimed at assessing and improving the competencies, knowledge and professional development of EDP's managers – involved a population distinct from that of previous years in that the assessment of 216 heads of department was completed, and individual development plans aligned with the EDP Group's strategy were defined.

Following this process, in which the macrostructure and managements of the EDP Group took part, the directors and senior managers were also invited to participate. This new phase involved 129 senior managers. In this way a basis was created for systematic professional development and global feedback on the management processes adopted.

Performance Appraisal – a2d System

The a2d is the new model of performance appraisal implemented in 2005. It consists of a continuous process of planning, management, monitoring, appraisal and personal development, enabling teams and employees to realise their objectives and achieve the desired results. It is structured so as to:

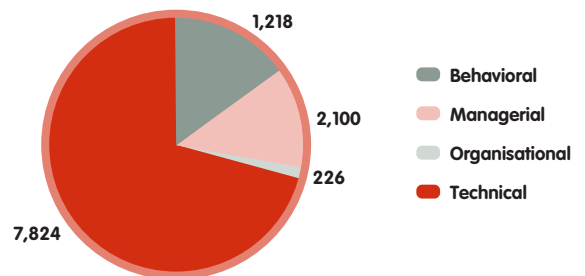
- Monitor each employee in a continuous manner, supporting him/her with the necessary guidance for achieving his/her results;

- Carry out a monthly assessment of each employee's contribution to his/her unit, improving communication between employees and managers. Mid-year, there is self-assessment and a joint diagnosis of the development plan, and once a year there is a final appraisal by the hierarchy;
- Develop the competencies and knowledge of every employee, ensuring that he/she is able to realise his/her goals adequately.

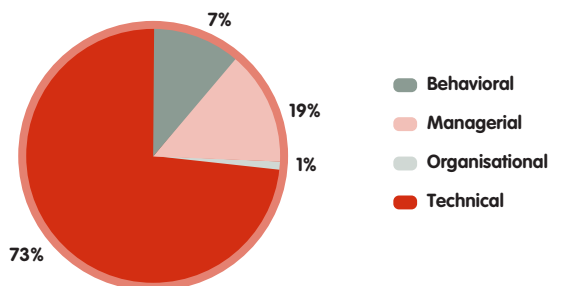
Training

Management Training and Technical Training were the EDP Group's main focuses, involving over 80 percent of trainees and over 90 percent of the nearly 170,000 total training hours.

No. of Trainees



Hours of Training by Area



One of the most important of the various training areas covered was management and leadership training. This was aimed mainly at managements and team coordinators, whose development needs were identified from the domestic customer and employee satisfaction studies.



The training covered the essentials of excellence in leadership, particularly concepts, models and conceptions that make it possible to acquire/enhance the confidence and competencies needed for the effective coordination of teams in a competitive context.

Training Areas (hours)



* Other Training Area Courses

In addition, the Group invested in the development of senior managers and their adaptation to the constant demands of the market, particularly through:

- Advanced Training in higher management schools in Portugal, with a view to developing specific skills. This involved 23 employees with management functions;
- EDP-INSEAD Strategic Leadership Programme, which constitutes an instrument for change in the EDP Group. Five courses were held, covering all aspects of the strategy established for change in the EDP Group. Some 164 catalysing agents for change were involved: directors, general managers, managers and promising executives from the companies located in Portugal, Spain and Brazil.

Y-shaped Careers

A model was developed, called Y-shaped Careers, for the management of the careers of managers and senior executives, in which career development lines are not mutually conditioned.

In this model, professional development:

- Is based on the development of competencies, performance levels and experience acquired, particularly through mobility and satisfying companies' functional needs;
- Will depend only on each professional's capacity to develop, on companies' functional needs and on financial availability, with no constraints of an organisational nature (not conditioning the executive's career to that of his/her manager);
- Results from the assessment of levels of technical and behavioural competencies (competencies and their maturity, mobility, minimum performance levels, etc.).

This model further permits the identification of personal development needs, and constitutes an important support to talent management, mobility management, the successions plan and Human Resources management.

Creation of the Staff Development Support Department

The Staff Development Support Department was set up in the Corporate Centre with the aim of implementing the necessary instruments for supporting the career development of employees and their continuous adaptation to the company's needs. It has the following mission:

- To draft proposals and implement processes, aligned with the EDP Group's strategy, to manage the performance and potential of employees;

- To draft proposals and implement individual career, retention and succession plans for the Group's key functions;
- To participate in the implementation and management of the Talent Management Programme, with a view to maintaining the levels of internal equity and external competitiveness.

2.2. Rationalisation of Human Resources

At the end of 2005, the Group's workforce had the following composition:

| | 2005 | 2004 | Var. % |
|----------------------------|---------------|---------------|---------------|
| Iberian energy market | | | |
| Electricity | 7,715 | 8,456 | -8.8% |
| Ordinary Regime Generation | 2,276 | 2,216 | 2.5% |
| Portugal | 1,672 | 1,792 | -6.7% |
| Spain | 604 | 424 | 42.5% |
| Special Regime Generation | 229 | 136 | 68.4% |
| Portugal | 18 | 15 | 20.0% |
| Spain | 211 | 121 | 74.4% |
| Distribution | 5,016 | 5,889 | -14.8% |
| Portugal | 4,615 | 5,532 | -16.6% |
| Spain | 401 | 357 | 12.3% |
| Supply | 194 | 215 | -9.8% |
| Portugal | 91 | 77 | 18.2% |
| Spain | 103 | 138 | -25.4% |
| Gas | 444 | 299 | 48.5% |
| Portugal | 110 | 0 | - |
| Spain | 334 | 299 | 11.0% |
| Brazil | 3,528 | 3,569 | -1.1% |
| Generation | 282 | 216 | 30.6% |
| Bandeirante | 1,203 | 1,207 | -0.3% |
| Escelsa | 1,162 | 1,238 | -6.1% |
| Enersul | 866 | 899 | -3.7% |
| Supply | 15 | 9 | 66.7% |
| Support Services | 1,654 | 790 | 109.4% |
| Telecommunications | 492 | 1,096 | -55.1% |
| Information Technology | 0 | 1,416 | - |
| Other (1) | 484 | 617 | -21.6% |
| TOTAL | 14,317 | 16,243 | -11.9% |

Note: includes governing bodies and represents 100% of staff numbers, regardless of their involvement in the EDP Group
(1) Includes holdings and other participating companies

Recruitment and Selection

With the aim of contributing to the alignment between Human Resources and the EDP Group's challenges, the following were achieved in 2005:

- Admission of 71 new employees, mainly to economic, management, engineering and electricity technician areas. Continuing the drive for rejuvenation, they had an average age of 30;
- Attendance at the main workshops and jobshops organised by universities. The Instituto Superior Técnico's Electrotechnical and Computer Engineering Fair, where various innovative technical projects were presented, is worth a special mention;
- Registration of 22,350 fresh applications originating from the online application form on the web page www.edp.pt;
- Award of 39 new professional placements, as well as assistance to university students and teachers in their work. In addition, new rules have been defined for professional placements. These include an annual placement plan by company and a department in the Corporate Centre, the definition of the schedule and the database to support selection, and the allocation of the responsibilities involved in formalising and monitoring these. The regulations also describe the profile of the monitor and the monitoring;

- Launch of the of the “Prepare tomorrow’s EDP – admission of 200 young people” programme, aimed primarily at selecting, recruiting and preparing young people who answer future needs, bearing in mind the challenges of the competitiveness of a market that is in a phase of structuring. The launch was announced in Portuguese media so as to increase the number of candidates and offer equality of opportunity in access to the programme. The Group received 15,597 applications. This programme will be based on standardised admission procedures to be followed in future processes.



Workforce adaptation – 2005 departures

To complement the 2003-2004 Restructuring Plan, the company offered early retirement, pre-retirement and mutually agreed contract terminations on similar conditions to those that applied in 2004.

Some 151 employees joined this programme in 2005, which, added to those who joined in 2003 and 2004, makes for a total of 1,775 employees leaving the workforce.

Outplacement

The socio-professional reorientation of employees leaving the company’s permanent staff continued in 2005, with fair acceptance of the solutions offered. A significant number of employees pursued their own life

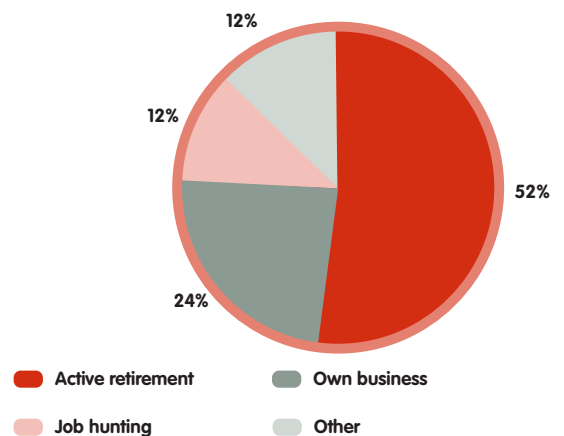
projects, without recourse to the specialised service provided by the company.

The proposed programmes include:

- New functions in administrative areas, provision of technical services, training, collection / accounting, sales and consultancy;
- Development of own business, including services rendered in the health and safety area, installation and maintenance of electrical systems, agriculture, commerce, catering, condominium management, rural tourism, graphic work and project management.

Employees opting for the Active Retirement Programme, in order to develop a new life project of an occupational nature, were involved in such activities as voluntary work (assistance in hospitals, prisons, parish centres, support for the elderly and social solidarity institutions), training (mature university students), family support, leisure and sport. This creation of new life alternatives is a positive approach to this stage in life.

Restructuring Socio-Professional Support Programme (Current situation)



Individual Repositioning (PIR)

The original objective, established in 2004, of repositioning available employees, was maintained. This consists basically of assessing internal employability, searching for geographical / functional

alternative work posts and career support and counselling. However, where the repositioning of employees was not possible, the company reconsidered them under the Restructuring Support Plan (PAR), with the same conditions of the last year.

Internal Mobility Management (GIM)

The internal mobility management plan was launched in 2005 in order to identify and develop EDP employees' individual capacities:

- To respond efficiently to the organisation's mobility needs;
- To promote the internal mobility necessary for succession plans;
- To guarantee the standardisation of policies and procedures inherent in the Group's mobility.

2.3. Integration of Human Resources policies and organisational alignment

In 2005, in alignment with the application in the EDP Group of common strategies and policies regarding local specificities, the Iberian Committee and the Strategic Prevention and Safety Board were set up in the Human Resources area. These, along with identical bodies in the business areas, contributed to increasing the Group's cohesion, raising awareness of best practices and enhancing the implementation of programmes to attract synergies and value for the Group and its companies. This alignment is also pursued through the creation of the Staff Development Support Department, aimed at the management and development of employees in their many capacities.

The year 2005 was also one of close relationships with Spain and Brazil, in the sharing of experiences, in the discussion of solutions and in the start of projects intended to be convergent and aligned with the EDP Group's global strategy.

Spain

The Professional Categories Project, developed by a work team including members of EDP and HC Energia, started up in May 2005. Its objectives are to examine all functions, assess functional contents (levels of responsibility/training) to create a template of correspondences of functions, a convergence plan and to set remuneration policies.

The "Who Is Who" Project – a new software tool that brings Portugal and Spain together in a directory comprising the functions of employees, contacts, addresses and photos - fitting perfectly within the organisational structure of the EDP Group companies – involved employees on both sides of the border.

Brazil

In 2005 a number of Human Resources management projects were extended, and adapted as necessary, to Brazil, in particular the following:

- The Posts and Salaries Programme, which sets criteria for the management of employees' remuneration with the aim of respecting the internal equilibrium and external competitiveness;
- Management Appraisal, with the evaluation of 72 executives (senior management);
- The Performance Appraisal Programme, aimed at standardising the methodology and processes used, by establishing planning procedures, goals, monitoring and appraisal of individual performances;
- The Benefits Programme, similar to the Flex Plan adopted in Portugal.

Third EDP Meeting

Entitled "An Iberian Smile", and part of a policy of proximity and communication with the Executive Committee, this was another annual meeting of EDP Group employees, in this case a cross-border one. The event, now a regular feature, took the form of five separate sessions, three in Portugal and two in Spain, always with the participation of employees from EDP, HC Energia and Naturgás. The result was five busy days of dialogue, debate and examination of EDP as an Iberian group.



International Labour Regulations

A set of International Labour Regulations has been in force since 2004. They are intended to standardise rules and practices in the movements of employees between Group companies of various countries. These regulations are in a transitory phase and are due for review in early 2006.

2.4. Remuneration

EDP Flex Plan

In 2005 a study was carried out of the level of satisfaction with the Flex Social Plan, implemented in 2004. The results show a high degree of satisfaction – 75 percent of employees surveyed – with the package of benefits provided. The majority of employees are satisfied with the plan's overall structure, and particularly with the benefits granted.

Salary studies

As in previous years, there was an analysis of salaries paid to senior managers, second-tier managers and more qualified senior executives who took on functions of greater responsibility during 2005.

Profit-sharing

In 2005, we continued the principle of former years of sharing part of the previous year's profits with employees. The overall sum appropriated in this operation was EUR 24.5 million.

This appropriation once again took into account the Group's overall economic performance, the response that companies gave to the wide variety of challenges facing them over the year and the weighting of each employee's contribution to the productivity of his/her team.

2.5. Prevention and Safety

For EDP, work and safety have always been an inseparable pair. The Group's safety policy demonstrates the values of respect for the dignity and integrity of people and their quality of life, supported by conditions of health and safety at work..

The principles of the Safety Policy for the EDP Group are:

- To ensure a safe and healthy work environment;
- To promote training about the risks involved in the activities of all workers;
- To protect plants and equipment, ensuring proper safety conditions;

- To minimise the risks to people and the environment that might arise from normal work;
- To accept safety as an integral part of the quality of the services and products of the Group's companies;
- To guarantee that no situation or emergency service puts anyone's life in danger.



Strategic Board for Prevention and Safety (CEPS-EDP)

The Strategic Board for Prevention and Safety was set up to ensure greater involvement, accountability and standardisation of good practices, and to support the Executive Committee in safety management at EDP, defining common strategies, analysing the progress of the safety programme and providing guidance.

The CEPS-EDP is chaired by the Chairman of EDP's Executive Committee and includes representatives of the Boards of Directors of EDP companies and those responsible for health and safety at work. It meets at least three times a year.

Safety at Work Activities

Respecting the commitments expressed in the Safety Policy Declaration, EDP undertakes to continuously seek to improve standards of safety and quality in pursuit of the assumed objective of "Zero Accidents, No Injuries". In this context, various actions were taken in 2005 to prevent accidents at work, including service providers, the protection of plants and assets and the minimisation of risks to third parties that might arise out of normal work in our companies.

Measures continued to be taken to consolidate the management system for safety, hygiene and health at work (SHST), with reference to the OHSAS 18001:1999 standard and the specifications of the International Labour Organization expressed in Recommendation ILO-OSH 2001.

Work continued to implement the 'Safety Certificate' and the 'Safety Passport', prevention instruments that will be a worthy contribution to safety at work, based on preparing people, particularly service providers, in risk awareness and control. As from 1 January 2006, the Safety Passport will be compulsory for all service provider workers in the electricity generation and distribution industries.

SHST Certification of Generating Centres

All of EDP Produção's 26 major hydraulic generation power stations as well as the thermal ones are certified for Health and Safety at Work by Lloyd's Register Quality Assurance, with the exception of the Ribatejo power station, whose certification process is under way. In 2005 six small power stations of the Tagus-Mondego system were certified, and certification of the remaining small hydroelectric power stations is expected in 2006.

Safety and Citizenship

EDP participated in the technical event promoted by the National Association of Professional Fire-fighters in Lisbon and Oporto, aimed at orientating and informing fire-fighters as to how to act when fighting fires in the electrical grid or in its proximity.

Fourth EDP Safety-at-Work Meeting: "Sharing to Improve"

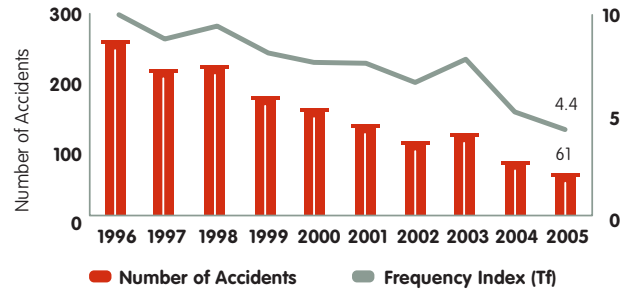
The Fourth EDP Safety-at-Work Meeting, entitled "Sharing to Improve", was aimed at enhancing the Group's safety practices through the exchange of experiences between EDP Group companies, including those operating outside Portugal.

The issues of safety management, safety in work performed by service providers and safety and well being were discussed before an audience of nearly 400 people, including EDP managers and employees, service providers and entities such as the Institute for Health, Hygiene and Safety at Work (ISHST), the Inspectorate-General for Labour (IGT) and the Directorate-General of Geology and Energy (DGGE).

Some figures

The number of occupational accidents involving EDP workers decreased very significantly, and consequently the frequency rate declined, continuing the trend of previous years. The number of occupational accidents was 61, or a frequency rate of 4.4 accidents per million hours worked.

Accidents and Frequency



We still unfortunately have to mourn the deaths, from accidents at work, of seven EDP service provider workers.

Recognition

EDP's work on safety management practices was recognised through the granting of national and European awards and honours:

- Prevent More, Live Better at Work Award [2005], with an Honourable Mention awarded by the ISHST to EDP for the CPPE's Prevention and Safety Management System and for the process of certifying the generating centres;
- Good Practices Award 2005 – "Stop that Noise", promoted by the European Agency for Safety and Health at Work [2005], with an Honourable Mention for the study "Implementation and Control of Noise Reduction Methods", on the noise control programme developed at the Setúbal Power Station;
- The investigation of accidents at EDP, selected by the European Agency for Safety and Health at Work for the meeting to promote good practices designed for the new members of the European Union, held in Malta in July 2005.

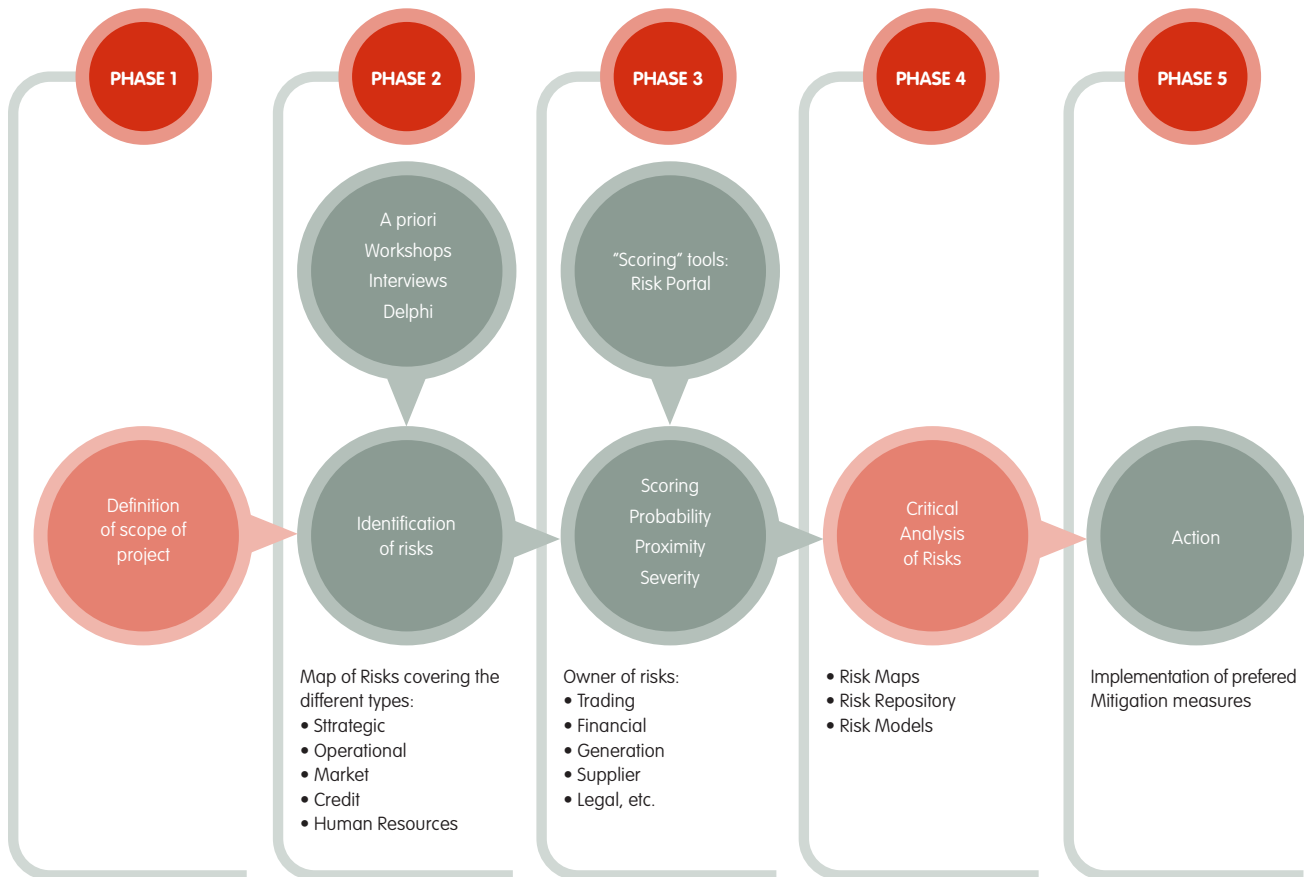
3. RISK MANAGEMENT

In 2005, under the coordination of the Risk Management Department, EDP continued the work of previous years in implementing a culture of risk management, based on the necessary policies and processes, in three areas: methodology for identifying and following up on risks, risk governance and monitoring of financial and business risks.

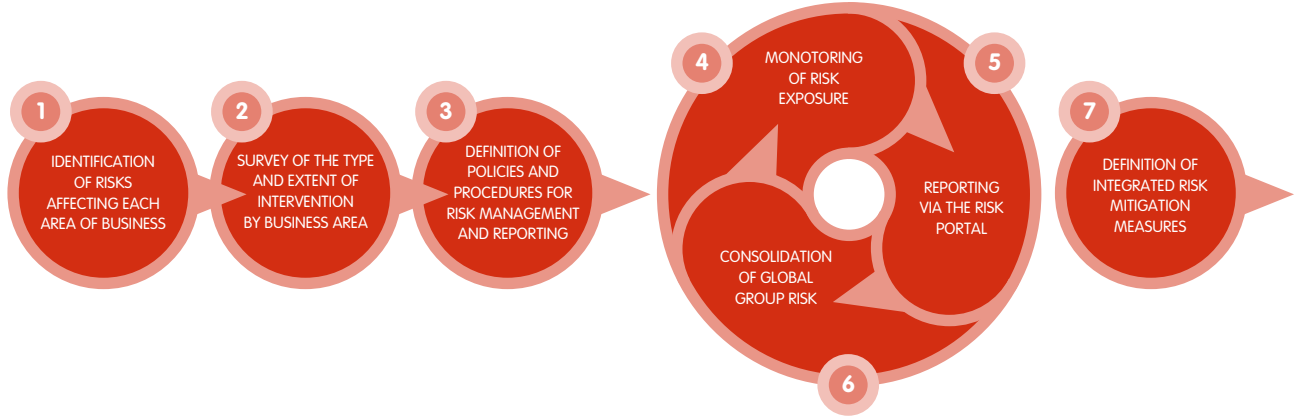
3.1. Methodology for identifying and following up on risks: the Risk Portal

Using the experience gained in previous endeavours to deal with risks, a methodology was developed for identifying, "scoring" and updating risks. This is being incorporated into a software tool, using open-source web technology. It has been called the EDP Group's Risk Portal.

METHODOLOGY FOR IDENTIFYING AND "SCORING" RISKS



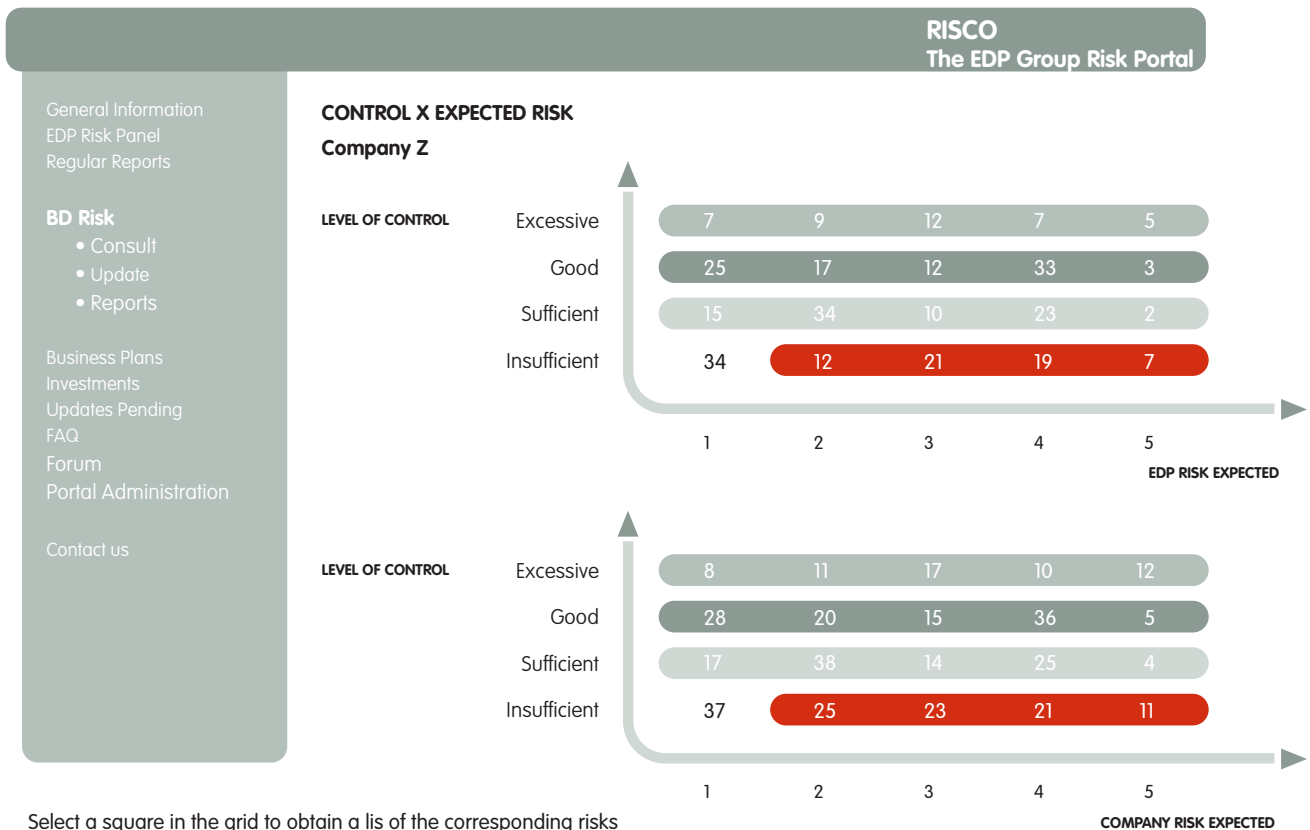
THE RISK PORTAL IS A KEY TOOL FOR RISK MANAGEMENT WITHIN THE EDP GROUP



Initially an operational prototype was built, based on which a detailed specification was produced. This is at present in an advanced phase of programming, and the Risk Portal is expected to come into operation at the end of the first quarter of 2006.

The Portal will be accessible from all the geographical areas where EDP operates, permitting the remote

consultation and updating of the risks identified in each business unit, in accordance with each user's authorisation. It will also provide an extensive range of reports which will make it possible to obtain an overall view of the risk to which the Group is exposed, as well as the drill-down from a compound risk to the individual risks that give rise to it. It will then be possible to identify the most appropriate mitigation strategy.

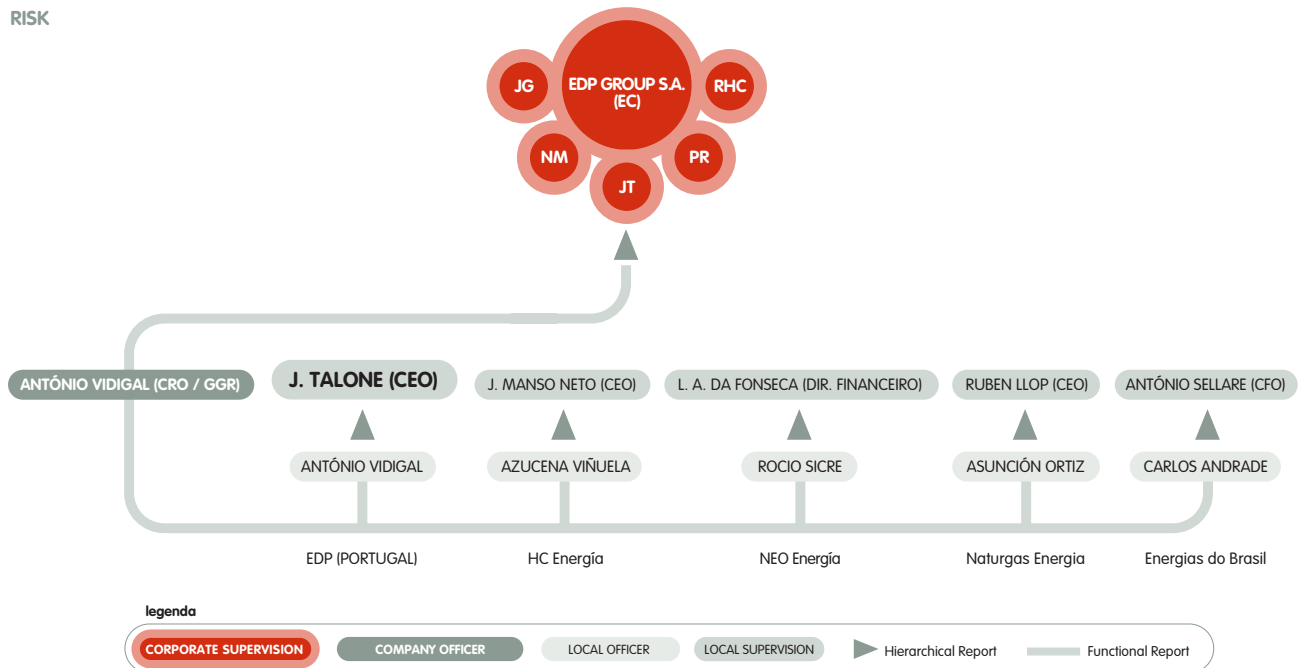


3.2. Risk Governance at EDP Group

During 2005 the Group's Risk Policy was approved, setting guidelines for Risk Management at EDP. To support the implementation of this policy, a Risk Control structure like the one that exists at the corporate level was set up in all the relevant companies.

Due to its high volatility and VaR, the behaviour of a forward-swap type derivative, which was acquired to hedge against the long-term interest rate risk implicit in the termination of the PPAs, was monitored daily. Over the year its VaR remained between EUR 27 and 37 million.

RISK



Risk Managers were appointed in companies for this purpose. These operate a double reporting mechanism, as they are answerable functionally to the Risk Manager of the Corporate Centre and also to a member of their company's senior management.

Characterisation continues of the debt of Energias do Brasil. Risk Control has been selected as the tool to be used for the risk management of this portfolio, and the provision of regular risk measurements of this component is planned for 2006.

3.3. Monitoring of Financial Risks

Group debt

The main financial positions of the Group's debt were regularly monitored in 2005, demonstrating that through the prudent and judicious use of derivatives, EDP was able to keep debt volatility low. The Value at Risk (VaR)⁽⁷⁾ was kept below EUR 24 million (0.31 percent of the debt).

(7) By the Monte Carlo method, at 5 days with 95 percent confidence, using RiskMetrics methodology.

Pension Fund Assets

Over the year there were alterations in the Pension Fund portfolio, using non-harmonised instruments for which risk measurement is not direct. The process of identifying and systematising risk management procedures is under way, and is expected to be completed in 2006.

The current value of non-harmonised assets is EUR 900 million, and the respective VaR is 11.27 percent. These values are considered adequate for the portfolio, and its behaviour is shown to be controlled when subjected to a series of stress tests.

Assets of RE Energy

Systematic measurement was continued of the risk associated with the energy fund of RE, the EDP Group's reinsurer, whose assets are managed by Kredietrust and monitored at EDP by the Pension Fund Department. The VaR at one year remained below 6 percent of its present net value.

3.4. Monitoring of Business Risks

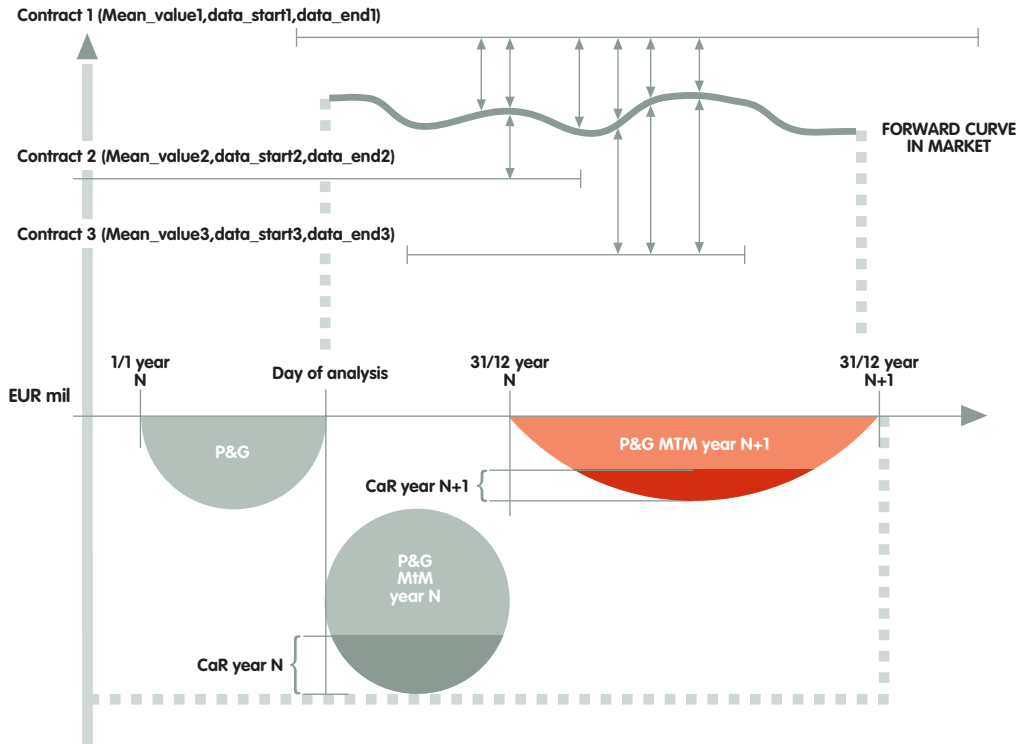
Commercial Area

In 2005, the market and credit risks associated with the EDP Group's commercial portfolio in Iberia started to be studied systematically. In addition, an authorisation procedure system started to be defined in Spain. This may be extended to other EDP Group companies during 2006.

The Market Risk is considered to belong to the portfolio of customers in the Non-binding System, for which the Cash-Flow-at-Risk (CaR) was monitored with a confidence interval of 95 percent in 2005 and 2006, based on the start and end dates of contracts in the portfolio. This took account of consumption profiles and market price volatility. This information is at present incorporated into the fixing of prices and maturities to be practised in new contracts with customers.

With regard to the Credit Risk associated with the EDP Group's customers in Portugal, the results obtained have encouraged a review of the processes associated with granting credit and monitoring the credit given to customers. KMV's EDF methodology has been chosen for this purpose. This project will be developed during 2006.

The Cashflow-at-Risk in the EDPC portfolio is calculated regularly on the basis of billing data and the forward curve in the market:



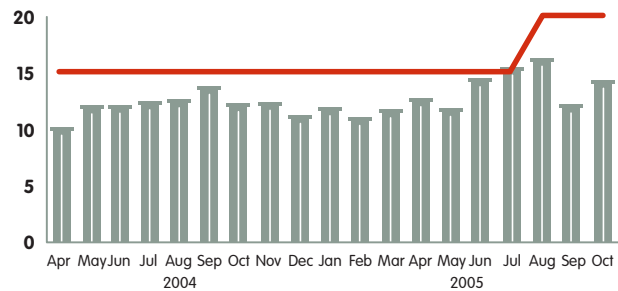
Energy Management

During 2005, we continued to develop risk measurement systems in energy management. It is worth noting the development of the MUR system. This is due to come into production in early 2006, providing for more efficient processing of the information needed to control the risk associated with this activity.

During the year, the monitoring of the positions of this activity showed a total Cash-Flow-at-Risk below the established limit of EUR 20 million, as well as the

credit risk incurred. Remedial actions were defined in the few cases where the limit was exceeded.

Evolution of "Cash-Flow at Risk" (millions of euros)



4. INFORMATION SYSTEMS

4.1. EDINFOR

In early 2005, at the end of a complex negotiation process, EDP signed a strategic partnership agreement with LogicaCMG. Some 60 percent of the share capital of Edinfor was transferred to LogicaCMG, and the latter company signed a full outsourcing contract with EDP to operate and maintain the Group's information systems.

As part of this partnership agreement, LogicaCMG took on various commitments:

- Edinfor would be the LCMG Group's exclusive vehicle for the IT business in the Iberian Peninsula market;
- Edinfor would maintain its Portuguese identity;
- Within a period of one year from the date of the agreement, one centre of excellence for SAP/ISU and one for printing and enveloping would be set up in Portugal;
- Edinfor's employees would be provided with training and access to research centres;
- The best endeavours would be made to increase the number of Edinfor's employees, accompanying the growth in business.

Edinfor in fact operated as LogicaCMG's sole representative in the IT area in the operations carried out in Portugal and in all regions of Spain, while keeping its head office and operational base in Lisbon. During 2005, Edinfor's business in Spain grew by 65 percent in relation to the previous year.

Preparations were made for the launch of three International Centres of Competence (ICCs) in the areas of SAP/ISU technologies, printing and enveloping, and one more, not stipulated in the agreement, in the area of geographical information systems. These three centres, launched in January 2006, involve more than 500 employees and have orders in their portfolios from Spain, France, Belgium, the United Kingdom and Brazil.

In 2005 Edinfor finalised the pilot installation of the UBS – Utilities Business Suite, its new business management product. This is the result of an R&D project, and the first contracts for supplying it were ensured. Around 26,000 hours of training were provided.

Edinfor's workforce grew by 8.4 percent in 2005, reaching 1,535 as at 31 December 2005.

4.2. Information Systems Management

4.2.1. Alignment of the Group's systems

The alignment of the information systems of the EDP Group's companies in Iberia, aimed at creating an Iberian IT platform, was one of the priorities for 2005. EDP, HC Energía and Naturgas Energía developed a joint project that, by determining business requirements and defining the reference model, set the goals to be achieved with regard to information systems for the next three-year period.

The project started in the second quarter of the year. It involved all the EDP Group's business areas and the systems departments of the three companies. It established the Future Integrated Architecture, including in particular:

- Functional architecture;
- Applicational architecture;
- Technological architecture.

This definition led to the production of the EDP Group's Strategic and Systems Convergence Plan. This details the 115 projects to be implemented as a priority over the 2006-2008 three-year period. They chiefly involve the commercial area and transversal projects.

The projects were divided into four of the Group's Convergence and Systems Evolution Programmes, in particular:

- Supporting business convergence: 42 projects;
- Monitoring the evolution of corporate functions and transversal processes: 23 projects;
- Monitoring business evolution: 23 projects;
- Technological projects: 27 projects.

Through the implementation of this plan, the EDP Group is expected to achieve significant cuts in the costs of maintaining and operating ITs, making it possible to invest in strategic areas and increase the Group's competitiveness and efficiency.

4.2.2. Integrated Systems Architecture

The architectural state of the Group's systems is constantly and naturally evolving, due to new business requirements and the need to align systems in Portugal and at the Iberian level. This ongoing mutation requires close supervision of the situation and the development of initiatives, standards and guidelines for the appropriate framing of new solutions for convergence and integration.

Functional Architecture

A survey was carried out of the Group's functional architecture, identifying the requirements for a management support and maintenance tool for this architecture.

Applicational Architecture

Applications and interfaces were identified, by business process.

This initiative is the first step towards the introduction of principles of simplification and rationalisation of applicational architecture.

Mapping between applications and respective business areas is underway with a view to defining the applicational portfolio.

Technological Architecture

Guidelines were defined for implementing new projects, based on the virtualisation of servers, in order to bring about agility and optimisation of costs in the delivery of IT services.

Various applications are currently in production based on an architecture called 'container', in an allusion to the dynamic management of resources; this makes them adjust better and more swiftly to real needs.

This is the area that has demanded the most attention, due to the care needed to guarantee the convergent evolution of the present technological architecture towards future architecture.

Far-reaching changes are also under way in connection with Transformation Projects. These projects are the responsibility of LogicaCMG, which has undertaken to develop them in Edinfor, and in EDP's infrastructure, in order to be able to provide the outsourcing services specified in the contract.

In the context of technological architecture, it is worth noting the following initiatives that have already been concluded:

- Selection of a technological integration platform ('middleware') for SAP systems;

- Definition of the 'container' technological infrastructure for supporting the EDP Group's IT systems. Certain applications are already functioning on this platform, producing an average reduction of 50 percent in the resources proposed by suppliers;
- Planning of the integration of the EDP, HC Energia and Naturgas Energia data networks into an EDP Group Iberian data network;
- Analysis and selection of mobile equipment for access to corporate mail and agenda, and Tablet PC-type equipment for meter-reading teams.

4.2.3. Standardisation

In order to simplify and rationalise the use of resources, cut IT costs and ensure a convergent and uninterrupted evolution of the Group's architecture, the following measures were taken to standardise the Group's information systems:

- Definition of the Reference Architecture for Decision-making Systems;
- Definition of the Systems Integration Platform;
- Definition of the guiding principles for the evolution of the EDP Group's ITs;
- Definition of concepts regarding the naming of applications;
- Creation of the inventory of applications, modules, interfaces, etc., including the identification of criticalities.

4.2.4. New Outsourcing Contracts

The sale of 60 percent of Edinfor to LogicaCMG, the creation of a partnership and the signing of a full outsourcing contract made a significant change to EDP's relationship with its IT suppliers.

This new situation brought significant cuts in IT operating costs, estimated at EUR 100 million over ten years.

At the same time, a new business approach in the IT market led to significant cuts in the costs of software licensing and projects. These cost cuts were accompanied by a contractual reduction in the project risks through the imposition of penalties.

Besides the management of the outsourcing contract, the management of all IT contracts was centralised in the Information Systems Department, making it possible to achieve synergies in the reuse and negotiation of licensing and infrastructures within the EDP Group.

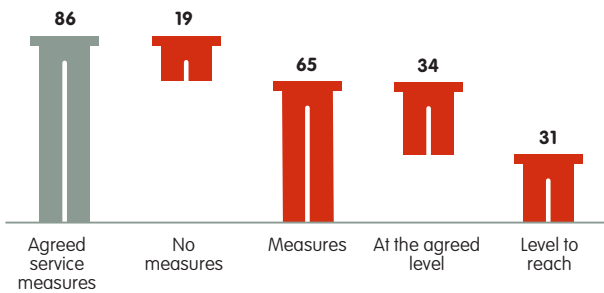
Along with the management of the outsourcing contract with LogicaCMG/Edinfor, relationship and control processes started to be implemented in 2005, leading to more effective management of service and consumption levels in EDP.

In order to comply with the levels of service required by EDP in the current outsourcing contract, a Transition Project has been launched jointly with LogicaCMG/Edinfor, covering all IT services used by EDP regarding infrastructures, user support, application maintenance and printing and enveloping.

In connection with this project, far-reaching changes to relationship processes and channels, technological transformations and standardisation of operational practices are under way, with a view to guaranteeing the quality of ITs and the effective monitoring and control of them.

Of the 86 service measurements agreed, 65 are already measured and 34 of these are within the agreed level. We are confident that most of these service levels will be measured in the first quarter of 2006, and that at the end of the second quarter of 2006 the majority will be within the values contracted. This will increase EDP users' satisfaction with the ITs.

Monitoring of Service Measurements



All consumption measurements can already be measured, so that a pay-per-use model can be used, which in itself brings about greater rationality in the use of resources.

4.3. The Group's Information Systems

4.3.1. 2005 Strategic Projects

Standard Low-Voltage (BTN) Liberalisation Programme

With the liberalisation of the electricity sector, now to be extended to low-voltage domestic customers, the necessary changes began to be made in 2005 to EDP's present information systems in order to:

- Support the business processes of EDP Distribuição and EDP Comercial, including the commercial and marketing component, so that they suit the state of the market;

- Enable EDP Distribuição, as a body entrusted with this task by the ERSE, to provide the supplier change service to the various commercial agents who may appear in the market.

As agreed with the ERSE, two dates have already been defined that will constitute important landmarks:

- 7 September 2006, when low-voltage customers will be able to make their choice and request a change of supplier. In this phase the information systems will provide part of the automated functionalities. The remainder will be implemented gradually up until the following phase;
- 2 January 2007, when the systems will provide all the fully automated functionalities.

For this purpose the BTN Liberalisation Programme was created. The integration of various projects means there is coordinated management to provide integration between them and to redefine all the architecture of EDP's commercial and marketing systems.

Iberian Trading System (SIT)

In 2005, the Energy Management Business Unit launched an initiative for an Iberian trading system covering the whole chain of value in the areas of generation and activation in EDP's and HC Energía's wholesale energy market. It focuses on the following areas:

- Physical and financial, short- and long-term purchase-and-sale contracts and respective settlements;
- Management of the whole operational process of fuel purchasing;

- Component of bidding and settlements on the Spanish spot market (OMEL);
- Component of analyses and production of consolidated information;
- Component of risk management.

Environmental Accounting System

As from 2006, the EDP Group's Environmental Accounting System will reveal the accounting reality of these costs, making it possible to improve planning and control of the values associated with EDP's environmental management work.

4.3.2. Integrated projects for the Group**EDP Portal**

In 2004, EDP launched an initiative to provide the EDP Group with an Intranet, Internet and Extranet Corporate Portal. This offers a communication platform and access to services to all EDP's interlocutors, and strengthens the EDP brand in the national and international market. This initiative will be concluded in 2006.

Management Control System

In 2005 a Management Control System was implemented, with a view to providing a set of functionalities and mechanisms to support the management cycle for a number of new business units in the electricity supply area.

Who is Who

Joint creation by the EDP areas in Portugal, HC Energia and Natargas Energia of a shared information platform for the employees of these three entities, enabling them to search for companies, people and functions in Iberia. This is expected to be extended to Brazil in 2006.

5. TECHNOLOGICAL INNOVATION AND DEVELOPMENT

The Group's technological innovation and development activities are coherent with its business mission and vision. Creating value for the Group is a strategic guideline for this type of project. The aim of these activities is to anticipate future needs, to prepare resources and procedures to sustain and increase the operating margin and technical quality, and to improve employees' technological knowledge.

The nature of the technologies used in the Group's business, and of the equipment and systems for producing, distributing and marketing the family of products and services it provides to the market, emphasise the need to study and integrate solutions, either autonomously or in partnership. The technological innovation and development work carried out in 2005 may be grouped into the following strategic areas:

- Pursuing excellence in the energy generation and distribution businesses. In relation to generation, we should highlight the Integrated Plant and Equipment Maintenance Engineering System (SITEM). The purpose of this is to develop and consolidate methodologies, engineering systems, maintenance management and technical improvements in the most critical equipment. Also noteworthy is the Safety and Reliability of Industry Products, Systems and Structures (SAFERELNET) Project. This promotes interchange, dissemination, harmonisation and standardisation with regard to safety, risk and maintenance engineering, product reliability, systems and industrial installations at the European level. With regard to distribution, it is worth noting the INFRANET projects, aimed at developing a system for inspecting compliance of high-voltage lines with safety distances, using laser and REMOT industrial equipment. The purpose of this is to set up a communications network to combine the information gathered in dispersed fault location devices, installed in medium-voltage lines, thus allowing the smart location of the faulty branch line;
- Offering innovative products and services to energy market customers and added value services, particularly:
- Energy consultancy services, through, for example, the incentive programme for the rational use of electricity, in particular by classifying consumption and by studying solutions for improving energy efficiency;
- Efficient use of energy in the home, especially the campaign to promote heating by energy accumulation, as a contribution to saving and optimising energy resources by switching peak hour consumption to off-peak times;
- Energy telemetering systems, especially the conclusion of the campaign to replace the meters of medium-voltage customers with advanced meters, with the possibility of using telemetering technology and enabling these customers to access the non-binding market;
- Power Line Communications (PLC) telecommunications systems. Especially the start of the experimental use of electricity distribution networks for broadband telecommunications services, overlaying normal energy traffic.
- Developing appropriate solutions for sustainable development and the environment, in particular:
- Management of the environment (environmental monitoring, impact reduction, etc.);
- Renewable energies, especially the Pico Wave Energy Plant, which uses an oscillating water column; after additional investment for renovation work, this produced its first kWh. Also the new CEODOURO project for the installation of a wave energy plant, under construction at the end of the breakwater at Foz do Douro;

- New fuels and combustion processes. In the micro-generation area, in addition to Labelec's multi-technology platform, an energy generation system was installed in 2005 based on a hydrogen fuel cell. Also noteworthy is the Advanced Pulverised Fuel Power Plant project, intended to develop and demonstrate a new generation of pulverised coal-fired thermoelectric power stations;
- Developing and supporting technical and scientific development through:
 - Active participation in forums in this area (CIRED, CIGRÉ, EURELECTRIC, DOBLE, IEEE, UIE, etc.);
 - Partnerships in selected activities correlated to the Group's activities, developed with universities and R&D institutes.

We should note the decision to concentrate the coordination of Technological Innovation and Development activities in Labelec, particularly as far as Iberia is concerned. For this purpose a committee was set up comprising representatives of the various Group companies.

Laboratory Studies and Activities

Laboratory studies and activities played a prominent role in 2005, in particular:

- Support for maintenance and diagnosis of breakdowns of both infrastructure (lines, cables and substations) and equipment, appliances and materials, using advanced physicochemical diagnosis technologies;
- Monitoring the water quality of reservoirs (cases of eutrophication and pollution problems) and an environmental control programme at thermal power stations to treat waste water, circuit water and industrial waste, as well as air quality control;
- Technical consultancy in connection with the study of electrical networks, the quality of the voltage wave, protections and automatisms, coordination of insulations and the dimensioning of earth networks.

6. PENSION FUND

In 2005, the management of the EDP Group and REN Defined Benefit Pension Fund concentrated on three main areas:

- Institution of a transition phase;
- Preparation of the future management model and associated governance structure;
- Making the contribution policy tax-effective.

Institution of a transition phase

The transition phase is needed in order to introduce discipline and control to management practices regarding Pension Fund assets.

A target breakdown was produced based on classes of assets and investment budgets for a set of pre-selected entities, with a view to going ahead with the integrated and balanced management of assets and liabilities.

An average maturity band between 2013 and 2016 was chosen to anticipate the impacts of the additional responsibilities caused by the inclusion of the pre-retired and early-retired population in the Pension Fund.

There was a very strong emphasis on the control, measurement and management of risk, both through investment solutions appropriate for cash-flow matching and growth strategies, and by defining principles of prudent appreciation and harmonised reporting requirements.

Preparation of the future management model and the associated governance structure

The future Pension Fund management model was widely discussed within a series of possible alternatives that represent a substantial improvement over the present model.

The basic objective is to develop an integrated management platform, with a clear demarcation of roles, without redundancies, based on a perspective of specialised multi-manager diversification according to classes of assets.

The key characteristic of the governance structure thought suitable for accommodating these features is that the entire decision-making process is centralised in a collegial body. This will ensure a broad representation of the various people involved, internally and externally, in the life of the Pension Fund.

This development is in line with the new legal regime for pension funds, following the transposition of the European directive into the Portuguese regulatory framework.

Making the contribution policy tax-effective

The taxation component associated with the pension fund contribution policy has taken on a decisive role.

A thorough study was carried out of the whole history of the Pension Fund, in terms not only of reconciling contributions made since the fund was first set up, but also of checking the salary assets according to a standard criterion for each of the years in question.

Since the target population did not belong to the Pension Fund at one single point in time, but did so in a phased manner, and as there were revisions of actuarial assumptions that were decisive for the increase in responsibilities for defined benefits, it was possible to find a very appreciable amount of tax credits. These contributed to the rise in tax deductibility in 2005.

Including the taxation component in the analysis of the pre-retired or early-retired population who will be part of the Pension Fund will make for more effective financial planning.

7. SUPPORT SERVICES

In 2005, the support services unit, EDP Valor, in keeping with the strategic framework underlying its constitution and its alignment with the Group's objectives, carried on in various ways with the drive to consolidate. It also developed new work areas, in particular:

- Expansion of the services portfolio and the customer base;
- Concentration of efforts to cut and rationalise its customers' operating costs, and to energise the management of the various assets in its charge.

In connection with expanding services and increasing customer numbers, the following are worth noting:

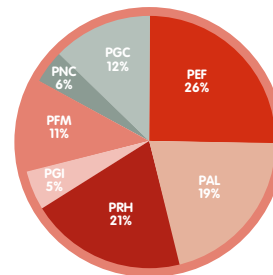
- Restructuring and reorganisation of activities in training, recruitment and selection, included in the Training and Documentation Platform, set up in late 2004;
- Restructuring the EDP Group's supply activities, by creating and starting up two new platforms in mid-2005:
- The Group's Negotiation and Purchasing Platform, designed to safeguard as well as possible all the Group's acquisitions of goods and services, with the exception of fuels and information technologies;
- Contractual Management of Technical Supplies Platform, which safeguards the management of inventories and of warehouses;
- Establishment of the Iberian Negotiation and Purchasing Platform, accountable to a Purchasing Coordinator Committee, with responsibility for carrying out the acquisition of goods and services for common use by the various companies in Iberia or for a high sum. It is compulsory to use the Sinergie information system as a support tool for all purchases over EUR 75 thousand;

- Extension of the Group's insurance portfolio management, due to the inclusion of HC Energia in some of the policies in the vast number negotiated by EDP Valor;
- Extension of EDP Produção's logistics activities;
- Start of the payments abroad system, previously in the sphere of corporate responsibilities.

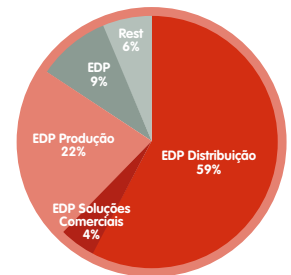
As far as the profitability of assets and customers' external supplies and services are concerned, EDP Valor produced significant savings in renegotiation with third parties, and continued the process of selling EDP assets that are not part of the core business, or of possibly making better use of them.

The breakdown of services rendered in 2005 by platform of origin and by customer was the following:

By Platform



By Customer



Over 2005 there were various management initiatives aimed at improving the quality and efficiency of services and at continuing customer satisfaction, in particular:

- Organisation of courses to improve the skills and motivation of company teams (training programme, employee meetings and events, etc.);

- Partial implementation of the Service Management Model to support full service provision, in particular the management of the services catalogue, processing complaints and suggestions and the service management report;
- Development of the Quality Management Programme (Valer +), launched in 2004, with various project lines, shown in the chart below, making it possible in 2005 to:
- Develop the management project through processes whose study, design and documentation in a specific system was practically completed at the end of 2005;

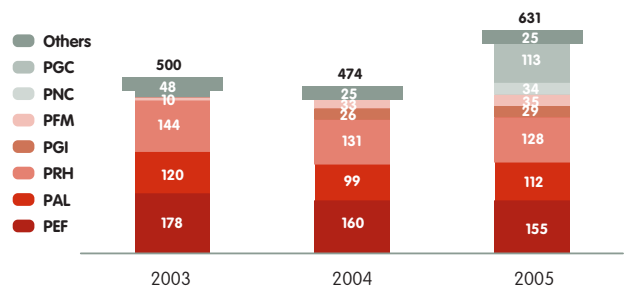


- Launch the project to enhance the management of insurable risks in the EDP Group, also practically completed at the end of the year, producing the model that will support the management of this sector of activity in 2006;
- Launch the project for the implementation of the Balanced Score Card, part of a number of other initiatives to improve planning and control mechanisms and to overhaul the company's Management Information System; at the end of the year the project was 60 percent completed;

- Launch three new projects in the area of the company's optimisation and sustainability, with a view to reformulating the current Business Model, the Customer Relations Model and EDP Valor's Analysis of the Potential for Growth;
- Continue, in the IT area, to develop and implement various projects to support the improvement in the efficiency and quality of services rendered.

At the end of 2005, EDP Valor had a staff of 631, covering the whole country, and organised as in the chart below:

Staff Distribution - EDP Valor



The evolution of the activity of the various platforms was the following during 2005:

Economic-Financial Platform (PEF)

The PEF provides services in the areas of budget, treasury, accounting, supervision, third-party accounts and management of insurable risks. The indicators that characterise the size of the platform in 2005 are the following:

- Accounting services for 36 companies;
- Processing around 346,600 suppliers' documents and 14,400 issues of invoices to customers;

- Payment of 359,400 documents;
- Processing EUR 17.2 million worth of insurance premiums;
- It also prepared the tax files, transfer price files and replies to various enquiries from official entities to customers.

Supplies and Logistics Platform (PAL)

The PAL provided support services (until mid-2005) in the negotiation and purchase of goods and services of transversal categories to businesses, as well as ongoing fleet management, installations management and general office services. Its work in 2005 included the following:

- 366,300 m² of installations managed (monthly average);
- Achievement of EUR 3 million in direct savings as a result of negotiations;
- 3,823 vehicles managed (average monthly numbers);
- 1.1 million documents processed.

Human Resources Platform (PRH)

The PRH provides processing services for the control of remunerations and pensions, and carries out all the administrative support work for the Human Resources areas.

Besides its vast statistical output and maintenance of the master data for around 8,786 employees and 18,415 pensioners, the PRH processed around 105,400 salary and 221,000 pensions reports in 2005.

Property Management Platform (PGI)

The PGI restructures and values the Group's property assets, and in 2005 it implemented a programme for:

- Raising funds through the sale of unused assets (co-operating with another Group structure to raise EUR 130 million over a three-year period);
- Significantly cutting occupancy costs; and
- Creating surplus value through operations to optimise and relocate services.

In 2005, its work can be quantified as follows:

- Management of 8,289 surplus electricity buildings;
- Analysis of 52,400 m² of area for intervention;
- Management of work projects budgeted at EUR 9.3 million.

Training and Documentation Platform (PFM)

The essential aim of the PFM is to contribute to aligning training to the needs created by the Group's strategy, through the implementation of a Training Plan comprising a significant investment in improving transversal and specific competencies.

In 2005, the PFM – which saw the confirmation of its status as an Accredited Training Entity – contributed to the provision of 202,427 training hours, of which 168,686 were for the Group's companies and 33,741 for service providers working with EDP.

Besides this heavy training workload, which was much greater than in 2004 and made a significant contribution to increasing the key indices in relation to the qualification of the EDP Group's body of human resources, the PFM produced and implemented the EDP Group's Training Manual, an important repository of transversal processes and procedures for the management of the EDP's training cycle.

In the documentation sector, the PFM implemented a new documentation management application through which it provided the Group with 30,700 documents in 2005.

Negotiation and Purchasing Platform (PNC)

In line with the strategic aims of rationalising costs, with gains in synergies through the restructuring of the EDP Group's supply activities, a structure was created to centralise the Group's purchasing and facilitate the achievement of a number of goals. These include controlling and consolidating the gradual reduction of operating costs, developing competencies in the negotiation and purchasing functions, integrating the management of suppliers and improving the levels of service provided to customers to allow them to focus on their business areas.

It is part of the responsibilities of EDP Valor, through the PNC, to consult the market, negotiate, propose adjudication, establish contracts and register and classify suppliers, and for the business units to define needs and provide technical specifications and the technical validation of bids.

The PNC has been operating since June 2005, and during this time it has carried out:

- **Negotiation**

Number of consultations/ contracts– 151;

Estimated value of contracts– EUR 111 million;

Adjudicated value of contracts– EUR 102 million;

Savings achieved on the supplier's first offer – EUR 6 million;

- **Integration and optimisation**

Implementation of the Sinergie 'Supply Integration for Energy' software tool, to be extended to EDP and HC;

- **Registration and Classification**

Implementation of the methodology for registration and classification of suppliers by levels;

Contract for the outsourcing of the information system and administrative validation of the registration of suppliers, included on the www.edp.pt web page.

Platform for Contractual Management of Technical Supplies (PGC)

Following the process of reorganising the EDP Group's supplies, we created the new platform for the management of contracts for corporate customer technical supplies, safeguarding the management of contracts for services and materials, the administration of purchasing, appraisal of suppliers and management of inventories and warehouses.

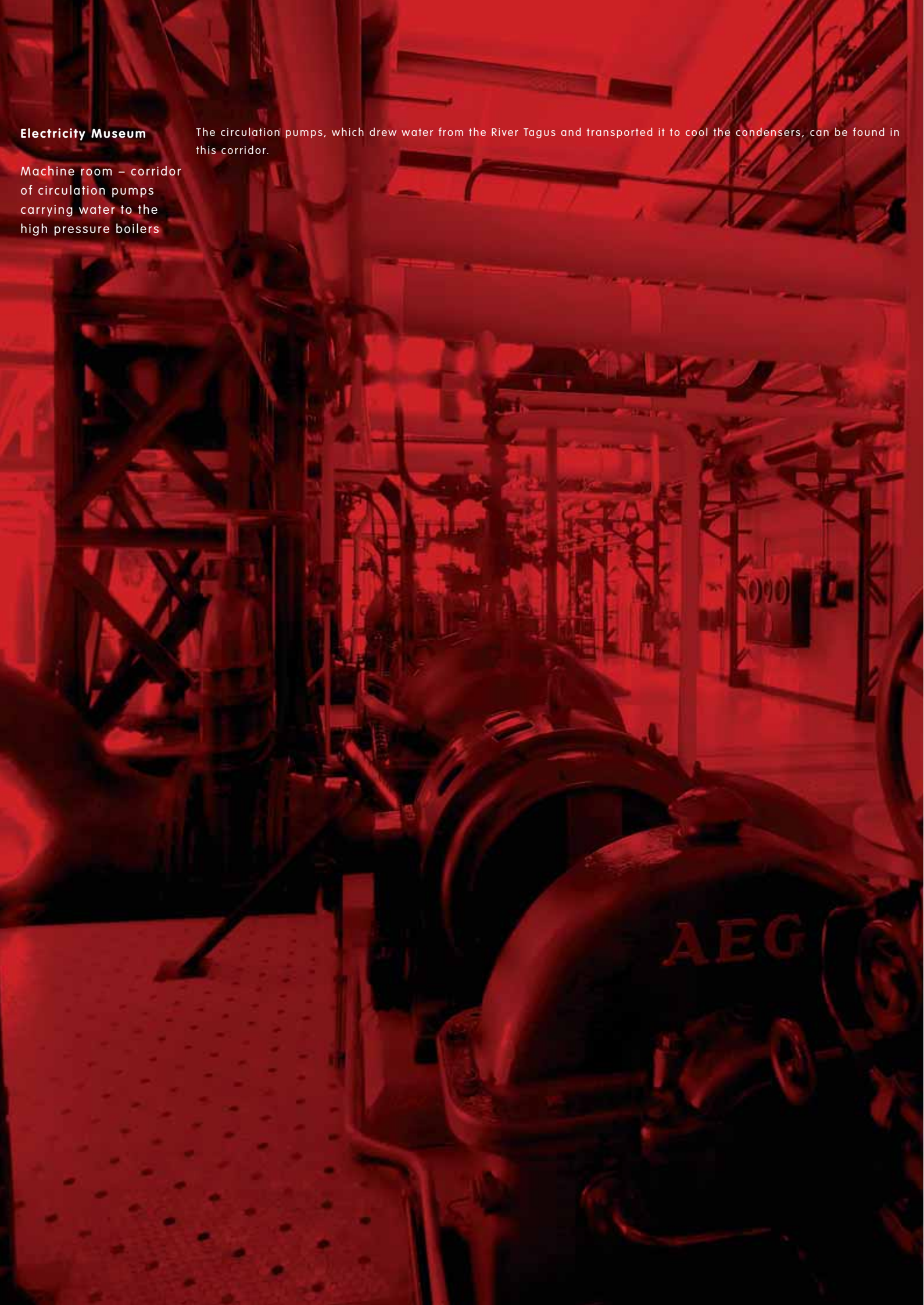
The PGC has been operating since June 2005, and from then until the end of the year it carried out:

- Specific generation supplies: EUR 75 million;
- Material distribution contracts: EUR 72.9 million;
- Distribution service contracts: EUR 64.8 million;
- Number of articles in warehouses (on average): 34,853;
- Number of purchase requisitions processed: 6,031 (monthly average: 2,010);
- Number of entry/exit movements: 31,648 (monthly average: 10,549).

Electricity Museum

The circulation pumps, which drew water from the River Tagus and transported it to cool the condensers, can be found in this corridor.

Machine room – corridor
of circulation pumps
carrying water to the
high pressure boilers



Electricity Museum

Auxiliary high-pressure
equipment room

The circulation pumps, carrying chemically treated water to the high pressure boiler, are an important feature of this complex area.



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As a security-issuing entity listed on Euronext Lisbon, EDP has given priority to maintaining a relationship of high transparency with investors and the capital markets, through a policy of continuous and frequent communication and by adopting the best organisational models and the best practices and conduct guidelines with regard to corporate governance. This has been achieved by monitoring the evolution of international trends and internally promoting reflection on these matters.

As a result of its communication policy, EDP disclosed 23 material events, and made 29 other communications and 17 announcements to the market during the year 2005. It was one of the security-issuing companies listed on Euronext Lisbon with the largest number of material events and other communications disclosed to the market.

Due to the priority given to the transparency that guides its relationship with the market, EDP is today one of the security-issuing entities listed on Euronext Lisbon that shows high indices of compliance with the CMVM's recommendations regarding the governance of companies. It is, furthermore, a pioneer in the adoption of measures of organisation and internal operation aimed at promoting best practices of corporate governance. Examples of this are the setting-up of the Audit Committee of the Board of Directors, consisting of independent non-executive directors, the publication of the EDP Group's Code of Ethics, the establishment of an Ethics Committee and the recent implementation of an internal communication channel to deal with irregular accounting and financial practices.

This chapter has been organised in accordance with the model provided in CMVM Regulation no. 7/2001 (amended by CMVM Regulation no. 11/2003 and CMVM Regulation 10/2005), presenting a summary of the most important aspects concerning the practices relating to the governance of EDP.

0. DECLARATION OF COMPLIANCE

0.1. In keeping with the provisions in CMVM Regulation no. 7/2001 (amended by CMVM Regulation no. 11/2003 and CMVM Regulation no. 10/2005), it is put on record that EDP, with the exceptions mentioned below in Point 0.2, fully adopts all the CMVM's recommendations regarding the governance of listed companies, namely:

- Recommendation 1 (Contact with investors);
- Recommendation 2, paragraphs b), c) and d) (Exercise of voting rights and shareholder representation);
- Recommendation 3 (Internal control system);
- Recommendation 4 (Defensive measures against public offerings for acquisition);
- Recommendation 5 (Composition of the Board of Directors);
- Recommendation 6 (Independence of the Board of Directors);
- Recommendation 7 (Internal control committees);
- Recommendation 8 – 1st part (Remuneration of the Board of Directors);
- Recommendation 9 (Independence of the remuneration committee);
- Recommendation 10 (Plans to allot shares).

0.2. The EDP's statutes establish a period of 15 days before each General Meeting for shareblocking, as a way of making it possible to determine, reasonably in advance, the composition of the shareholders who will take part in this meeting of the company body. This statutory period does not appear particularly lengthy – besides which the proof of share ownership only has to be provided at least eight days prior to the date of the meeting –, and is compatible with the legally established period of advance notice for public disclosure of the convening of the General Meeting. This has been applicable for several years and, during the period, it has not been shown to restrict the active exercise of voting rights by shareholders.

In any event, the Board of Directors has approved the presentation of a proposal for a statutory amendment which, on being approved by the Shareholders, will reduce these periods to five days, thus giving full compliance with the recommendation.

Indeed, EDP has been actively promoting the participation of shareholders at the General Meeting. In this regard, we should highlight the recent decision for the costs of issuing declarations of ownership and of share blocking, with a view to shareholders' participation at the Annual General Meeting on March 2005, to be borne by the company. In this way, EDP is adopting, in a pioneering way in Portugal, a measure that encourages the exercise of voting rights by the respective shareholders.

0.3. With regard to the CMVM recommendations adopted, the following table summarises the most relevant aspects:

| MEASURES ADOPTED FROM THE CMVM RECOMMENDATIONS | |
|---|--|
| CMVM RECOMMENDATION | MEASURES ADOPTED |
| I – Disclosure of Information: | |
| <p>Each listed company is required to ensure the appointment of a permanent representative for liaison with the market, respecting the principle 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.</p> | <p>Existence and development of the following channels of information with:</p> <ul style="list-style-type: none"> • Investor Relations Office (GRI); • General access website. |
| II – Exercise of Voting Rights and Shareholder Representation | |
| <p>2. The active exercise 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:</p> <ul style="list-style-type: none"> • The imposition of a deposit, or blocking of shares for participating in a General Meeting, more than five working days in advance; • Any statutory restriction on postal voting; • The imposition of a prior period of more than five working days for the reception of the declaration to vote issued by post; • The inexistence of voting ballots at the disposal of shareholders for postal voting. | <ul style="list-style-type: none"> • Express provision and regulation of statutes on the exercise of postal voting with no imposition of restrictions; • No imposition of a prior period of more than five working days for the reception of the declaration to vote issued by post; • 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 shareholder's request); • Vote by proxy accepted without any restrictions. Its exercise is facilitated through the assistance the GRI provides to all interested shareholders, particularly the supply of proxy letter forms. • Payment of the banking costs of the issue of declarations of ownership and of share blocking for shareholders to participate in the Annual General Meeting on 31 March 2005. |
| III – Corporate Rules | |
| <p>3. It is recommended that companies establish internal control systems, aimed at efficiently detecting risks arising from the activities of the company, and thereby helping to safeguard the assets of the company and the transparency of its corporate governance.</p> | <ul style="list-style-type: none"> • Adoption of a developed, connected and efficient internal control system, aimed at detecting and mitigating the risks inherent in the company's activity. |
| <p>4. Measures adopted to prevent the success of public offerings for acquisition 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 of 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</p> | <ul style="list-style-type: none"> • Inexistence of 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 clauses of a change of control not defensive in nature, aimed at protecting counterparts in terms in accordance with international practices). |

IV – Board of Directors

5. The Board should be composed of a number of members who provide managers with effective guidance for the management of the company.

- Effective guidance regarding the management of the company from the Board;
- Separation of the responsibilities of the Chairman of the Board of Directors and the Chairman of the Executive Committee;
- Separation and linkage of the duties of control and supervision in relation to Board and management, due to the existence of directors with executive and non-executive roles.

6. The inclusion on the Board of one or more members who are independent in relation to the dominant stakeholders is encouraged, with a view to maximising the pursuit of the company's interests.

- Composition of the Board is essentially of members unrelated to dominant stakeholders, including, in particular, three directors who are on the Audit Committee;
- Ongoing appraisal of the independence of the directors by the Board of Directors.

7. The Board is encouraged to set up internal control committees, with competencies in the evaluation of corporate structure and governance.

- Existence of an Audit Committee with responsibilities such as reviewing and perfecting accounting principles and practices and auditing the company.

8. It is recommended that the remuneration of the members of the Board be structured so as to permit their interests to be aligned with the interests of the company, and that 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 Board, specifying both the fixed and variable components, and the remuneration of the executive and non-executive directors, stating separately those relating to the Chairman of the Board of Directors and the Chairman of the Executive Committee.

9. The members of the remuneration committee or equivalent should be independent from the members of the Board of Directors.

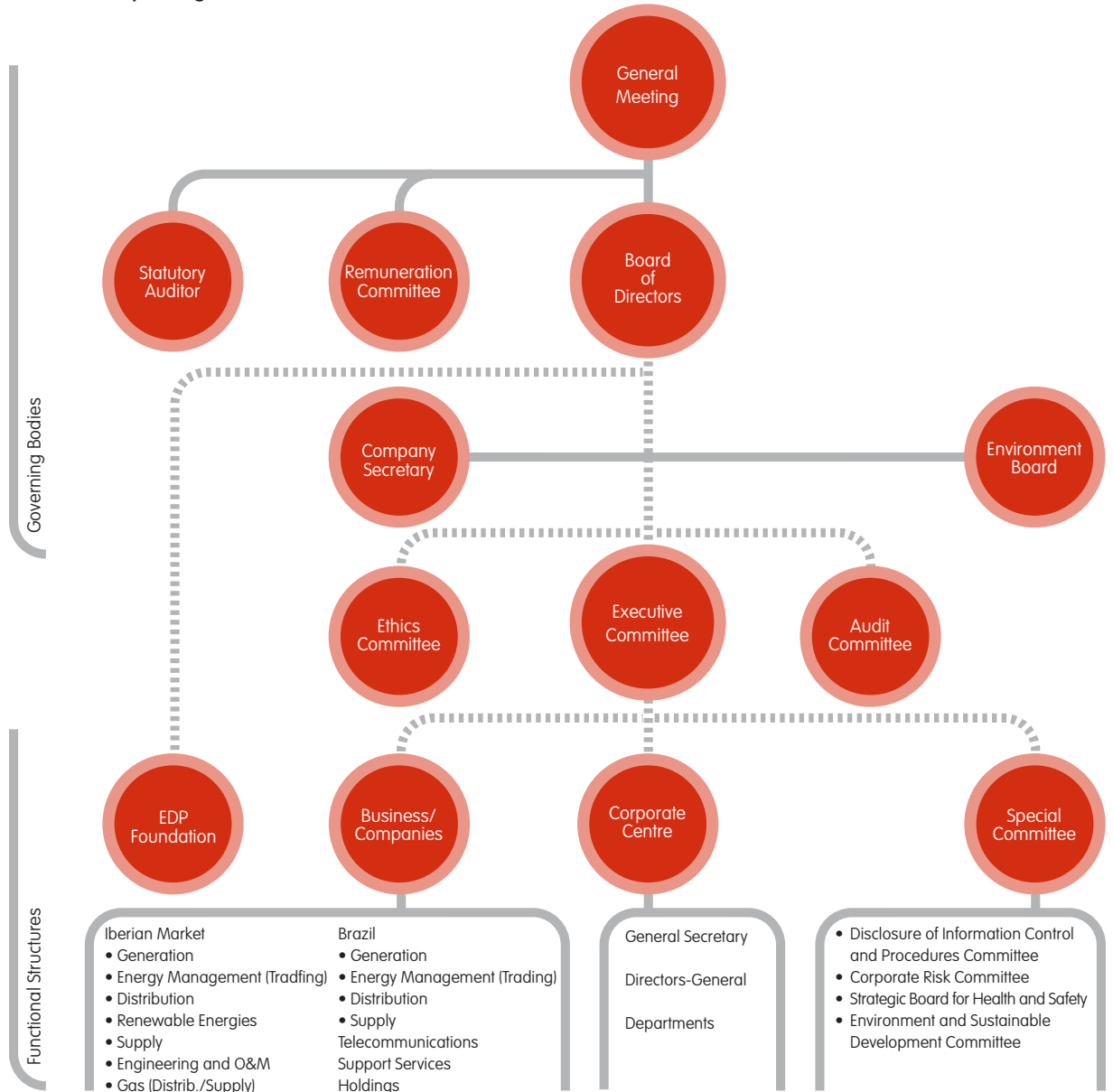
- The remuneration of the Board members is fixed by the Remuneration Committee, elected by shareholders, composed of independent members of the Board of Directors.

10. The proposal submitted to the General Meeting regarding the approval of plans to allot shares and/or stock options to members of the Board and/or employees should contain all the information necessary for a proper appraisal of the plan. The plan's regulations, if already available, should accompany the proposal.

- Plans to allot shares or stock options approved by the General Meeting in the terms recommended.

1. DISCLOSURE OF INFORMATION

1.1. The Group's Organisational Structure



1.2. Corporate Governance Bodies

1.2.1. General Meeting

The Shareholders' General Meeting is the company's highest body. Its functions include the following:

- Appraising the report of the Board of Directors, discussing and voting on the balance sheet, the

accounts and the opinion of the Audit Committee and deciding on the appropriation of the profits for the financial year;

- Electing the Board of the General Meeting, the directors and the members of the Audit Committee and of the Environment Department;

- Deciding on any amendments to the statutes, including equity increases;
- Appointing a Remuneration Committee, composed of shareholders, responsible for setting the remuneration of company officers.

Board of the General Meeting

The Board of the General Meeting is composed of a chairman and a vice-chairman, elected by the General Meeting and the Company Secretary.

Board of the General Meeting

| | |
|--------------------------|--------------------------------------|
| Chairman | José Manuel Archer Galvão Teles |
| Vice-Chairman | António Campos Pires Caiado |
| Company Secretary | António Manuel Barreto Pita de Abreu |

1.2.2. Remuneration Committee

The Remuneration Committee, elected by the General Meeting, is responsible for setting the remuneration of the members of the Board of Directors and other company officers. (See 1.9.)

1.2.3. Board of Directors

The EDP's Board of Directors, whose mandate was defined on the General Meeting of 22 May 2003 for the triennial 2003-2005, is composed of 15 members, five of whom are independent. The Board is responsible for the management of the company, pursuant to the Companies Code and the Company's Articles of Association.

Board of Directors

| | |
|--------------------------------|---|
| Chairman | Francisco de la Fuente Sánchez |
| Executive Committee | João Luís Ramalho de Carvalho Talone (Presidente) Arnaldo Pedro Figueirôa Navarro Machado Jorge Manuel Oliveira Godinho Pedro Manuel Bastos Mendes Rezende Rui Miguel de Oliveira Horta e Costa |
| Audit Committee | José Manuel Trindade Neves Adelino Luís Filipe Rolim de Azevedo Coutinho António Afonso de Pinto Galvão Lucas |
| Non-Executive Directors | Carlos Jorge Ramalho dos Santos Ferreira José Alfredo Parreira Holtreman Roquette José Manuel Gonçalves de Morais Cabral José Pedro da Silva Sucena Paiva Manuel Menéndez Menéndez Paulo de Azevedo Pereira da Silva |

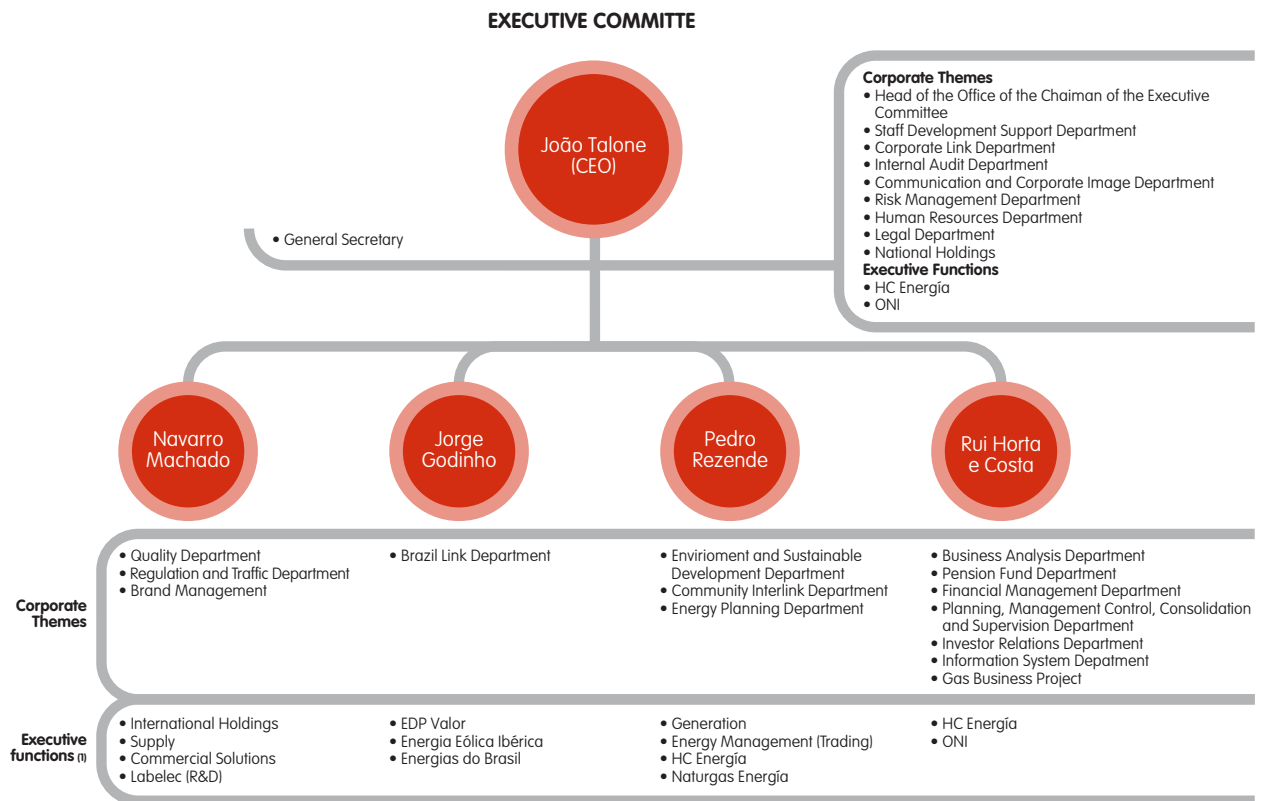
The composition of the Board of Directors was altered by co-optings effected on 29 April, 30 November 2004 and 31 January 2005, for the replacement of directors who had ceased their functions.

At the General Meeting of Shareholders on 31 January 2005, following the share capital increase operation carried out at the end of 2004, the Board of Directors was enlarged from 13 to 15 members through the election of two directors who do not perform executive functions.

1.2.3.1. Executive Committee of the Board of Directors

The Board of Directors delegated responsibilities for the day-to-day management of the company to an Executive Committee, made up of five members.

The Executive Committee is organised in accordance with the following functions:



(1) Described in greater detail in chapter 4.7
 Note: The Environment and Sustainable Development Department is under the control of the Chairman of the Board of Directors

1.2.3.2. Audit Committee of the Board of Directors

EDP's Audit Committee is a special committee of the Board of Directors consisting of three independent directors, who are not members of the Executive Committee.

The members of this committee are at present:

| Audit Committee | |
|-----------------|---------------------------------------|
| Chairman | José Manuel Trindade Neves Adelino |
| | Luís Filipe Rolim de Azevedo Coutinho |
| | António Afonso de Pinto Galvão Lucas |

1.2.3.3. Status of Independence of the members of the Board of Directors

EDP's Board of Directors is composed of 15 members, of whom nine have "independent" status, in accordance with the criteria defined in the EDP Management's Internal Regulations.

It should be noted that, in accordance with the CMVM's Regulations, all of the ten members of EDP's Board of Directors without executive functions comply with the independence requirements, with the exception of the Chairman of EDP's Board of Directors, Francisco de la Fuente Sánchez, since he has an employment tie with EDP Distribuição, an EDP Group company.

| Board of Directors | | | |
|--|---------------------|--------------------|-------------|
| | Executive Committee | Audit Committee | Status |
| Francisco de la Fuente Sánchez | Chairman BD | | |
| João Luís Ramalho de Carvalho Talone | Chairman EC | | |
| Arnaldo Pedro Figueirôa Navarro Machado | Voting member | | |
| Jorge Manuel Oliveira Godinho | Voting member | | |
| Pedro Manuel Bastos Mendes Rezende | Voting member | | |
| Rui Miguel de Oliveira Horta e Costa | Voting member | | |
| José Manuel Trindade Neves Adelino | | Chairman Audit. C. | Independent |
| Luís Filipe Rolim de Azevedo Coutinho | | Voting member | Independent |
| António Afonso de Pinto Galvão Lucas | | Voting member | Independent |
| Carlos Jorge Ramalho dos Santos Ferreira | | | Independent |
| José Alfredo Parreira Holtreman Roquette | | | Independent |
| José Manuel Gonçalves de Morais Cabral | | | Independent |
| José Pedro da Silva Sucena Paiva | | | Independent |
| Manuel Menéndez Menéndez | | | Independent |
| Paulo de Azevedo Pereira da Silva | | | Independent |

1.2.4. Environment Board

The Environment Board is one of the oldest bodies accountable to EDP's Board of Directors, having been established in the company's articles of association since 1991.

The Environment Board has certain advisory responsibilities to the Board of Directors in environmental matters, including the formulation of opinions and recommendations on the environmental impact of projects to be promoted by the EDP Group.

The Environment Board is composed of five persons of recognised competence in the area of the defence of the environment, elected by the General Meeting.

| Environment Board | |
|--------------------|----------------------------|
| Coordinator | Eduardo Oliveira Fernandes |
| | Carlos Alberto Pimenta |
| | Gonçalo Ribeiro Teles |
| | Maria Teresa Andresen |
| | Álvaro José Patrício Costa |

1.2.5. Statutory Auditor

The company's Audit Committee is elected by the General Meeting. It must include a Statutory Auditor.

The Statutory Auditor is especially responsible for:

- Checking the company's book-keeping whenever he/she deems fit, and at least once a month;
- Requesting the Chairman of the Board of Directors to convene this committee and attend its meetings whenever he/she deems fit;
- Requesting the extraordinary convening of the General Meeting whenever he/she deems fit.

| Supervisory Body | |
|------------------------------------|--|
| Permanent Statutory Auditor | KPMG & Associados, SROC, S.A., representada por Jean-éric Gaign, ROC |
| Deputy Statutory Auditor | Vitor Manuel da Cunha Ribeirinho, ROC |

1.2.6. Company Secretary

The Company Secretary and the Deputy are appointed by the Board of Directors, ceasing their functions at the end of the term of the Board that appointed them.

| Company Secretary | |
|-------------------|---|
| Permanent Deputy | António Manuel Barreto Pita de Abreu António José Marrachinho Soares |

1.2.7. Functional Structure of EDP

EDP's activities are structured into a corporate group in accordance with the organisation, functions and competencies determined by the Executive Committee. The latter 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 that works together with the Executive Committee, composed of a body of General Managers and a Corporate Centre, organised into Departments and Co-ordination Areas.

1.2.7.1. Corporate Centre

In 2004, the Corporate Centre was reorganised, and priority areas were redefined. It now has competencies for essential and added-value services, and a greater role as a centre for defining the strategy implemented by the business units.

At the beginning of 2005, a new readjustment was introduced in order to give a better response to the more markedly Iberian identity that EDP took on after the acquisition of control of HidroCantábrico, and to adapt to the restrictions resulting from the Community Directive on the Electricity Market.

At the end of 2005, as part of the restructuring of the Group's Electricity Generation area, the activities of wholesale supply of electricity and of purchase of fuels for the generation of electricity were transferred to the Corporate Centre. They were previously part of EDP Produção, which was abolished in the restructuring. Those activities, previously included in that company's Trading Division, were transferred to an Energy Management Business Unit (UNGE).

The present configuration of the central support structure for decision-making processes is the following:

General Managers • Corporate Offices

General Managers

António Manuel Barreto Pita de Abreu
António Manuel Vaz Pacheco de Castro
António Martins da Costa
João Manuel Manso Neto
Joaquim Armando Ferreira Silva Filipe
Jorge Manuel Ribeirinho Soares Machado
Manuel Luis Norton Brandão
Vasco Manuel de Castro Coucello

Secretary-General

António Manuel Barreto Pita de Abreu

Offices & Departments

Head of the Office of the Chairman of the Executive
Business Analysis Department
Staff Development Support Departments
Corporate Link Department
Internal Audit Department
Communication and Corporate Image Department
Pension Fund Department
Financial Management Department
Risk Management Department
Community Interlink Department
Legal Department
Brazil Link Department
Planning, Management Control, Consolidation and Supervision Department
Energy Planning Office
Quality Department
Human Resources Department
Regulation and Tariffs Department
Investor Relations Department
Information Systems Department
Sustainability and Environmental Issues Department
Gas Business Project

Bernardo Sá Nogueira Dantas Cunha
Miguel Stilwell de Andrade
Maria Adília Pina Pereira
Rui Maria Ribeiro Ferin Cunha
Vitor Manuel Silva Leitão
Salvador Carlos Cruz Peres
Luis Manuel da Costa Veloso
Magda Abdool Magid Vakil
António Maria Ramos da Silva Vidigal
António Manuel Vaz Pacheco de Castro
António Pedro Balançuela Alfaia de Carvalho
Joaquim Pedro de Macedo Santos
Miguel Ribeiro Ferreira
António José Silva Coutinho
Paula Pinto da Fonseca
Eugénio André da Purificação Carvalho
Maria Joana Mano Pinto Simões
Pedro Manuel Carreto Pires João
Luis Pedro Ferraz Flores
António Manuel Neves de Carvalho
José Manuel Ferrari Bigares Careto

The **General Managers** act as “heads of mission” to whom the Executive Committee delegates specific corporate projects. In addition, as an advisory body, they advise the Executive Committee, with which they meet every two months to discuss the evolution of the Group’s strategic objectives.

The **General Secretary** is delegated competencies for the Group’s external representation and for the execution of acts of day-to-day management of an administrative nature. He/she also coordinates the General Secretariat in its role in providing assistance to the company officers in their work and in EDP’s relationship with subsidiaries.

The competencies and functions of the currently existing Offices and Departments are the followings:

The Chairman of the Executive Committee and the other members of the Executive Committee of the Board of Directors are advised by the **Head of the Chairman of the Executive Committee’s Office**, who, besides acting as secretary at the Executive Committee’s weekly meetings, directs and monitors projects of strategic and financial importance and represents EDP before external entities.

The mission of the **Business Analysis Department (GAN)** is to optimise the Group’s business portfolio through critical analysis in the light of the strategic development outlined by the Board of Directors. Its main areas of operation are the appraisal of projects, identification of business opportunities,

analysis and execution of operations involving the purchase and sale of assets and stakeholdings and negotiation of partnership agreements, as well as support for the Board of Directors in taking decisions regarding strategic investment and disinvestment.

The **Staff Development Support Department (GDQ)** was set up in 2005 with the mission of supporting the development of EDP's "Key Staff". The aims of the GDQ are to help to optimise the EDP Group's human capital, by improving the technical competencies and individual behaviours of its key staff and contributing to the Group's organisational development. It focuses on career planning for the key staff and on creating conditions / predispositions for their functional and geographical mobility.

The **Corporate Link Department (GAC)** was set up in 2005 to support and guarantee the smooth running of the new central structure, ensure that the Management Committees are performing adequately and liaise with the company officers of the companies they cover, guaranteeing, in particular, that decisions taken are formalised and implemented at head office.

The main function of the Internal **Audit Department (GAI)** is to support management in designing, implementing and monitoring an internal control system suitable for pursuing the set objectives of operational effectiveness and efficiency, by carrying out structural appraisal audits of the internal control and by checking the effective working and effectiveness of the established controls, providing management with a reasonable guarantee of their capacity to prevent, detect and correct the occurrence of operational irregularities and errors, or materially relevant omissions in the information used to measure the degree of compliance with the set objectives, and to manage the organisation, liaising their activity with External Auditors and Statutory Auditors.

The **Communication and Corporate Image Department (GCIC)** is responsible for managing media contacts, advertising and media management, internal and organisational communication, the company media (website, intranet and in-house magazines) and institutional relations. The GCI centralises all the EDP Group's communication areas, including Energias do Brasil.

The main competencies of the **Pension Fund Department (GFP)** are to provide the EDP Group's Pension Fund with specialised, dedicated management and to ensure an integrated management of assets and liabilities, in order to minimise the funding risk in the Pension Fund Balance Sheet.

The **Financial Management Department (GFN)** is responsible for presenting proposals defining the Group's financial management policy, by observing compliance with it and by controlling its financial liabilities. The GFN's functions include managing the debt portfolios of EDP, S.A., and EDP Finance BV, the associated interest and exchange rate risk and the centralised cash management of Group companies that operate in the domestic electricity sector, or are directly or indirectly 100 percent owned by EDP, and negotiating and contracting financing and credit lines. Along with this, it supervises the financial areas of the subsidiary companies. The GFN is also the main interlocutor with the debt and banking markets and with the rating agencies.

The mission of the **Risk Management Department (GGR)** is to ensure compliance with the policies and limits approved by the Executive Committee in terms of risk; to promote investigations and analyses in this matter; to define the Group's concepts, methods, measures and key risk indicators; to develop methods and models for analysing and controlling risks; to develop and support projects and initiatives with a view to managing specific significant risks; implementing an effective practice of business management of risk in the Group; and to define the risk mechanisms for presentation to the Risk Committee for approval.

The functions of the **Community Interlink Department (GIC)** are to advise EDP's Executive Committee within the scope of the relationship with the national and international entities whose work has a significant impact on EDP's business and on the EDP Group's representation with the institutions of the European Union.

The **Legal Department (GJR)** provides direct legal assistance to the Board of Directors and the Executive Committee, to the other offices and to the various Group companies that may request it. It monitors and provides information about changes in legislation that

are of interest to company business, especially those relating to the electricity sector. It assists with the drafting of EURELECTRIC's legal studies and opinions. It takes part in legal proceedings, representing EDP and various other Group companies in lawsuits of a civil, administrative or fiscal nature.

The **Brazil Link Department (GLB)** was set up in 2003 due to the importance of EDP's investment in the Brazilian electricity sector. In a period of major corporate change in Brazil, it has become all the more important to have an office in EDP with an integrated view of the most important critical business areas in the country. The GLB follows and monitors the various aspects of the evolution of operations in Brazil, particularly from the strategic, financial, operational and legal and organisational standpoints. It also reinforces the interaction between EDP and its subsidiaries in Brazil.

The **Planning, Management Control, Consolidation and Supervision Department (GCO)** is organised into three areas of operation: (i) the area of consolidation and corporate control, whose main function is consolidation and accounts reporting, (ii) the area of planning and control of corporate management, responsible for the Group's operational planning and budget, management control, budget control, financial reporting, production of balanced scorecards and review of budgeting systems, (iii) the area of corporate accounting standardisation (national, international and environmental) and (iv) the area of supervision of the Group.

The mission of the **Energy Planning Department (GPE)** is to support the Group with an integrated view of the whole portfolio and of its present and future positioning in the Iberian market, looking at needs and options for sourcing energy. With this purpose, the GPE constitutes a platform to organise liaison between the Group's various electricity and gas business areas in order to achieve the necessary integrated view of the market and of the activity of the EDP Group.

The mission of the **Quality Department (GQL)** is to collaborate with the Group's business units so as to increase their profitability, competitiveness and market share in applicable cases. For this purpose, it gathers, selects and analyses information relevant for decision-making, to enable internal perfection processes to be

better conducted and to facilitate the achievement of aims. In order to attain these objectives, it (i) uses market studies of external and internal customers, and Group employees, as its main support methodology, (ii) identifies new business opportunities, (iii) provides training courses in the quality area and (iv) acts as an internal consultant.

The purpose of the **Human Resources Department (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 and developing HR strategies, policies and procedures and Health and Safety at Work, (ii) negotiating with social partners, (iii) controlling the execution of the HR policy, (iv) developing personnel management instruments, (v) implementing social support policies for employees and retired employees, (vi) developing a safety culture and (vii) adapting the HR corporate systems to the regulations and legislation in force and to the needs of organisational development.

The mission of the **Regulation and Tariffs Department (GRT)** is to support the Executive Committee in taking decisions within the scope of the regulations and in the relationship with the various supervisory entities in the energy sector. The GRT monitors the development and implementation of the new European Electricity and Natural Gas Directives, and studies the impacts of the implementation of the MIBEL. The liberalisation of the energy sectors, and the regulation of the 'natural monopolies', entail profound legislative, regulatory and organisational changes. The implications of these for the profitability of companies are important to study, making it necessary to develop economic and financial models and studies of tariffs.

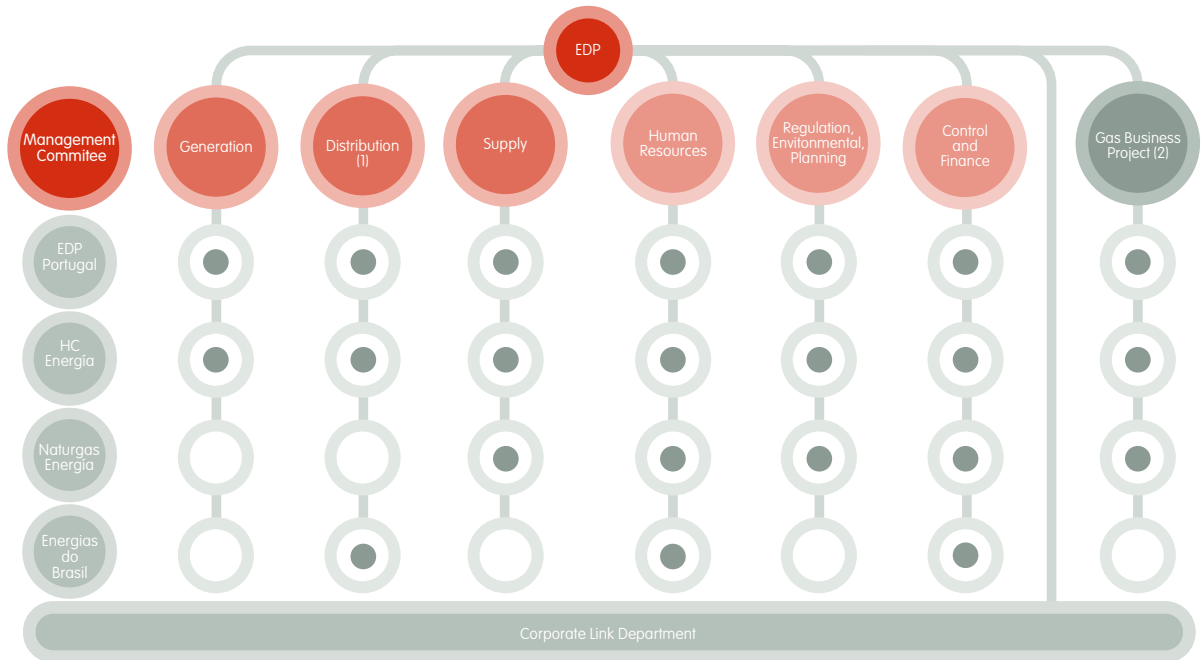
Investor Relations Department (GRI) (see 1.8.2)

The **Information Systems Department (GSI)** is responsible for promoting the alignment of the Group's information systems with the business objectives and the evolution of technology, for supporting the Board of Directors in defining the objectives, policies and standards in the area of systems and information technologies and in the overall contracting of goods and services. The GSI's mission is also to assist the Executive Committee in defining the strategy for the Group's systems and information technologies, and to establish the systems master plan, to define the architectural model for systems and technology, to promote software security and to carry out the planning, budgeting and management control for systems and information technologies.

The main competencies of the **Sustainability and Environmental Issues Department (GSA)** are (i) to advise the Board of Directors on matters relating to the Environment and Sustainability, particularly in defining corporate action policies and strategies and in supervising goals and aims, as well as in its relationship with the Environment Department, (ii) to report on the company's activity in environmental matters, (iii) to provide the coordination of activities of a strategic order in environmental matters in the Corporate Centre and to ensure that environmental activity in the Group is undertaken in coherence with the guidelines of the Board of Directors and (iv) to supervise the development of the environmental issues most important for the business, and to propose the adoption of comprehensive strategies for the company's activity.

The **Gas Business Project (PNG)** is responsible for EDP's expansion into the natural gas business. Its functions include co-ordinating the activities necessary for entry into the gas market and for the development of the business related to this, with a view to maximising the synergies between gas and electricity.

At the beginning of 2005, in view of the need to adopt a management model that might represent EDP's nature as an Iberian business group, following the increased stake in HidroCantábrico, the Executive Committee decided to give the Corporate Centre the functions of an Iberian Corporate Centre, and approved a central management and reporting structure, geographical and functional in scope, composed of management committees according to the chart shown below.



(1) Electricity distribution (2) May become a Committee in the future

1.2.7.2. EDP Foundation

In 2004, EDP set up the EDP Foundation, dedicated to patronage, for the EDP Group's intervention in the area of social and cultural citizenship and to provide for the management of the Electricity Museum.

In 2005, the EDP Foundation completed the work of restoring and refurbishing the old Tagus Power Station building, and promoted the modernisation of the Electricity Museum with a view to opening it to the public in early 2006. Its educational service was also updated.

The Board of Directors of the EDP Foundation consists of the following members:

| EDP Foundation | |
|-----------------|---|
| Chairman | Francisco de la Fuente Sánchez |
| | João Luís Ramalho de Carvalho Talone |
| | Fernando Ivo Gonçalves |
| | Humberto da Costa Biu |
| | José Luis dos Santos Pires (Administrador Delegado) |

1.2.7.3. EDP's Special Committees

An international consensus has gradually been generated on the importance – in terms of efficiency of control, added value for shareholders and corporate

social responsibility – of establishing specialised internal structures to facilitate the pursuit of specific objectives. In structuring them, however, care must be taken to guard against genuinely divergent objectives, and to follow a principle of balanced concentration that, without declining into a dilution of competencies, can effectively minimise the costs of control and supervision.

On the other hand, there has always been a principle of adjusting internal committees to the characteristics of each national context, underlining, for example, the recent guidelines defined in the Recommendation of the European Commission of 15 February 2005 (which the Member States of the European Union are invited to implement by 30 June 2006) that internal committees have a particularly important role in those areas where the probability of a conflict of interests at the management level is highest. This implies, in specific terms, the pursuit of a more effective supervision of the management, or a more adequate preparation of the decisions to be taken by the Board of Directors itself, with the purpose of improving the governance of listed companies.

These principles and guidelines that are now recommended by the European Commission, in the wake of international experience, especially in the United States of America, have played a part in EDP's reflection on the matter and in the considered decision to establish special internal committees.

Indeed, as a company with securities listed on the New York Stock Exchange, EDP is subject not only to the national and Community rules in force, but also to certain North American laws and regulations regarding securities, including the Sarbanes-Oxley Act of July 2002 and the regulations on conduct approved by the Securities and Exchange Commission and the New York Stock Exchange.

These regulations and legislation are an essential guide to some of the organic changes that occurred in EDP during the present mandate, in particular the creation in 2003 of an Audit Committee of the EDP Board of Directors (see 1.2.3.2.), with important roles in the area of vigilance, preparation of financial information and the operation of control systems, as well as a Disclosure of Information Control and Procedures Committee, whose main function is to control the internal certification process of information for the purpose of preparing the annual accounts.

Disclosure of Information Control and Procedures Committee (CDI)

The CDI is responsible for three primary functions:

- To identify and analyse the information that periodically has to be made public by the company;
- To participate in the review of the information periodically provided by EDP in the context of preparing reports and other communications to the market; and
- To make a quarterly evaluation of control and disclosure of information mechanisms.

This committee is therefore an organisational structure responsible for monitoring and evaluating the control mechanisms and information procedures, and is included in the EDP Group's Information Certification Project, which also includes a Project Work Group, directed by the Internal Audit Department in close liaison with the Executive Committee, and Business Area Teams responsible for the control procedures of each sector of activity.

The composition of the CDI includes the heads of the Investor Relations, Internal Audit, Legal, Planning, Management Control, Consolidation and Supervision, Financial Management, Regulation and Tariffs, Human Resources and Environment Departments and the assistants to the Board of Directors responsible for the preparation of information, as well as the heads of the company's main business areas.

Corporate Risk Committee

The Corporate Risk Committee (CCR) is composed of the Chairman of the Executive Committee (CEC), a director with financial competencies, a Chief Risk Officer, the Director of the Financial Department of the Corporate Centre and the manager of the Energy Management Business Unit.

The CCR meets on a quarterly basis. Non-permanent members may participate in accordance with the agenda, and also extraordinarily, whenever an unexpected risk situation makes this advisable. Its functions are:

- To monitor significant risks and the EDP Group's risk profile;
- To approve the periodical reports model to be presented by the business areas or by the GGR, as well as that of other mechanisms for reporting and monitoring EDP's risks;
- To approve or define recommendations on the Group's significant risks and extraordinary situations in terms of risk;
- To approve or define recommendations on policies, procedures and risk limits for the Group.

Strategic Board for Prevention and Safety (CEPS/EDP)

The main competencies of CEPS/EDP are:

- To assist the Executive Committee 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 to report on progress;
- To conduct a critical analysis of the Annual Activities Report and to give an opinion on EDP's Prevention and Safety Action Plan;
- To monitor the evolution of the main safety-at-work indicators and to draw up proposals for improvements.

In 2005, the Sustainability and Environment Committee was set up, a body directly accountable to the Executive Committee, with the aim of producing and updating the EDP Group's medium-/long-term Strategic Plan for Sustainability and the Environment and the respective sectoral action plans. In view of the specific responsibilities in terms of Sustainability and the Environment, the Committee's meetings are attended by the Chairman of the Board of Directors, who ensures that there is a liaison between this Committee and the Environment Board (see 1.2.4.).

At the same time, the Sustainability and Environment Operational Committee was set up, with the aim of providing operational monitoring of matters within the Committee's competency.

1.3. Compliance with the Sarbanes-Oxley Act

The Sarbanes-Oxley Act, passed in July 2002, requires all companies registered with the Securities and Exchange Commission (SEC) to certify their annual report as to the fullness and accuracy of the information contained in it, as well as to disclose publicly the result of the evaluation of the internal control of the financial information disclosed to the market.

Aware of the benefits that the adoption of the principles and practices proposed in Sarbanes-Oxley Act would have for the transparency of the company's relations with the market, EDP launched a project with the objective of, in a timely manner, creating the conditions enabling it to comply fully with the requirements of the act.

In a first phase, the project focused on establishing and implementing procedures and controls for the disclosure of information, consistent with the provisions of Section 302 of the Act, and aimed essentially at producing the required report for the American market.

In a second phase, covering Portugal, Spain and Brazil, it focused on:

- The understanding, documentation and assessment of the design of the internal control of financial information, in accordance with the Committee of Sponsoring Organizations of the Treadway Commission (COSO) reference model;
- On formalising the management procedures of internal control in accordance with the requirements of the Act.

The aim of this work is basically to:

- Monitor more effectively the performance of the internal control of financial information and, consequently, to act more quickly to correct omissions or weaknesses that might undermine the quality of the information provided;

- Provide more objective grounds for the assessment of the internal control of financial information, to which, under the terms of the Sarbanes-Oxley Act, EDP is committed as from next year.

1.4. Risk Management and Control System

The work carried out in this area is described in the chapter entitled "Corporate Themes – Risk Management".

1.5. EDP on the Capital Market

The shares representing EDP's share capital were initially listed on the official market of Euronext Lisbon (then called the Lisbon Stock Exchange) on 16 June 1997. Since then, more shares have been listed on Euronext, following five subsequent reprivatization phases:

EDP Admission Phases

| Admission phases | Date | % Capital on Stock Exchange |
|--|-----------|-----------------------------|
| 1st Reprivatisation phase/IPO | 16-Jun-97 | 30% |
| 2nd Reprivatisation phase | 26-May-98 | 32% |
| 3rd Reprivatisation phase | 28-Jun-98 | 47% |
| 4th Reprivatisation phase | 23-Oct-00 | 69% |
| 5th Reprivat. phase /Increase in Capital | 07-Dec-04 | 80% |
| 6th Reprivatisation phase | 27-Dec-05 | 85% |

Since 27 December 2005, following the sixth reprivatization phase, EDP has had 3,096,222,980 ordinary shares listed on Euronext Lisbon, with the nominal value of EUR 1. This represents 85 percent of its share capital. The free float on 31 December 2005 was 63 percent.

In addition to Euronext Lisbon, EDP also has securities representing its share capital listed on the New York Stock Exchange (NYSE), in the form of American Depositary Shares (ADSs).

EDP - Energias de Portugal, S.A.

| Shares | |
|-----------------------------|-----------------|
| Share Capital | € 3.656.537.715 |
| Nominal Value of Shares | € 1,00 |
| No. of Shares | 3.656.537.715 |
| Date entered stock exchange | 16 June 1997 |

| Euronext Lisbon | Shares |
|-----------------|--------------|
| Reuters RIC | EDP.LS |
| Bloomberg | EDP.PL |
| ISIN | PTEDPOAM0009 |

| New York Stock Exchange | ADS's |
|-------------------------|--------------|
| Reuters RIC | EDP.N |
| Bloomberg | EDP.US |
| ISIN | US2683531097 |

Additionally, EDP shares are an underlying asset for futures contracts transacted on the Lisbon market.

Six of EDP's bond issues are also listed:

| Bond issues | ISIN Code | Issue | Maturity | Coupon | Stock exchange | Amount | |
|--------------------|--------------|------------|------------|---------------------------------|-------------------------------|---------------|-----------------|
| | | | | | | Issue | Outstanding (2) |
| 22nd Issue | PTEDPROE0003 | 30-05-1996 | 02-06-2006 | Half-yearly Euribor 6m - 10,0bp | Euronext Lisbon | 249.398.949 | 6.582.594 |
| 23rd Issue | PTEDPSOE0002 | 20-12-1996 | 20-12-2011 | Half-yearly Euribor 6m - 12,5bp | Euronext Lisbon | 149.639.360 | 10.331.743 |
| 25th Issue | PTEDPKOE0000 | 23-11-1998 | 23-11-2008 | Half-yearly Euribor 6m + 22,5bp | Euronext Lisbon | 299.278.738 | 299.278.738 |
| 26th Issue | PTEDPAOE0002 | 26-03-2003 | 26-03-2013 | Half-yearly Euribor 6m + 50,0bp | Not listed | 150.000.000 | 150.000.000 |
| 1st Issue EMTN (1) | XS0103383286 | 29-10-1999 | 29-10-2009 | Fixed annual rate EUR 6,400% | London, Swit., Euronext Paris | 1.000.000.000 | 1.000.000.000 |
| 2nd Issue EMTN (1) | XS0126990778 | 28-03-2001 | 28-03-2011 | Fixed annual rate EUR 5,875% | London, Frankfurt | 1.000.000.000 | 747.352.000 |

(1) EMTN - Euro Medium-Term Notes (2) Outstanding - Amount due on 31-Dec-2005

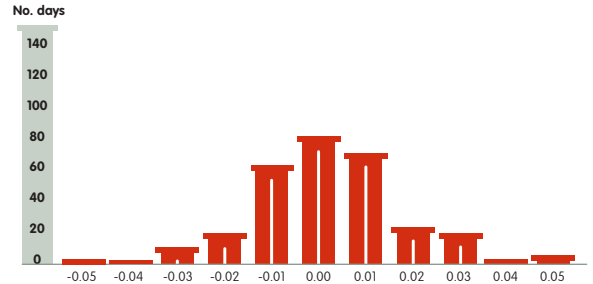
EDP is among the Portuguese companies with greater relative weight on the Euronext Lisbon index, the PSI 20, in the order of 20 percent, as well as being one of the six Portuguese companies represented on the Euronext 100 index, with a weight in the order of 0.54 percent. EDP shares are also included in several European indices, such as the Dow Jones Eurostoxx Utilities, calculated on the basis of the market performance of the principal and most representative European companies in the Utilities sector.

In the period between 31 December 2004 and 31 December 2005, EDP shares rose in value by 16.6 percent, from EUR 2.23 to EUR 2.60. During the first half of 2005, EDP shares fell, underperforming in relation to both the PSI20 and the Dow Jones Eurostoxx Utilities Index, against which they underperformed by 21 percent. During the second half of 2005, this trend was reversed, and EDP's shares closed the year gaining 3.2 percent on the PSI20 and reducing the underperformance against the Dow Jones Eurostoxx Utilities Index to 9.1 percent.

EDP shares are currently one of the most liquid stocks on the domestic market. The market value of the EDP Group, calculated on the basis of its market capitalisation as at 30 December 2005, amounted to EUR 9.507 billion, or 7.2 percent of the total capitalisation of Euronext Lisbon which, at the end of 2005, stood at EUR 132.947 billion. In 2005, around 2.505 billion EDP shares were traded on this official market, representing a daily average of 9.7 million shares at an average price of EUR 2.25, and about 85 percent of the total number of EDP shares listed on this market. In terms of turnover, EDP shares accounted for the equivalent of 18 percent (EUR 5.639 billion) of the total volume of shares traded on the regulated Lisbon market (EUR 31.411 billion).

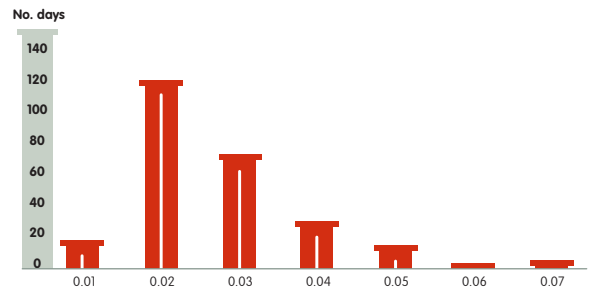
The following charts show the daily and intraday change in EDP's share price on Euronext Lisbon, as well as return versus volatility, demonstrating the stock's low volatility, in line with the sectoral index for utilities (SX6P Dow Jones Eurostoxx Utilities). It is worth mentioning that in the third chart the performances of both Unión Fenosa and Endesa reflect the fact that they were both targets of takeover bids during 2005.

Histogram of Daily Variations
52 weeks (Jan 05-Dec 05)



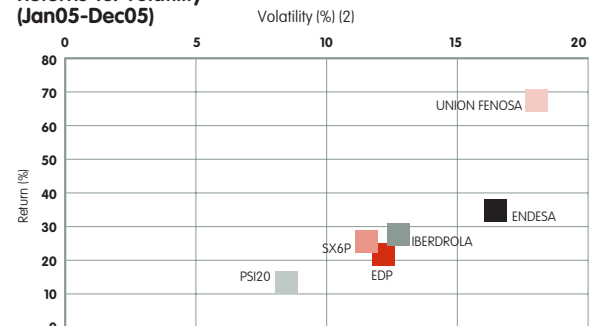
Source: Bloomberg Daily Variation Intervals (EUR)

Histogram of Inter-daily Variations
52 weeks (Jan 05-Dec 05)



Source: Bloomberg Inter-daily Variation Intervals (EUR)

Returns vs. Volatility
(Jan05-Dec05)



(1) Average annual return = average of daily revenue ^250
(2) Annual volatility = deviation from standard daily Revenue v250

Source: Bloomberg

1.5.1. Factors that influenced the evolution in EDP shares

The year 2005 was characterised by a very positive performance by the main stock market indices, especially in the utility sector, which rose by around 26 percent over the period. This was due to certain signs of economic recovery, an improvement in the financial performance of companies and a number of concentration movements through merger and acquisition operations, such as the takeover bids by Suez for Electrabel, ACS for Unión Fenosa, E.ON for Scottish Power and Gas Natural for Endesa.

This period also witnessed two phenomena which had opposite effects on the valuation of utilities: on the one hand, oil prices continued to rise, which was only reversed in the final quarter; on the other hand, interest rates remained at historic lows (2.00 percent since June 2003), as the European Central Bank only raised its benchmark rate by 25 b.p. in December 2005, to 2.25 percent.

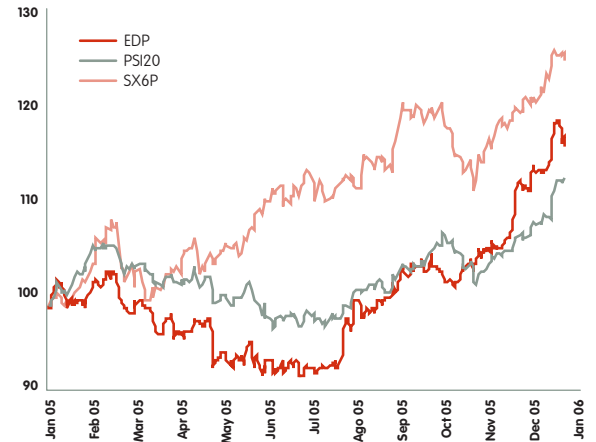
Brent Crude Index 2005



Fuente: Bloomberg

The behaviour of EDP's share price differed, however, from the upward trend of its counterparts, moving more in line with the national stock market indices up to the middle of the year, and making up some of the gap separating it from the sectoral index during the second half.

EDP vs PSI20 vs DJ Euro Stoxx Utilities



Source: Bloomberg

It is worth noting that the developments in the process of restructuring the energy sector in Portugal, especially those relating to the planned incorporation of Galp Energia's gas assets into EDP, will have had a negative influence on the behaviour of EDP shares in the capital market during the first half of 2005.

Thus the European Commission's declaration of opposition to the joint acquisition of GDP by EDP and by ENI, proffered in December 2004, and later confirmed by the Decision of the Court of First Instance of the European Communities in September 2005, marked the end of a period in which the behaviour of the shares was negatively influenced by the flow of news that anticipated this decision and its confirmation in an unfavourable light.

At the beginning of 2005, EDP signed the early termination contracts for the Power Purchase Agreements (PPAs) with the REN, following the publication at the end of 2004 of Decree-Law no. 240/2004 of 27 December, which grants the right to compensation for the early termination of the PPAs in respect of the binding electricity generating centres of the Portuguese Public Service Electricity System (SEP), as well as the method and timing of the payment. The effects of the termination of the contracts will only be produced when the MIBEL actually comes into force.

The end of the first half of 2005 saw the conclusion of the process of restructuring the Group's activities in Brazil, through which the minority shareholders of Escelsa, Enersul and Bandeirante migrated to the share capital of Energias do Brasil.

This process, which pre-dated the Initial Public Offering of Energias do Brasil on the São Paulo stock exchange in July, was well accepted by the capital market. The Initial Public Offering was successful, and demand was two and a half times the share capital offered. Subscription orders came mainly from the United States (around 50 percent), Brazil (around 40 percent) and Europe (around 10 percent). The offer price was BRL 18 per share, and in the days following the operation the quoted price rose to a high of BRL 26 per share.

During 2005, EDP was very active in acquiring companies and projects in the sector of renewable energies, especially wind. It came to an agreement with Tecneira for the acquisition of five companies that promote wind projects in Portugal, involving a portfolio of projects with an total installed capacity of 120.7 MW; it acquired EYRA and Vendaval, the wind farms under development at Ortiga (Leiria) and Safra (Lousã), with a total capacity of 53.4 MW, and purchased three wind farms in development from Nuon France Holding, with a total installed capacity of 30 MW, located in the area of Brittany in France.

At the end of the year, EDP carried out the largest acquisition operation in the renewable energies sector in the Iberian Peninsula in 2005, through the purchase of DESA (Nuon Spain), a company that operates in the renewable energies sector in the Spanish market and holds a portfolio of wind projects with a total capacity of 1,407 MW.

These operations represented important steps in implementing the investment plan announced by EDP for the renewable energies area, which will have been positively appraised by the capital market.

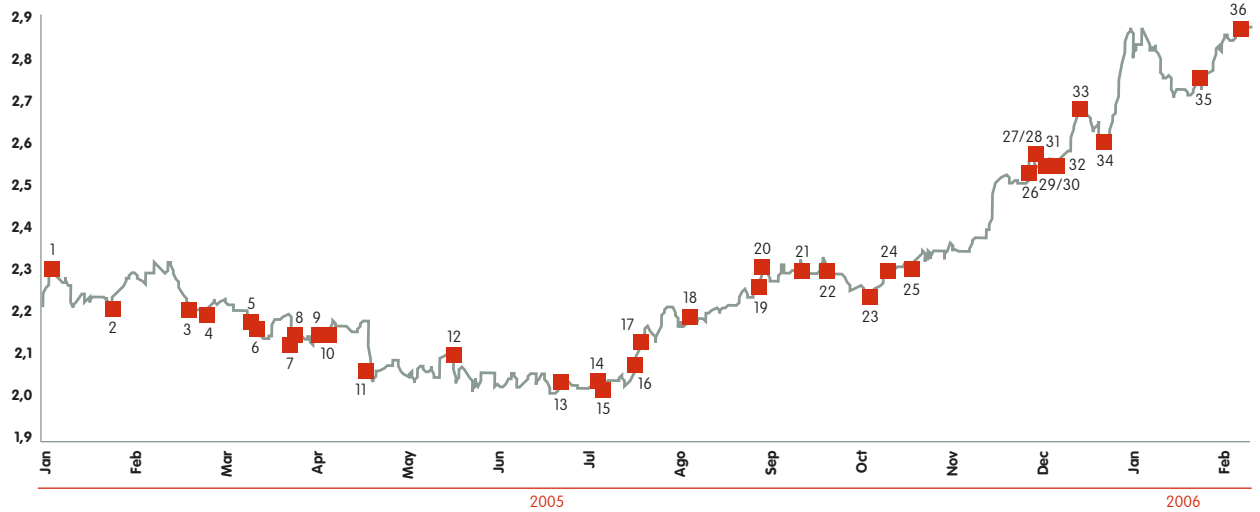
In October EDP disposed of 50 percent of EDP Bioelétrica to Celulose do Caima, as part of the development of a partnership between the two companies. The aim of this is to promote greater efficiency in integrating the biomass-producing forestry sector with energy generation on the basis of this renewable resource, and thereby contribute to improving the situation regarding forestry, an acute and current concern of the nation.

At the beginning of December, EDP signed a purchase-and-sale contract with the Américo Amorim Group for the disposal of the entirety of EDP's stake in Galp Energia for EUR 720.5 million. The decision to sell resulted from the EDP Board's analysis of the company's alternatives from the point of view of maximising the value of this holding. Weighing on the deliberation was the European Commission's decision in opposition, mentioned above, confirmed by the Court of First Instance of the European Communities, and the strategic guideline for the energy sector announced by the present Government regarding the existence of more than one important integrated operator in the electricity and natural gas sectors in a competitive environment in Portugal.

Also in December, the ERSE disclosed the parameters, prices and tariffs for the 2006-2008 period, which were perceived by the capital market as positive for EDP.

In 2005 EDP also disposed of certain non-strategic assets, for example: i) the sale of 60 percent of Edinfor to LogicaCMG; ii) the sale of 3 percent of the REE by HidroCantábrico; iii) the transfer of 2.01 percent of Millennium BCP to the EDP Pension Fund; and iv) the sale by Oni of Comunitel to Tele2.

Change in the EDP share price and Main Communications (2005-2006)



Fonte: Bloomberg

| # | Date | Description |
|----|----------|--|
| 1 | 07 - Jan | Sale of 60% of Edinfor |
| 2 | 27 - Jan | Signing of CMECs |
| 3 | 24 - Feb | EDP appeals against EC decision on GDP |
| 4 | 01 - Mar | EDP 2004 profits |
| 5 | 15 - Mar | Presentation of 2004 proforma IAS Accounts |
| 6 | 16 - Mar | Option of 20% in Turbogás |
| 7 | 31 - Mar | General Shareholder's Meeting |
| 8 | 01 - Apr | Sale of 3% of REE |
| 9 | 08 - Apr | Energias do Brasil company restructuring |
| 10 | 11 - Apr | Enersul tariff adjustment |
| 11 | 26 - Apr | Ex-dividend date |
| 12 | 24 - May | EDP profits for first quarter of 2005 |
| 13 | 30 - Jun | EDP transfers 2.01% from BCP to Pension Fund |
| 14 | 13 - Jul | Energias do Brasil IPO |
| 15 | 14 - Jul | Sale of Comunitel |
| 16 | 26 - Jul | White paper on the Spanish electricity sector |
| 17 | 28 - Jul | EDP profits for first semester of 2005 |
| 18 | 12 - Ago | Escelsa tariff adjustment |
| 19 | 05 - Sep | Announcement of Endesa natural gas hostile takeover |
| 20 | 06 - Sep | Reinforcement of shareholdings in Portgás and Setgás |
| 21 | 21 - Sep | EU tribunal rules that the EDP appeal of 24 Feb is unfounded |
| 22 | 29 - Sep | Agreement with Tecneira to acquire 120.7MW of wind power projects |
| 23 | 13 - Oct | Divestiture of 50% of EDP Bioeléctrica |
| 24 | 19 - Oct | Bandeirante tariff adjustment |
| 25 | 27 - Oct | EDP profits for the third quarter of 2005 |
| 26 | 06 - Dec | Acquisition of 53.4MW of wind power profits from EYRA and Vendaval |
| 27 | 07 - Dec | Divestiture of 14.268% of Galp Energia |
| 28 | 07 - Dec | ERSE sets parameters tariffs and prices for 2006-2008 |
| 29 | 09 - Dec | Acquisition of Nuon España |
| 30 | 09 - Dec | 6th EDP reprivatisation phase - Parpública exchangeable bonds |
| 31 | 13 - Dec | Acquisition of 1.11% of Tejo Energia by EDF |
| 32 | 16 - Dec | Acquisition of 30MW in France by Nuon France Holding SAS |
| 33 | 22 - Dec | DGGE approves EDP PIPs for the development of hydroelectric projects |
| 34 | 02 - Jan | Communiqué by EDP CEO João Talone |
| 35 | 03 - Feb | Standard & Poors confirms EDP's credit rating |
| 36 | 16 - Feb | EDP Lajeado completes negotiations on preference shares with Electrobrás |

INDICATORS - CAPITAL MARKETS

| | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
|---|---------|---------|---------|---------|---------|----------|----------|----------|----------|
| EDP shares in Euronext Lisbon (EUR) | | | | | | | | | |
| Opening price | | | 1,58 | 2,43 | 3,52 | 3,50 | 3,79 | 3,49 | 3,49 |
| Closing price | | | 2,09 | 1,59 | 2,44 | 3,52 | 3,47 | 3,75 | 3,48 |
| Maximum price | | | 2,14 | 2,50 | 3,64 | 4,22 | 4,36 | 4,99 | 4,04 |
| Minimum price | | | 1,38 | 1,47 | 2,29 | 3,10 | 2,82 | 3,40 | 2,64 |
| EDP prices adjusted to Capital Increase (EUR) ⁽¹⁾ | | | | | | | | | |
| Opening price | 2,22 | 2,01 | 1,52 | 2,33 | 3,38 | 3,36 | 3,64 | 3,35 | 3,35 |
| Closing price | 2,60 | 2,23 | 2,01 | 1,53 | 2,34 | 3,38 | 3,33 | 3,60 | 3,34 |
| Maximum price | 2,68 | 2,42 | 2,06 | 2,40 | 3,50 | 4,05 | 4,19 | 4,79 | 3,88 |
| Minimum price | 2,04 | 1,93 | 1,33 | 1,41 | 2,20 | 2,98 | 2,71 | 3,26 | 2,54 |
| EDP ADRs on NYSE (USD) | | | | | | | | | |
| Opening price | 30,03 | 26,59 | 16,79 | 22,19 | 33,50 | 34,75 | 45,50 | 38,38 | 25,84 |
| Closing price | 30,87 | 30,23 | 26,37 | 16,80 | 21,80 | 33,88 | 34,88 | 44,56 | 38,75 |
| Maximum price | 31,67 | 31,15 | 26,50 | 22,19 | 34,31 | 39,50 | 50,04 | 54,50 | 39,63 |
| Minimum price | 24,60 | 25,15 | 15,10 | 14,56 | 20,90 | 25,81 | 29,00 | 38,38 | 25,84 |
| Variation in prices and indexes | | | | | | | | | |
| EDP shares ⁽¹⁾ | 17% | 11% | 31% | -35% | -31% | 2% | -8% | 8% | 12% |
| EDP ADSs | 2% | 15% | 57% | -23% | -36% | -3% | -22% | 15% | 12% |
| PSI20 | 13% | 13% | 16% | -26% | -25% | -13% | 9% | 25% | 20% |
| Dow Jones Eurostoxx Utilities | 26% | 25% | 10% | -27% | -11% | 7% | -5% | 32% | 19% |
| Euronext 100 | 23% | 8% | 13% | -33% | -20% | - | - | - | - |
| Liquidity of EDP shares on the markets | | | | | | | | | |
| Volume on Euronext Lisbon (EUR millions) | 5.639,4 | 5.470,9 | 2.800,2 | 2.489,5 | 3.475,5 | 4.535,4 | 3.450,1 | 4.364,0 | 2.226,1 |
| Average daily volume (EUR millions) | 21,9 | 21,1 | 11,0 | 10,1 | 14,1 | 18,4 | 13,9 | 17,6 | 16,4 |
| Volume on NYSE (USD millions) | 222,6 | 124,3 | 40,8 | 43,1 | 33,2 | 73,2 | 55,4 | 179,4 | 301,5 |
| Average daily volume (USD millions) | 0,9 | 0,5 | 0,2 | 0,2 | 0,2 | 0,4 | 0,3 | 0,8 | 2,2 |
| Number of shares traded (millions) ⁽²⁾ | 2.505,2 | 2.477,2 | 1.587,5 | 1.294,2 | 1.228,9 | 1.308,4 | 1.024,2 | 1.078,0 | 726,7 |
| Number of ADRs traded (millions) | 7,9 | 4,3 | 2,0 | 2,3 | 1,3 | 2,5 | 1,5 | 3,9 | 8,5 |
| Total number of shares issued (end of year) (millions) | 3.656,5 | 3.656,5 | 3.000,0 | 3.000,0 | 3.000,0 | 3.000,0 | 3.000,0 | 3.000,0 | 3.000,0 |
| Privatised shares (end of year) (millions) | 3.096,2 | 2.936,2 | 2.099,1 | 2.099,1 | 2.099,1 | 2.099,1 | 1.499,1 | 1.499,1 | 899,8 |
| % of capital already privatised | 85% | 80% | 70% | 70% | 70% | 70% | 50% | 50% | 30% |
| Number of own shares on 31 Dec (millions) | 17,3 | 14,3 | 21,4 | 17,4 | 11,7 | 2,4 | 1,8 | 0,0 | 0,0 |
| Annual rotation of capital (privatised shares) | 85,0% | 84,4% | 75,6% | 61,7% | 58,5% | 62,3% | 68,3% | 71,9% | 80,8% |
| Annual rotation of capital (ADRs) | 2,7% | 1,5% | 0,9% | 1,1% | 0,6% | 1,2% | 1,0% | 2,6% | 9,5% |
| Value of EDP market (EUR millions) | | | | | | | | | |
| Stock market capitalisation (end of year) | 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 Profits | | | | | | | | | |
| Annual variation in share price ⁽¹⁾ | 0,37 | 0,22 | 0,48 | -0,82 | -1,04 | 0,05 | -0,27 | 0,26 | -0,01 |
| Gross dividend per share over the year | 0,09243 | 0,090 | 0,090 | 0,113 | 0,140 | 0,140 | 0,140 | 0,130 | - |
| Total shareholder profits | 21% | 16% | 37% | -30% | -27% | 6% | -4% | 12% | 12% |
| Dividends | | | | | | | | | |
| Dividend per share | 0,10 | 0,09243 | 0,090 | 0,090 | 0,113 | 0,140 | 0,140 | 0,140 | 0,130 |
| Dividend yield | 3,8% | 4,1% | 4,3% | 5,7% | 4,6% | 4,0% | 4,0% | 3,7% | 3,7% |

(1) To ensure comparability, EDP share prices before 9 November 2004 were adjusted in line with the increased EDP 2004 capital
 (2) The number of shares traded was adjusted to maintain the daily turnover unaltered after adjustment to the prices referred to in (1)

1.5.2. EDP's Shareholder Structure

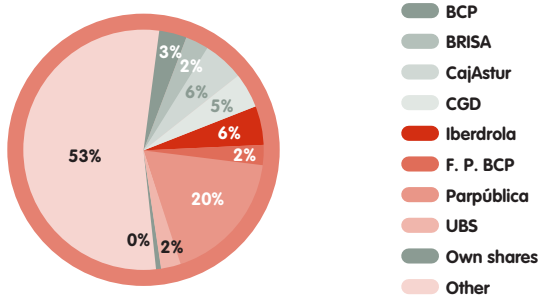
Qualifying Holdings

In accordance with the provisions of Article 8 1e) of CMVM Regulation no. 4/2004 of 11 June, the following information is provided regarding the qualified shares held by shareholders in EDP's share capital, as at 31 December 2005:

| EDP Shareholder Structure | | | |
|--|----------------------|----------------|--------|
| Shareholders | No. shares | % Capital | % Vote |
| Parpública - Participações Públicas (SGPS), S.A. | 749,323,856 | 20.49% | 20.59% |
| Caixa Geral de Depósitos, S.A. | 178,807,274 | 4.89% | 4.91% |
| Iberdrola - Participações, SGPS, SA | 208,422,650 | 5.70% | 5.00% |
| Caja de Ahorros de Asturias (CajAstur) | 202,250,158 | 5.53% | 5.00% |
| Banco Comercial Português, S.A. | 106,396,579 | 2.91% | 2.92% |
| Fundo de Pensões do Grupo BCP | 81,615,161 | 2.23% | 2.24% |
| UBS AG | 88,095,427 | 2.41% | 2.42% |
| BRISA - Participações, SGPS, S.A. | 73,211,244 | 2.00% | 2.01% |
| EDP (Own shares) | 17,262,735 | 0.47% | - |
| Other shareholders | 1,951,152,631 | 53.36% | - |
| Total | 3,656,537,715 | 100.00% | |

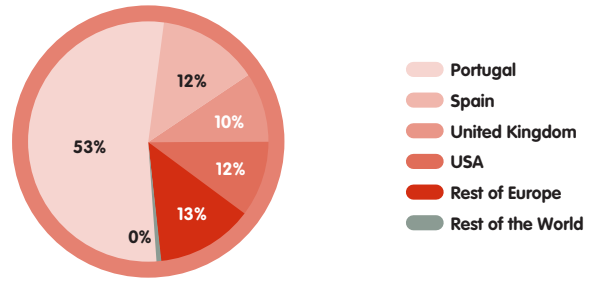
Note: In accordance with the provisions in no. 3 of Article 12 of the EDP company contract, no private shareholder may be allocated votes in excess of 5% of the total number of votes corresponding to the share capital.

EDP Shareholder Structure

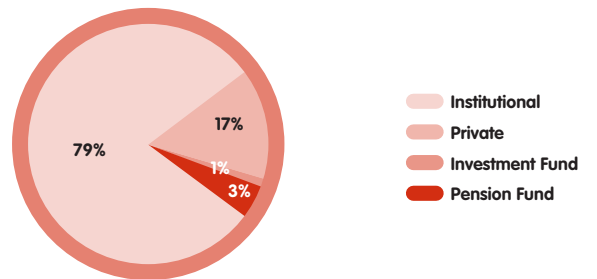


The geographical and investor type breakdown of EDP's shareholder structure was the following as at 31 December 2005:

Geographical Breakdown of Capital



Breakdown of Capital by Type of Shareholder



Allocation of voting rights pursuant to the terms of Article 20.1 of the Securities Code

| Holdings declared by shareholders | | | |
|---|--------------------|--------------|--------------|
| Shareholders | No. shares | % Capital | % Vote |
| Caixa Geral de Depósitos | 175,414,641 | 4.80% | 4.82% |
| Império Bonança, S.A. | 2,998,083 | 0.08% | 0.08% |
| Fidelidade Mundial, S.A. | 392,433 | 0.01% | 0.01% |
| Cares, S.A. | 2,117 | 0.00% | 0.00% |
| Subtotal | 178,807,274 | 4.89% | 4.91% |
| Banco Comercial Português, S.A. | 106,039,594 | 2.90% | 2.91% |
| Fundo de Pensões do Grupo BCP | 81,615,161 | 2.23% | 2.24% |
| Fundação Banco Comercial Português | 350,000 | 0.01% | 0.01% |
| Governing and supervisory bodies of BCP, S.A. | 6,985 | 0.00% | 0.00% |
| Subtotal | 188,011,740 | 5.14% | 5.00% |
| UBS AG | 73,181,688 | 2.00% | 2.01% |
| DSI International Management, Inc | 736,619 | 0.02% | 0.02% |
| UBS Global Asset Management (Americas) Inc | 2,232,436 | 0.06% | 0.06% |
| UBS Global Asset Management (Deutschland) GmbH | 55,050 | 0.00% | 0.00% |
| UBS Global Asset Management (Japan) Ltd | 15,410 | 0.00% | 0.00% |
| UBS Global Asset Management Life Ltd | 552,394 | 0.02% | 0.02% |
| UBS Global Asset Management (UK) Ltd | 724,936 | 0.02% | 0.02% |
| UBS Fund Management (Switzerland) AG | 91,153 | 0.00% | 0.00% |
| UBS Fund Services (Luxembourg) S.A | 10,505,741 | 0.29% | 0.29% |
| Subtotal | 88,095,427 | 2.41% | 2.42% |
| BRISA Participações, S.G.P.S. | 73,202,802 | 2.00% | 2.01% |
| Members of the Board of Director of BRISA Participações, S.G.P.S. | 8,442 | 0.00% | 0.00% |
| Subtotal | 73,211,244 | 2.00% | 2.01% |

Note: In accordance with the provisions in no. 3 of Article 12 of the EDP company contract, no private shareholder may be allocated votes in excess of 5% of the total number of votes corresponding to the share capital.

1.5.3 Dividend distribution policy

Every year since EDP's shares were admitted to the Lisbon Stock Exchange (now Euronext Lisbon), the company has distributed dividends very judiciously on the basis of principles of prudence and the creation of value for its shareholders. Always abiding by these principles, the dividends distributed by EDP since 1997 are as follows.

| Financial year | Date approved | Date of payment | Gross dividend | Net dividend | |
|----------------|---------------|-----------------|----------------|--------------|------------|
| | | | | Resident | Non-resid. |
| 1997 (1) | 17-04-98 | 18-05-98 | € 0.648 | € 0.534 | € 0.534 |
| 1998 (1) | 11-05-99 | 28-05-99 | € 0.698 | € 0.620 | € 0.620 |
| 1999 (1) | 12-05-00 | 31-05-00 | € 0.698 | € 0.611 | € 0.611 |
| 2000 (2) | 10-05-01 | 31-05-01 | € 0.140 | € 0.119 | € 0.119 |
| 2001 (2) | 10-05-02 | 06-06-02 | € 0.113 | € 0.099 | € 0.093 |
| 2002 (2) | 22-05-03 | 18-06-03 | € 0.090 | € 0.079 | € 0.074 |
| 2003 (2) | 31-03-04 | 30-04-04 | € 0.090 | € 0.083 | € 0.079 |
| 2004 (2) | 31-03-05 | 29-04-05 | € 0.09243 | € 0.085 | € 0.081 |

(1) Amounts converted from PTE to EUR rounded up to the third decimal place
Gross share values expressed in the currency in use on the date of dividend payment were PTE 129.87 in 1997, PTE 140.00 in 1998 and PTE 140.00 in 1999.
(2) After the "stock split" when each individual share was replaced by five shares with a nominal value equal to one-fifth of its value before the "stock split".

The Board of Directors submitted to the Annual General Meeting held on 31 March 2005 a proposal for the appropriation of the EUR 440.2 million net profit from 2004 (POC - Official Portuguese Accounting Standards), EUR 338 million of which was for distribution to the shareholders as dividend. The proposal was approved at the AGM with 99.99 percent of the votes in favour and a gross dividend of EUR 0.09243 per share was paid out on 29 April 2005.

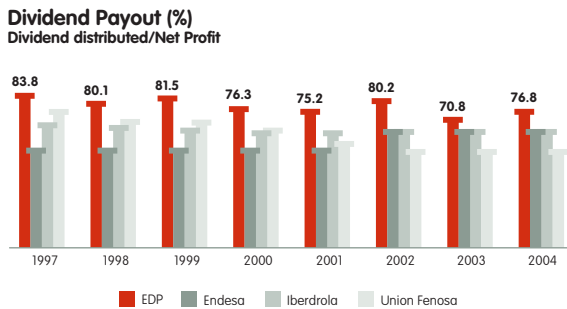
The EDP articles of association, in keeping with legal provisions in force, require that the profits for the year be appropriated, in particular, to:

- Cover losses in previous years;
- Constitute or increase the 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; and
- Allocate bonuses to directors and employees, according to criteria defined by the General Meeting.

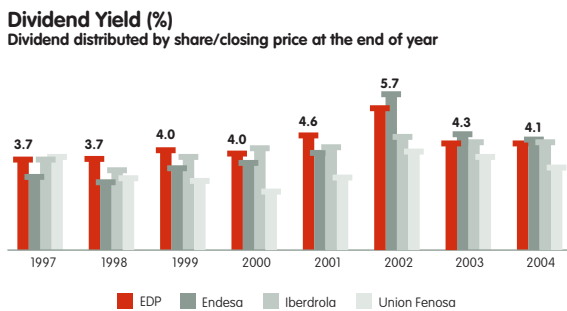
In accordance with the accounting principles generally accepted in Portugal, profits distributable in the form of dividends are deemed to be those that arise after the deduction of losses brought forward from previous years and the provision of 5 percent to increase the legal reserves, until this amounts to one-fifth of the share capital, taking into consideration all the 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, the 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 conditions 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 preservation of the company’s value, as shown by comparison with the dividend distribution carried out by its Iberian counterparts:



Note: Net Profit in accordance with the national accounting principles of each country.



Subject to the company’s financial situation, and as the forecasts presented in the strategic plan for 2005-2007 are confirmed, it is the intention of the EDP Board of Directors, in respect of the total amount of dividends distributed, to show an annual growth of approximately 7 percent to 8 percent per year for the period from 2005 to 2007.

As mentioned in the prospectus on the increase in EDP’s share capital of November 2004, the total amount of dividend distributed for 2004 was adjusted by the effect of this increase. The closing price of EDP’s shares at Euronext Lisbon on the last day of trading in subscription rights was the one considered.

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 effect of the increase in capital on EDP’s market capitalisation before it took place.

The Annual General Meeting held on 31 March 2005 approved the Board’s proposal to distribute a gross dividend of EUR 0.09243per share.

Outlook

EDP believes that a transparent relationship with investors and the market involves the definition of clear criteria and reasonable objectives as to the dividend distribution policy, as the growing demands by the investment community, in view of the instability of the capital markets experienced in recent years, have made clear.

Therefore, at the presentation on 15 December 2004 with Portuguese and international investors and analysts, the objective of increasing dividends by approximately 7 percent per year for the period 2005-2007 was renewed.

1.5.4. Increase in EDP's Share Capital

On 4 November 2004, following authorisation approved at an Extraordinary General Meeting on 7 October 2004, the EDP Board of Directors determined the share capital increase through a public offering for subscription reserved for shareholders, of 656,537,715 new shares with the nominal value of EUR 1 each, at the unit price of EUR 1.84.

The increase in share capital was to finance the increase of EDP's stake in HidroCantábrico to 95.7 percent, by acquiring an additional 56.2 percent holding for the sum of EUR 1.2 billion.

Main data relative to the public offering for subscription

| | |
|---|-------------------|
| Start of the share transaction e. g. rights | 9 Nov. 2004 |
| Subscription period | 12 a 25 Nov. 2004 |
| Rights negotiation period | 12 a 19 Nov. 2004 |
| Access to the negotiation of the new shares | 7 Dec. 2004 |

The public offering for subscription for the increase of EDP's share capital was fully subscribed through the exercise of rights and through the additional requests for surplus shares.

The number of subscriptions by exercise of rights amounted to 624,365,827 shares, and 842,720,313 shares were requested on a pro-rata basis. The total demand therefore amounted to 1,467,086,140 shares, equivalent to 2.23 times the total number of shares offered.

This was the largest share capital increase ever undertaken in the capital market in Portugal, and one of the largest in Europe in 2004.

1.6. Share and Option Allocation Plans

1.6.1. Defined in 1999

The EDP Group implemented two plans to allocate shares following and pursuant to the terms approved at the General Meeting on 11 May 1999, one for Executive Directors and another for staff of the Group's subsidiaries.

At the end of 2005, only the plan for Executive Directors had exercisable options, according to the following table:

| Date of allocation | No. of Benef. | No. options allocated | Financial year price | Financial year start date | Date of Expiry | No. cancelled of options |
|--------------------|---------------|-----------------------|----------------------|---------------------------|----------------|--------------------------|
| 31-Dec-01 | 2 | 152,445 | 2.95 | 01-Jan-04 | 31-Dec-06 | 0 |
| 31-Dec-02 | 3 | 197,889 | 2.00 | 01-Dec-05 | 31-Dec-07 | 0 |

The other terms, object and characteristics of the stock option purchase plans remain as in the description in Point 1.6 of the Annual Report - Institutional Report for 2003.

1.6.2 Applicable to the years 2003 to 2005

In March 2004, the Remuneration Committee fixed the performance appraisal factors regarding the variable remuneration of the Chairman of the Board of Directors, the Chairman of the Executive Committee and Voting Executives for the period 2003-2006. This plan provides that each purchase option may be exercised up to a maximum of one-third on each one of the first year starting from the date of allocation. Options not exercised become null and void at the end of eight years from the date of allocation.

This Share Purchase Option Plan shows the following breakdown:

| Date of allocation: 30 June 2005 | |
|-----------------------------------|-----------------------|
| Price: EUR 2,21 | No, options allocated |
| Chairman BD | 140,781 |
| Chairman EC | 201,115 |
| Executive Committee voting member | 590,432 |
| Total | 932,328 |

| Date of allocation | No. of Benef. | No. of options allocated | Financial year price | Financial year start date | Date of expiry | No. of cancelled options |
|--------------------|---------------|--------------------------|----------------------|---------------------------|----------------|--------------------------|
| 30-Apr-04 | 6 | 760,482 | 2.29 | 30-Apr-05 | 29-Apr-12 | 253,496 |
| 30-Jun-05 | 6 | 932,328 | 2.21 | 30-Jun-06 | 29-Jun-13 | 0 |

1.7. Transactions between the company and members of the Board of Directors and Audit Committee, holders of qualified shares and group or group-controlled companies in a controlling or group relationship

EDP strictly observes the legal restrictions applicable in relation to transactions between directors and the company or Group or Group-controlled companies.

In 2005, there were no transactions between directors and the company or with Group or Group-controlled companies.

As to services-rendered, purchase or financing contracts with qualified shareholders, the Board of Directors determined that all transactions of a value of EUR 1 million or more for services and supplies, and of EUR 10 million for financial operations and liabilities, must always be submitted for approval or homologation by the Executive Committee, and the Audit Committee must also be informed.

1.8. Investor Support Structures

1.8.1. Communication Policy

EDP, in line with good practices in the governance of listed companies regarding shareholders' right of access to information about the Group's activity, is constantly concerned to ensure that the company's communication policy and the disclosure of all the 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 on the best practices of corporate governance in the market in this matter, with a view to ensuring the transparency of the management, and the credibility of the information conveyed by EDP, in order to promote and enhance the trust of shareholders, strategic partners, employees, customers, creditors and the general public.

1.8.2. Investor Relations Department

EDP's Investor Relations Department, set up in 1997 following the first phase of the company's privatisation process, plays a vital role in the pursuit of this objective, by making it possible to maintain a proper institutional and informative relationship with the vast number of shareholders, financial analysts and potential investors in EDP, as well as with the stock markets where EDP shares are listed, and their regulatory and supervisory entities (the Portuguese Securities Market Commission and the Securities and Exchange Commission in the United States).

The primary function of the Investor Relations Department is to act as an interlocutor with the Executive Committee of the EDP Board of Directors and with 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 material events and other communications to the market and to the publication of the regular financial statements. In order to perform its duties, this department 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 representative for relations with the market is Rui Horta e Costa, an executive member of the company's Board of Directors. EDP's Investor Relations Department is co-ordinated by Pedro Pires João, and is situated at the company's registered office at:

Praça Marquês de Pombal, n.º 12, 4º Piso
1250-162 Lisboa
Telephone: +351 21 001 2834
Fax: + 351 21 001 2899
Email: ir@edp.pt

During 2005 various meetings took place with analysts, shareholders and investors, and two road shows were held, the first in March, in Oviedo, and the second in June, in Brazil, on the occasion of the Initial Public Offering of Energias do Brasil.

The table below summarises the communication channels by which EDP provides its shareholders with information on each type of documentation.

| INFORMATION CHANNELS | Personally ¹ | www.edp.pt | E-mail | GRI phone line ⁵ | By post ² | www.cmvm.pt | Media |
|---|-------------------------|------------|--------|-----------------------------|----------------------|-------------|-------|
| Required by law or regulations ³ | | | | | | | |
| Convening of General Meeting | • | • | • | • | • | • | • |
| Proposals by Board of Directors | • | • | - | • | - | - | - |
| Changes to Articles of Association | • | • | - | • | - | - | - |
| Other proposals | • | • | - | • | - | - | - |
| Annual Report for the 2004 financial year ⁴ | | | | | | | |
| Managerial and supervisory positions held in other companies by members of the governing bodies | • | • | - | • | - | - | - |
| Name, qualifications and professional experience of the two new members proposed for the Board of Directors | • | • | - | • | - | - | - |
| Additionally made available by EDP | | | | | | | |
| Forms for voting by proxy | • | • | • | • | • | - | - |
| Voting sheets for postal votes | • | • | • | • | • | - | - |
| Forms for voting by e-mail | • | - | • | • | • | - | - |
| Clarifications | • | • | • | • | • | - | - |
| EDP statutes and regulations | • | • | • | • | • | - | - |
| Results of votes on proposals | • | • | - | • | • | - | - |

¹ At the EDP main office.

² Additionally, on EDP's initiative. Information from the Chairman of the BD relative to participation in the General Meeting of Shareholders. Communiqué by the Chairman of the EC divulging information about the economic and financial activity and indicators at the year's end. Communiqués are released whenever events important to the company occur, e.g. an increase in capital.

³ Company Code (Article 289) and CMVM Regulation no. 7/2001.

⁴ Management report, individual and consolidated accounts and opinion of the Statutory Auditor.

⁵ Investors Relations phone line: +351210012834.

1.8.3. Use of new Information Technologies for Disclosure of Corporate Information

Besides the existence of the Investor Relations Office, and in compliance with the regulatory requirements of the CMVM, EDP's institutional website (www.edp.pt) provides all the information of a legal nature or regarding the company's governance, updates on the development of the Group's business and a complete set of the company's financial and operational 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 these means includes the Annual Reports, the communications of material events, the internal regulations and the company's articles of association, 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 about the Group. EDP's website also makes it possible for all interested parties to consult the Annual Reports for every year since 1997 or request that they be sent.

EDP has increased its use of IT support in all disclosure of information processes, far beyond its institutional page on the Internet. Indeed, there is a consistent practice of investing in information technologies in order to facilitate access and the exchange of information between EDP Group companies and the various stakeholders, especially shareholders, financial analysts and media professionals.

With this in mind, EDP has promoted and encouraged the use of e-mail to receive and provide information on its relations with the supervisory entity and the market, as well as teleconference and videoconference facilities in its interaction with brokers and institutional investors.

1.9 Remuneration Committee

The remuneration of the Directors and other company officers is fixed by the Remuneration Committee (in line with the guidance provided in the European Commission Recommendation of 14 December 2004), composed of three shareholders elected by the General Meeting, in accordance with the articles of association.

The current members of the Remuneration Committee are:

Remuneration Committee

Brisa represented by Vasco Maria Guimarães José de Mello
Parpública represented by João Plácido Pires
Ruy Manuel Corte-Real de Albuquerque

None of the members of this body holds a position on the EDP Board of Directors or is a spouse or relative within the third degree of any EDP director.

The composition of the Remuneration Committee respects the criteria of independence defined by the CMVM.

Under the terms of the EDP's Articles of Association, the Remuneration Committee is responsible for fixing the remuneration of the directors and any benefits, such as retirement or disability pensions, as well as the remuneration of the other company officers.

1.10 Auditors

The Internal Audit Department, which reports to the Chairman of the Executive Committee, is responsible for checking the consistency of the internal control systems, particularly with regard to the protection of assets, to the scope and accuracy of the operational and financial information and to compliance with the EDP Group's guidelines.

The independent external auditors are responsible for expressing their opinion on the individual financial statements prepared in accordance with the accounting principles generally accepted in Portugal and on the consolidated financial statements prepared in accordance with the IAS/IFRS.

The Audit Committee has the mission of monitoring the conduct of these activities and of producing recommendations on the process of preparing financial information. Having discussed the relevant matters regarding the financial statements with the Board of Directors and independent auditors, the Audit Committee recommended to the Board of Directors, which approved it, the inclusion of the audited financial statements in this 2005 Annual Report.

Mandate of the Independent Auditors

KPMG is responsible for the external auditing of the whole of the EDP Group in Portugal, Spain and Brazil.

In 2005 the recognised and specialised costs of KPMG's fees for the auditing and official auditing of accounts, guarantee and reliability and other services, and consultancy for Portugal, Spain and Brazil, were the following:

| EUR | Auditing and statutory auditing of accounts | Guarantability and other services | Consultancy services | Total |
|------------------|---|-----------------------------------|----------------------|------------------|
| Portugal | 1.734.000 | 1.317.000 | 451.000 | 3.502.000 |
| Spain and Brazil | 1.175.000 | 286.000 | 7.000 | 1.468.000 |
| Total | 2.909.000 | 1.603.000 | 458.000 | 4.970.000 |

The auditing services and the official auditing of accounts are the 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.

The other auditing services include additional work related to supporting the Group in preparing and checking the IFRS adjustments relating to the subsidiaries in Portugal and abroad, and other services in connection with the requirements of the CMVM (Portugal) and the Securities and Exchange Commission (United States).

The consultancy services are essentially for tax consultancy and organisation.

2. EXERCISE OF VOTING RIGHTS AND SHAREHOLDER REPRESENTATION

2.1 Statutory Rules

In accordance with the EDP articles of association, to attend and take part in the General Meeting of Shareholders, and to be granted voting rights, requires ownership of a minimum of one hundred shares, one vote corresponding to each one hundred shares, without prejudice to grouping and representation rights, under the following terms:

- Shareholders owning less than one hundred shares may form a group so that as a whole, and being represented by one of the group members, they have between them the number necessary for the exercise of voting rights;
- A signed letter addressed to the Chairman of the Board of the General Meeting is sufficient as an instrument of representation.

2.2 Legitimation for the Exercise of Voting Rights

Shareholders may only participate in the General Meeting if they have been holders of shares since at least the fifteenth day prior to the date of the Meeting, and provided that they maintain this status up to the date on which it is held.

Proof of share ownership takes place by sending to the Chairman of the Board of the General Meeting, at least eight days prior to the date of the Meeting, a declaration issued and authenticated by the financial intermediary entrusted with the service of registering the shares in an account, which must state that the shares in question have been registered in this account since at least the fifteenth day prior to the date of this Meeting, and that these shares are blocked in an account up to the date on which this General Meeting will take place.

In a pioneering way in Portugal, EDP has decided to bear the costs of issuing declarations of ownership and of shareblocking for shareholders to participate in the Annual General Meeting. This measure is intended to encourage the active exercise of shareholders' voting rights by eliminating obstacles, especially those of a financial order, that might discourage shareholders from exercising their voting rights.

2.3. Methods of Exercising Voting Rights

2.3.1. EDP Shareholders

Shareholders may exercise their voting rights by correspondence on each of the items on the agenda by sending a recorded delivery letter to the registered office, addressed to the Chairman of the General Meeting, at least eight days prior to the date of the meeting.

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 therefore authorised postal voting in the articles of association as soon as the Securities Code came into force.

To allow for this method of exercising voting rights, the proposals to be submitted by the Board of Directors to the General Meeting, as well as the reports that legally accompany these proposals and other items of preparatory information, are made available to all shareholders at EDP's head office at least fifteen days prior to the General Meeting. At the request of shareholders, EDP also sends this information by mail, fax or e-mail.

2.3.2. Holders of American Depositary Shares (ADSs)

Holders of rights representing shares under ADS programmes listed on the New York Stock Exchange may give instructions to the respective depository bank for the exercise of voting rights, or grant a proxy to a representative appointed by EDP for the purpose, with due regard for the applicable legal and statutory provisions; the deposit contract must regulate the deadlines and methods for exercising the voting instructions, as well as cases of absence of instructions.

Holders of ADSs are granted identical rights to those of ordinary shareholders. The voting rights of holders of ADSs are determined by the consideration that one ADS represents ten EDP ordinary shares.

2.3.3. Limitation on the Exercise of Voting Rights

With the exception of the State or entities legally equivalent to it for this purpose, no shareholder may cast votes, in their own name or as a representative of another, that exceed 5 percent of all votes corresponding to the share capital.

In addition, shareholders who come to have a holding of 5 percent or more of the voting rights, or of the share capital, must communicate the fact to the Board of Directors within the period of five working days from the date on which the holding arose, and may not exercise such voting rights so long as they have not communicated this.

2.4. Model for the Exercise of Postal Voting Rights

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 the exercise of postal voting on the web page www.edp.pt. Alternatively, these can be forwarded by personal request in writing or by telephone, in accordance with the applicable legal and statutory rules.

2.5. Possibility of Exercising Voting Rights by Electronic Means

EDP offers the possibility of exercising voting rights by correspondence through an electronic message, provided that the legal and statutory formalities for participation in the General Meeting are complied with, and that the identification of the shareholders is provided through adequate methods of certification.

3. COMPANY RULES

3.1. 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, and can be provided on request at the EDP Investor Relations Office or by accessing the EDP website at www.edp.pt.

Besides the EDP articles of association, the Board of Directors has approved certain regulations regarding the way in which it and its committees operate. The Regulations of the Board of Directors establish a set of rules governing competency and procedure in respect of its activities. Furthermore, the main working rules for the Executive Committee, set up by delegation of powers deliberated on 22 May 2003, are set out in the Regulations of the Executive Committee.

The EDP Board of Directors has also set up a specialised committee composed of three independent directors, called the Audit Committee, with a view to implementing the CMVM Recommendations on the Governance of Listed Companies, and to comply with the standards applicable to companies listed on the New York Stock Exchange, as a result of the Sarbanes-Oxley Act, passed by the United States Senate in July 2002.

The internal regulations of the Board of Directors, and of the committees mentioned, are available for shareholders to consult at the company's head office or on the EDP website at www.edp.pt, as well as on the Group's intranet.

3.2. Communication of Irregular Accounting and Financial Practices

The EDP Group has always regulated its activity by persistently implementing measures to ensure the good governance of its companies, including the prevention of practices that are not wholly proper, especially in the accounting and financial areas.

In 2005 EDP was a pioneer in Portugal in providing Group employees with a channel allowing them to transmit directly and confidentially to the Audit Committee information regarding any practice that is not wholly legitimate, or any alleged accounting and/or financial irregularity occurring in the company, thus complying with the recommendations of the CMVM and the principles imposed by the Sarbanes-Oxley Act.

EDP intends, through the creation of this channel for communicating irregular accounting and financial practices, to:

- Guarantee the existence of conditions that allow any employee to be able to communicate freely his/her concerns in these areas to the Audit Committee;
- Facilitate the early detection of irregular situations which, if they came to be practised, might cause serious damage to the EDP Group, its employees, customers and shareholders.

Contact with the Audit Committee is possible by e-mail, fax and mail, and access to the information received in this context is restricted.

Any complaint or denunciation addressed to the Audit Committee is treated as strictly confidential, and the identity of the complainant is kept anonymous, provided that this does not make it unviable to investigate the complaint.

In accordance with the regulation established, EDP guarantees that the employee will not be the target of any retaliatory or disciplinary action as a result of reporting irregular situations, providing information or attending an investigation procedure.

3.3. Prevention of Cases of Insider Trading

Members of management bodies, managers and employees who may be in possession of important information not yet made public and capable of influencing the stock market quotations of EDP Group company stock, including, especially, estimates of results, acquisitions or significant partnerships, acquisition or loss of important contracts, may not, prior to their official disclosure:

- Disclose this information to third parties;
- Deal in 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 material 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 material events outside trading times, 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 the São Paulo stock exchange;
- The provision of strategic and thematic presentations for the use of analysts and investors to the CMVM and on the EDP Group's website.

Furthermore, in accordance with the CMVM's Regulation no. 7/2001, EDP's directors are required to communicate to the company, and the latter to the CMVM, the acquisition and disposal of listed shares, within a period of seven working days from the date of the transaction.

3.4. Indication of measures that might interfere with the success of public offerings for acquisition

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, EDP's articles of association contain rules regarding the limitation on the exercise of voting rights. The law that defined the conditions for the fourth phase of EDP's 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 public offerings for acquisition of EDP shares.

According to EDP's statutes, no shareholder, with the exception of the State or entities legally equivalent to it for this purpose, may cast votes, in their own name or as a representative of another, that exceed 5 percent of all the votes corresponding to the share capital.

In addition, shareholders who come to have a holding of 5 percent or more of the voting rights, or of the share capital, must communicate the fact to the Board of Directors within a period of five working days from the date on which the holding arose, and may not exercise such voting rights so long as they have not communicated this. For this purpose, the voting rights that, 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 provide to the Board of Directors, in writing and in a complete, objective, clear and truthful manner, and in 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 that 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 privatisation process, so long as the Portuguese State is an EDP shareholder, irrespective of the number of shares it may hold, whether directly, or indirectly through public bodies, the approval of the following deliberations depends on its vote in favour:

- Alteration of the articles of association, including share capital increases, mergers, splits and dissolution;
- Signature of group parity and subordination contracts; and
- Abolition of, or limitation on, shareholders' right of preference in share capital increases.

Likewise, so long as the State retains its status as an EDP shareholder, it holds the right to appoint a director if it votes against the winning list in the election of EDP directors. This right granted to the Portuguese State prevails over the rights granted to minority shareholders, under the terms of Article 392 of the Companies Code.

3.5. Ethics

EDP has always conducted its activity within a framework of ethical values, explicit or implicit, in its business agenda, in its professional relationships and obligations towards shareholders, in the Vision, Mission and Values defined by the Board of Directors and in the Principles of Sustainable Development.

In 2005 the company published the EDP Group's first Code of Ethics, developed from other documents with identical purposes existing in some of the Group's companies. This document explains how all employees should present themselves in conducting business and in all the EDP Group's activities.

Ethics Committee

Following the approval of the EDP Group's Code of Ethics, the Board of Directors set up a Special Committee, with the aim of:

- Supporting the definition of the Group's policy with regard to a code of conduct, the adoption of good practices and compliance with the highest standards of ethics;
- Establishing guidelines for its implementation;
- Striving, at the top level, for its proper application in all the Group's companies.

The composition of the Ethics Committee is the following:

Ethics Committee

Francisco de la Fuente Sánchez
José Manuel Trindade Neves Adelino
José Alfredo Parreira Holtreman Roquette

Chairman of the Board of Directors
Chairman of the Audit Committee
Non-executive Director

4. MANAGEMENT

4.1 Characterisation of the Board of Directors

The EDP Board of Directors, which includes independent persons, is currently composed of fifteen directors elected at a General Meeting, which also appoints the Chairman of the Board of Directors. The directors' mandate is for three years with no restriction as to their re-election.

4.2 Description of the work of the Board of Directors

It is the responsibility of the EDP Board of Directors to direct the management of the company's business, and particularly, in accordance with the articles of association, to:

- Establish the objectives and management policies of EDP and the EDP Group;
- Draw up the annual business and financial plans;
- Manage corporate business and undertake all the actions and operations with regard to the corporate object that do not fall within the competency allocated to other company bodies;
- Represent the company in and out of court, actively and passively, with the power to waive, transact and confess in any legal proceedings, as well as to make arbitration agreements;
- Acquire, sell or by any other means dispose of, or encumber, rights or fixed assets;
- Establish companies and subscribe, acquire, encumber and dispose of corporate holdings;
- Deliberate on the issue of bonds and other securities under the terms of the law and the articles of association;
- Establish the technical and administrative organisation of EDP and the rules of its internal operation, especially regarding personnel and their remuneration;

- Establish proxies with such powers as it may deem fit, including those of appointing substitutes;
- Appoint the company secretary and his/her deputy; and
- Exercise the other competencies that may be granted to it by law or by the General Meeting.

The Chairman of the Board of Directors is granted particular competencies, and has the duty of:

- Representing the Board of Directors in and out of court;
- Co-ordinating the activity of the Board of Directors, as well as convening and chairing its meetings;
- Exercising the casting vote; and
- Striving for the proper execution of the deliberations of the Board of Directors.

The Board of Directors meets as a rule on a monthly basis in the presence of all the directors, and may not deliberate unless the majority of its members are present. It is not permitted for more than one director to be represented at each meeting. All directors have equal voting rights, and the Chairman has the casting vote. The work of the Board of Directors is guided by an internal set of regulations.

During the year 2005, the Board of Directors held eleven ordinary and ten extraordinary meetings.

Deliberations of the Board of Directors in 2005

| | |
|----------------|--|
| 26/Jan | <ul style="list-style-type: none"> • Approval of the transfer of a 60% stake in Edinfor to LogicaCMG, subject to the non-opposition of the Competition Directorate-General of the European Commission. • Approval of the termination agreements for the PPAs relating to the binding electric generation centres, to be signed with the REN. • Approval of the EDP Group's Code of Ethics. • Decision to lodge a judicial appeal against the European Commission's decision prohibiting the acquisition, with the ENI, of joint control of GDP, Gás de Portugal, S.A. |
| 31/Jan | <ul style="list-style-type: none"> • Authorisation of the award to Hitachi of the contract for the desulphurisation of combustion gases at the Sines, Aboño and Soto power stations. |
| 1 /Mar | <ul style="list-style-type: none"> • Appointment of the Board of Directors of the EDP Foundation. • Approval of the alteration to the Group's organisation model, involving an alteration to company bodies. |
| 31 /Mar | <ul style="list-style-type: none"> • Acquisition of additional stakes in Turbogás and Portugen. • Contracting of derivatives for hedging against costs to EDP for maintaining contractual equilibrium, in connection with the process of terminating the PPAs. • Appointment of António Pita de Abreu as Company Secretary. • General approval of shareholdings in subsidiary companies in Brazil and of renaming the holding company that will own them as EDP – Energias do Brasil, S.A. • Approval of the model to be used for the merger of EDP Gestão da Produção de Energia, S.A. into EDP – Energias de Portugal, S.A. |
| 26/Abr | <ul style="list-style-type: none"> • Setting-up of NEO Energia, which will bring together the development of new business in the renewable energies area. • Approval of the concentration of all the share capital of Bandeirante, Escelsa, Magistra and Enersul in EDP – Energias do Brasil, S.A., through a process of exchanging the existing minority stakes in these companies for stakes in the share capital of EDP Energias do Brasil. |
| 25/May | <ul style="list-style-type: none"> • Approval of the process of the admission of Energias do Brasil to listing on the main São Paulo stock market, through a sale of shares and an increase in share capital. • Approval of the signing of a partnership with the Cairna group, involving the transfer to this group of 50% of EDP Bioeléctrica, the holding company of the Mortágua forest waste thermoelectric power station. |
| 28/Jun | <ul style="list-style-type: none"> • Approval of the transfer of 2% of the share capital of BCP to the EDP Pension Fund. • Authorisation of the disposal of HidroCantábrico's stake in Telecable. • Authorisation of the sale by ONI of its stake in Comunitel, to Tele2. |
| 26/Jul | <ul style="list-style-type: none"> • Approval of the sale to Endesa of the shareholding in AMPLA (ex-CERJ), the Brazilian electricity distribution company. |
| 5/Sep | <ul style="list-style-type: none"> • Approval of the terms of the agreement to be signed with Endesa for the acquisition of its stake in gas distributors Portgás and Setgás, with a view to strengthening EDP's position in those companies. |
| 27/Set | <ul style="list-style-type: none"> • Appointment of the EDP Group's Ethics Committee. • Authorisation of Enernova's purchase from Tecneira of companies that promote wind-powered electric generation power stations. |
| 25/Oct | <ul style="list-style-type: none"> • Approval of EDP Produção's stake in a CO₂ fund in constitution, the Greenhouse Gas Credit Aggregation Pool. • Co-option of Carlos Santos Ferreira as a director. • Authorisation of the disposal by EDP Participações of the EDP Group's total shareholding (5%) in Efavec. |
| 22/Nov | <ul style="list-style-type: none"> • Approval of the terms of the binding bid to be submitted by NEO, in consortium with Caja Madrid, for the acquisition of DESA, the owner of Nuón's wind generation assets in Spain. • Approval of the acquisition by NEO of companies developing five wind farms in Spain and three in France. |
| 24/Nov | <ul style="list-style-type: none"> • Approval of the business plan for the period 2006 to 2008. • Authorisation of the award to Alstom Power of the contract for the supply, operation and maintenance of new natural gas electric generation units for two EDP Group combined-cycle power stations in Spain - Castejón 2 and Soto 4. • Approval of ONI's financial restructuring and equity increase. |
| 6/Dec | <ul style="list-style-type: none"> • Approval of the sale to the Amorim Group of the EDP Group's total shareholding (14.268%) in GALP. |
| 20/Dec | <ul style="list-style-type: none"> • Approval of the signing of the contract to purchase the total share capital of Nuon España and Desarrollos Eólicos. • Approval of the acquisition of land in the area of Expo/Parque das Nações, near to EDP's technical centre in Cabo Ruivo, in order to make it viable to concentrate the Group's administrative premises in the Lisbon area in a new corporate headquarters. • Approval of the Corporate Policy for the Business Management of Risk. • Approval of the acquisition from EDF of an additional stake of 1.11% in the share capital of Tejo Energia. |

4.3. Executive Committee

Under the terms of the decision of the Board of Directors, on 22 May 2003, in keeping with the provisions in the articles of association, the day-to-day management of EDP is delegated to an Executive Committee, composed of five directors.

As a rule, the Executive Committee meets on a weekly basis in the presence of all of its members. The work of the Executive Committee is established in the respective regulations, approved by the Board of Directors, which also appointed the Chairman of the Executive Committee and established the rules regarding information and the monitoring of its activities by the Board.

At all meetings of the Board of Directors, the Executive Committee presents the developments of the Group's strategic agenda and the more important decisions that it has taken, in addition to the minutes of the meetings of the Executive Committee.

In order to ensure complete knowledge of all matters covered by the Executive Committee, it is established that the provision of information to any member of the Board of Directors is made known to all members of the Board.

The duties of the Executive Committee were established by the Board of Directors in the deliberation delegating the powers of the company's day-to-day management, consisting essentially of:

- Designing and proposing the Group's strategy and policy;
- Day-to-day conduct of the business of EDP and the Group's companies;
- Co-ordination of the activity of the subsidiary companies;
- Management of the holdings owned by EDP; and
- Co-operation with the Board for the definition of the Group's policies.

However, the delegation of competencies on the Executive Committee does not include:

- Co-option of directors;
- Requests to call General Meetings;
- Approval of the Annual Report to be submitted to the General Meeting;
- Approval of the half-yearly and quarterly accounts to be published under the terms of the law;
- Approval of the annual and multi-annual plans and budgets and the periodic monitoring of their execution;
- Change of EDP's registered office, under the terms set out in the articles of association;
- Projects for the merger, split, transformation and disposal of EDP Group companies; and
- Provision of bonds and personal or real guarantees by the company.

The Executive Committee must also make the Board of Directors aware of the decisions of special importance that it may have taken and, when justified, submit for the appraisal of the Board of Directors the decisions that, due to their importance, it deems to require the confirmation of the Board.

Notwithstanding this delegation of powers, the members of the Board of Directors who are not on the Executive Committee are, under the terms of the applicable legislation, responsible for supervising the actions of the Executive Committee, as well as for the losses caused by its acts or omissions, when, having been made aware of these acts or omissions, or of the intent to practise them, they do not bring about the intervention of the Board of Directors to take the appropriate measures.

During 2005, the Executive Committee held 45 ordinary and five extraordinary meetings.

4.4. Audit Committee

The Board of Directors has allocated special competencies to the Audit Committee for supervising the company's financial information and monitoring the activity of the external auditor, the internal auditor and the internal control systems. It is also part of the Audit Committee's functions to express an opinion on the appointment or dismissal of the external auditors, to observe their relationship with the various company officers and to give an opinion on the internal procedures with regard to auditing or on issues that may be raised in respect of the accounting practices followed by the company.

The following functions are allocated to the Audit Committee:

- To supervise compliance with, and the proper application of, the accounting principles and standards in force, in liaison with the work of the supervisory body and the external auditor, promoting and requesting the exchange of information necessary for this purpose;
- To analyse the quarterly, half-yearly and annual financial information, producing a non-binding report concerning these accounts for appraisal by the Board of Directors, prior to their approval and signature by the latter. This report may in particular include recommendations to the Board of Directors regarding the provision of information to shareholders;
- To present the Board of Directors with a proposal for appointing the company's external auditor and establishing the respective remuneration;
- To monitor the activity and vicissitudes of the contractual relations with the external auditor, including recommendations concerning the relationship between the Board of Directors, the Executive Committee or directors and the external auditor regarding the financial information, as well as appraising the objectivity and independence of the external auditor;
- To check the conformity and appropriateness of the costs of the audit in relation to its efficiency, including presenting an opinion on the direct or indirect contracting of services, to the entity providing the external auditing services or to entities that may be related to its group or network;
- To discuss the scope of the audit with the external auditor, for the purposes of submitting recommendations to the Executive Committee or to the Board of Directors;
- To discuss the contents of the annual audit report with the external auditor, particularly with regard to possible reservations submitted, for the purposes of presenting recommendations to the Executive Committee or to the Board of Directors;
- To propose measures to the Board of Directors aimed at improving the performance of the internal control systems and the internal audit;
- To discuss the contents of the internal control report with the internal auditor;
- To define and implement the procedures for receiving and processing complaints regarding accounting matters, internal accounting and auditing controls, as well as complaints lodged by employees regarding accounting or auditing practices.

For the performance of the duties indicated, the Audit Committee may contract the services of external consultants and take any necessary measures involving the EDP Group's departments and companies.

The members of the Audit Committee are independent directors in accordance with the criteria defined in Article 1.2 of CMVM Regulation no. 7/2001. As soon as it was set up, the Audit Committee took into account criteria relating to the independence of its members, such as the inexistence of any employment relationship or contractual tie with EDP and its respective subsidiaries, or with shareholders with a holding of 2 percent or more, or with entities in a controlling or group relationship with such shareholders.

These characteristics and functions of the Audit Committee, defined approximately three years ago, are in keeping with the ones now proposed by the European Commission in the Recommendation of 15 February 2005.

Although this recommendation is not yet applicable at the internal level, it can be seen that, with regard to its composition, the Audit Committee includes three non-executive directors, whose profile of independence corresponds, in general, to the one proposed by the European Commission. Likewise, the functions allocated to EDP's Audit Committee are compatible with the role proposed by the European Commission for the audit committee of listed companies in the areas of internal procedures and auditing.

The setting-up of the Audit Committee, a pioneering experiment with regard to corporate governance in Portugal, has helped to strengthen the internal control mechanisms, by virtue of the work of independent board members who have real monitoring competencies. As international experience shows, the work of this Committee is important in strengthening the mechanisms for the internal control of management, through a prior intervention that helps to eliminate and prevent possible conflict of interest situations and to enhance the transparency of the management.

During 2005, the Audit Committee actively pursued its business within the scope of the competencies allocated to it, holding 18 meetings.

Activities of the EDP Audit Committee in 2005

| | |
|------------------|---|
| January | <ul style="list-style-type: none"> • Preliminary conclusions of external auditor on the 2004 consolidated financial statements of Group subsidiaries in Brazil and Spain • Analysis of critical auditing issues pertaining to the 2004 financial statements |
| February | <ul style="list-style-type: none"> • Assessment of the 2004 Group consolidated financial statements • Analysis of draft version of the 2004 Group consolidated financial statements in IFRS format |
| April | <ul style="list-style-type: none"> • Model for internal control management • Assessment of Group consolidated financial statements for 31 March 2005 |
| May | <ul style="list-style-type: none"> • Assessment of consolidated financial statements for 31 March 2005 in IFRS format • Meeting with former Hidrocantábrico (PwC) auditor |
| June | <ul style="list-style-type: none"> • Framework for Form 20-F pertaining to 31 December 2004 • Assessment of consolidated financial statements for 30 June 2005 |
| September | <ul style="list-style-type: none"> • Assessment of consequences of compliance document sent to SEC |
| October | <ul style="list-style-type: none"> • Assessment of letter of recommendation from KPMG • Assessment of consolidated financial statements for 30 September 2005 |
| December | <ul style="list-style-type: none"> • Review of external auditor fees |

4.5. Remuneration of Company Officers

In keeping with the articles of association, the General Meeting elects a Remuneration Committee that establishes the remuneration of Company Officers. 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 2005 to EDP Company Officers was the following:

| EUR | Total |
|------------------------------|--------------|
| Board of the General Meeting | 12,000.00 |
| Statutory Auditor | |
| Board of Directors | 3,926,048.28 |
| Total | 3,938,048.28 |

Remuneration policy for the members of the Board of Directors

In the present mandate, the Remuneration Committee defined a set of assumptions aimed at rewarding performance and encouraging the consistency of management in the medium and long term. This is in keeping with the CMVM recommendations and with the best international practices of aligning the interests of managers with the interests of the company.

For this purpose, a ceiling of variable remuneration was established for each type of responsibility, which may be reached on the basis of qualitative and quantitative performance criteria, according to predefined objectives:

- Short term – Cash bonus, taking into account the objectives of return on shareholders' equity (ROE), return on invested capital (ROIC), gross operating profits (EBITDA) and variation in the net situation;
- Medium term – Shares for performance, taking into account the objectives of total return on shareholders' equity, all the equivalent companies and the evolution of the PSI 20; and
- Long term – Stock option plan, taking into account the objectives of return on shareholders' equity (ROE), return on invested capital (ROIC), gross operating profits (EBITDA) and variation in the net

Remuneration of the Board of Directors in the present mandate

The remuneration earned by the members of the Board of Directors during 2005 can be broken down as follows:

| Board of Directors | Fixed | Variable | Vouchers | Total |
|----------------------|--------------|------------|-----------|--------------|
| Chairman B.D. | 606,166.54 | 110,817.00 | | 716,983.54 |
| Chairman E.C. | 606,166.54 | 110,817.00 | | 716,983.54 |
| Executive Committee | | | | |
| Voting Members | 1,783,499.20 | 325,332.00 | | 2,108,831.20 |
| Audit Committee | | | | |
| Voting Members | 126,000.00 | | 54,000.00 | 180,000.00 |
| Other Voting Members | 203,250.00 | | | 203,250.00 |
| Total | 3,325,082.28 | 546,966.00 | 54,000.00 | 3,926,048.28 |

4.6. EDP shares held by Company Officers

In accordance with Article 447.5 of the Companies Code, the movement of shares belonging to Company Officers during the year ended as at 31 December 2005 was as follows:

| EDP shares held by Company Officers | | | |
|--|-------------------|----------------------|-----------------------|
| | Movements in 2005 | Avg. Price Acq./Sold | No. Shares 31-12-2005 |
| Board of the General Meeting | | | |
| José Manuel Archer Galvão Teles | 0 | | 5,320 |
| António Campos Pires Caiado | 0 | | 5,078 |
| Board of Directors | | | |
| Francisco de la Fuente Sánchez | 0 | | 12,654 |
| João Luís Ramalho de Carvalho Talone | 0 | | 2,324 |
| António Afonso de Pinto Galvão Lucas | 0 | | 0 |
| Arnaldo Pedro Figueirãa Navarro Machado | 0 | | 11,809 |
| Carlos Jorge Ramalho dos Santos Ferreira | 0 | | 24,400 |
| Jorge Manuel de Oliveira Godinho | 0 | | 35,380 |
| José Alfredo Parreira Holtreman Roquette | 0 | | 1,000,000 |
| José Manuel Gonçalves de Marais Cabral | 0 | | 0 |
| José Manuel Trindade Neves Adelino | 0 | | 1,091 |
| José Pedro da Silva Sucena Paiva | 0 | | 10,060 |
| Luís Filipe Rolim de Azevedo Coutinho | 0 | | 0 |
| Manuel Menéndez Menéndez | 0 | | 0 |
| Paulo Azevedo Pereira da Silva | 0 | | 7,304 |
| Pedro Manuel Bastos Mendes Rezende | 0 | | 0 |
| Rui Miguel de Oliveira Horta e Costa | 0 | | 4,589 |
| Company Secretary | | | |
| António Manuel Barreto Pita de Abreu | 11,419 | 2.08 | 25,521 |
| António José Marrachinho Soares (Suplente) | 1,688 | 1.84 | 13,384 |
| Remuneration Committee | | | |
| BRISA | 0 | | 73,202,802 |
| PARPÚBLICA | 179,372,198 | | 749,323,856 |
| Ruy Manuel Corte-Real de Albuquerque | -4,561 | 2.62 | 0 |

4.7. Positions held by members of the Board of Directors

4.7.1. Positions held by the Chairman of the Board of Directors and by the members of the Executive Committee

| | Francisco Sánchez | João Talone | Navarro Machado | Jorge Godinho | Pedro Rezende | Rui Horta e Costa |
|--|----------------------|----------------|--------------------|------------------|------------------|----------------------|
| EDP - Energias de Portugal, S.A. | CBD | CEC | D | D | D | D |
| CEM - Companhia de Electricidade de Macau, S.A. | | | VC | | | |
| Central-e-Informação e Comércio Electrónico, S.A. | | | | | | CBD |
| CPPE - Companhia Portuguesa de Produção de Electricidade, S.A. | | CBD | | | CEC | D |
| Edalpro - Imobiliária, Lda. | | | | | | G |
| EDP - Investimentos, Gestão de Participações e Assistência Técnica, Lda. | | | CBD | D | | D |
| EDP Energias do Brasil, S.A. | | | D | CBD | | D |
| EDP Comercial - Comercialização de Energia, S.A. | | | CBD | | | |
| EDP Energia Ibérica, S.A. | | | | | CBD | |
| EDP - Estudos e Consultoria, S.A. | | CBD | D | D | | D |
| EDP Imobiliária, S.A. | | | | | D | CBD |
| EDP - Soluções Comerciais, S.A. | | | CBD | | | |
| EDP Participações - S.G.P.S., S.A. | | CBD | | | | D |
| EDP Produção EM - Engenharia e Manutenção, S.A. | | | | | CBD | |
| EDP Produção - Bioeléctrica, S.A. | | | | CBD | | |
| EDP Serviner - Serviços de Energia, S.A. | | | CBD | | | |
| EDP Valor - Gestão Integrada de Serviços, S.A. | | CBD | | D | | |
| Electricidade de Portugal Internacional, SGPS, S.A. | | | CBD | | | D |
| Energia RE - Sociedade Cativa de Resseguro | | | | | | D |
| Enernova - Novas Energias, S.A. | | | | CBD | | |
| Hydroeléctrica del Cantábrico, S.A. | HC | D | | | D | D |
| Iberenergia, S.A. | | | | | | D |
| Internel - Serviços de Consultoria Internacional, S.A. | | | CBD | | | D |
| Labelec - Estudos, Desenvolvimento e Actividades Laboratoriais, S.A. | | | CBD | | | |
| Nuevas Energias de Occidente, S.L. | | CBD | | D | | |
| ONI - SGPS, S.A. | CBD | D | | | | D |
| Tergen - Operação e Manutenção de Centrais Termoeléctricas, S.A. | | | | | CBD | |

CBD: Chairman of the Board of Directors
CEC: Chairman of the Executive Committee
VC: Vice-Chairman
HC: Honorary Chairman
D: Director
M: Manager

31/12/05

4.7.2. Positions held by non-executive directors**António Afonso Pinto Galvão Lucas:**

Chairman of the Board of Directors of EPM – Sociedade Gestora de Participações Sociais, S.A.; Chairman of the Board of Directors of Fábrica Cerâmica de Valadares S.A.; Chairman of the Board of Directors of Valadares España S.A.; Manager of CCS Serviços de Gestão, Lda.

Carlos Jorge Ramalho dos Santos Ferreira:

Chairman of the Board of Directors of Caixa Geral de Depósitos.

José Alfredo Parreira Holtreman Roquette:

Chairman of the Board of Directors of Finagra – Sociedade Industrial e Agrícola, JHR – Sociedade Gestora de Participações Sociais, S.A., Gesparte – Sociedade de Gestão, Participação e Auditoria, S.A., STDA – Sociedade Turística do Alentejo, S.A., SILA – Sociedade Imobiliária Lagoa do Alqueva, S.A., Setegebe – Sociedade Turística de Empreendimentos do Degebe, S.A. and Mantero – Agricultura e Comércio Internacional, S.A. and member of the Senior Board of Banco Comercial Português;

José Manuel Gonçalves de Morais Cabral:

Director of Sopenata; Director of Efacec Capital, SGPS; Director of Soimper; Director of José de Mello Participações II, SGPS; Manager of José de Mello Serviços, Lda.

José Manuel Trindade Neves Adelino:

Member of the Advisory Board of Sonae SGPS; Member of the Board of Management of the Fundo de Garantia de Depósitos; Member of the Strategic Board of Portugal Telecom; Member of the Advisory Board of the Confederation of Portuguese Industry; Member of the National Board of Education.

José Pedro da Silva Sucena Paiva:

Full Professor of Electricity Systems at the Instituto Superior Técnico (IST), Technical University of Lisbon; Chairman of the Scientific Board of the Electricity Centre of the IST; Member of the Board of Directors of COGEN Portugal and of the Advisory Board of COGEN Europe; President of the Jury for awarding the REN and the Luís Vidigal Prizes.

Luís Filipe Rolim de Azevedo Coutinho:

Guest lecturer at the Economics Faculty of the Universidade Nova in Lisbon; Director of the Association of Music, Education and Culture; Business Consultant.

Manuel Menéndez Menéndez:

Chairman of Caja de Ahorros of Astúrias; Chairman of HidroCantábrico; Chairman of NaturCorp; Voting Member of the Board of Directors of the Spanish Confederation of Savings Banks; Voting Member of the Board of Directors of UNESA; Member of the Official Registry of Auditors of Accounts.

Paulo Azevedo Pereira da Silva:

Chairman of the Board of Directors of Millennium BCP – Serviços de Comércio Eletrónico, SA; Director of BCP Investimento – Banco Comercial Português de Investimento, SA; Director of Credicar - Aluguer de Longa Duração, SARL; Director of ONI, SGPS; Chairman of the Board of Directors of Tecnilase; Chairman of the Board of Directors of Luso-Atlântica; Chairman of the Board of Directors of Unilong; Manager of Cif Veículos; Director of BIM-Leasing, SARL (Mozambique).

Electricity Museum

The place where the smoking ashes produced by the coal burning inside the boilers were collected in carts ready to be taken outside.

High-pressure ash room



FINANCIAL STATEMENTS
Consolidated Balance Sheet as at 31 December, 2005 and 2004

| | <u>2005</u> | <u>2004</u> |
|---|--------------------------|--------------------------|
| | (Thousands of Euros) | |
| Assets | | |
| Property, plant and equipment | 13,891,378 | 12,557,101 |
| Intangible assets | 3,508,827 | 2,964,304 |
| Investments in associates | 351,302 | 316,775 |
| Available for sale investments | 566,446 | 1,169,098 |
| Deferred tax assets | 892,653 | 852,181 |
| Trade receivables | 121,992 | 95,140 |
| Other assets | <u>374,601</u> | <u>153,693</u> |
| Total Non-Current Assets | <u>19,707,199</u> | <u>18,108,292</u> |
| Inventories | 219,194 | 156,806 |
| Trade receivables | 1,463,505 | 1,161,844 |
| Other current assets | 1,435,785 | 838,894 |
| Income tax receivable | 346,175 | 182,854 |
| Financial assets held for trading | 275,618 | 56,249 |
| Cash and cash equivalents | 585,499 | 230,700 |
| Assets classified as held for sale | <u>-</u> | <u>165,337</u> |
| Total Current Assets | <u>4,325,776</u> | <u>2,792,684</u> |
| Total Assets | <u><u>24,032,975</u></u> | <u><u>20,900,976</u></u> |
| Equity | | |
| Share capital | 3,656,538 | 3,656,538 |
| Treasury stock | -38,119 | -31,662 |
| Share premium | 501,992 | 472,955 |
| Reserves | -1,665,733 | -1,612,848 |
| Retained earnings | 1,297,620 | 1,510,060 |
| Consolidated profit attributable to equity holders of EDP | <u>1,071,102</u> | <u>42,815</u> |
| Total Equity attributable to equity holders of EDP | 4,823,400 | 4,037,858 |
| Minority interests | <u>1,287,763</u> | <u>743,937</u> |
| Total Equity | <u><u>6,111,163</u></u> | <u><u>4,781,795</u></u> |
| Liabilities | | |
| Medium / Long term debt and borrowings | 8,600,721 | 7,181,105 |
| Employee benefits | 1,843,246 | 1,985,230 |
| Provisions for liabilities and charges | 269,249 | 293,232 |
| Hydrological correction account | 169,967 | 364,197 |
| Deferred tax liabilities | 369,722 | 286,409 |
| Trade and other payables | <u>137,745</u> | <u>198,974</u> |
| Total Non-Current Liabilities | <u>11,390,650</u> | <u>10,309,147</u> |
| Short term debt and borrowings | 1,983,579 | 1,960,780 |
| Trade and other payables | 4,371,843 | 3,570,148 |
| Income tax payable | 175,740 | 210,379 |
| Liabilities classified as held for sale | <u>-</u> | <u>68,727</u> |
| Total Current Liabilities | <u>6,531,162</u> | <u>5,810,034</u> |
| Total Liabilities | <u>17,921,812</u> | <u>16,119,181</u> |
| Total Equity and Liabilities | <u><u>24,032,975</u></u> | <u><u>20,900,976</u></u> |

**Consolidated Income Statement
for the years ended 31 December, 2005 and 2004**

| | 2005 | | | 2004 | | |
|---|-----------------------|-------------------------|------------------|-----------------------|-------------------------|---------------|
| | Continuing operations | Discontinued operations | Total | Continuing operations | Discontinued operations | Total |
| | (Thousands of Euros) | | | (Thousands of Euros) | | |
| Revenue | 9,246,301 | 2,404 | 9,248,705 | 6,765,895 | 22,508 | 6,788,403 |
| Cost of consumed electricity | -4,222,003 | - | -4,222,003 | -3,335,803 | - | -3,335,803 |
| Changes in inventories and cost of raw material and consumables used | -1,589,127 | -2,062 | -1,591,189 | -584,206 | -23,497 | -607,703 |
| Gross profit | 3,435,171 | 342 | 3,435,513 | 2,845,886 | -989 | 2,844,897 |
| Other income | | | | | | |
| Services rendered | 302,752 | 125,568 | 428,320 | 314,489 | 207,796 | 522,285 |
| Other income | 205,658 | 527 | 206,185 | 55,950 | 20,771 | 76,721 |
| | 508,410 | 126,095 | 634,505 | 370,439 | 228,567 | 599,006 |
| | 3,943,581 | 126,437 | 4,070,018 | 3,216,325 | 227,578 | 3,443,903 |
| Other expenses | | | | | | |
| Supplies and services | -714,482 | -102,299 | -816,781 | -566,145 | -94,749 | -660,894 |
| Personnel costs | -528,723 | -17,264 | -545,987 | -441,905 | -85,790 | -527,695 |
| Employee benefits expense | -200,291 | - | -200,291 | -438,837 | -1,246 | -440,083 |
| Other expenses | -449,757 | -3,909 | -453,666 | -671,691 | -12,671 | -684,362 |
| | -1,893,253 | -123,472 | -2,016,725 | -2,118,578 | -194,456 | -2,313,034 |
| | 2,050,328 | 2,965 | 2,053,293 | 1,097,747 | 33,122 | 1,130,869 |
| Provisions | -12,474 | - | -12,474 | -61,509 | -2,780 | -64,289 |
| Depreciation and amortisation expense | -981,693 | -14,846 | -996,539 | -787,410 | -47,821 | -835,231 |
| Amortisation of deferred income on partially funded properties received under concessions | 97,600 | - | 97,600 | 85,863 | 28 | 85,891 |
| | 1,153,761 | -11,881 | 1,141,880 | 334,691 | -17,451 | 317,240 |
| Gains from the sale of financial assets | 440,647 | 83 | 440,730 | 9,837 | 125 | 9,962 |
| Financial income | 527,833 | 61 | 527,894 | 390,365 | 1,466 | 391,831 |
| Financial expenses | -924,997 | -2,174 | -927,171 | -654,370 | -5,948 | -660,318 |
| Share of profit of associates | 35,295 | - | 35,295 | 3,697 | 50 | 3,747 |
| Profit before tax | 1,232,539 | -13,911 | 1,218,628 | 84,220 | -21,758 | 62,462 |
| Income tax expense | -157,108 | 4,919 | -152,189 | -28,625 | 12,254 | -16,371 |
| Profit after tax but before gain on discontinued operation | 1,075,431 | -8,992 | 1,066,439 | 55,595 | -9,504 | 46,091 |
| Gain on sale of discontinued operation, net of tax | - | 45,522 | 45,522 | - | - | - |
| Profit for the year | 1,075,431 | 36,530 | 1,111,961 | 55,595 | -9,504 | 46,091 |
| Attributable to: | | | | | | |
| Equity holders of EDP | 1,030,487 | 40,615 | 1,071,102 | 42,586 | 229 | 42,815 |
| Minority interests | 44,944 | -4,085 | 40,859 | 13,009 | -9,733 | 3,276 |
| Profit for the year | 1,075,431 | 36,530 | 1,111,961 | 55,595 | -9,504 | 46,091 |
| Earnings per share (Basic and diluted) - Euros | 0.28 | 0.01 | 0.29 | 0.01 | 0.00 | 0.01 |

Company Balance Sheet as at 31 December, 2005 and 2004

| | 2005 | 2004 |
|--|----------------------|-------------------|
| | (Thousands of Euros) | |
| Assets | | |
| Property, plant and equipment | 95,536 | 118,858 |
| Intangible assets | 322 | 31 |
| Investments in subsidiaries | 7,351,589 | 7,269,735 |
| Investments in associates | 354,635 | 372,691 |
| Available for sale investments | 260,394 | 336,894 |
| Deferred tax assets | 53,317 | 55,404 |
| Other assets | 3,494,196 | 3,832,752 |
| Total Non-Current Assets | 11,609,989 | 11,986,365 |
| Trade receivables | 70,664 | 5,161 |
| Other current assets | 1,356,160 | 842,180 |
| Income tax receivable | 140,591 | 180,600 |
| Financial assets held for trading | 205,376 | - |
| Cash and cash equivalents | 183,334 | 17,702 |
| Total Current Assets | 1,956,125 | 1,045,643 |
| Total Assets | 13,566,114 | 13,032,008 |
| Equity | | |
| Share capital | 3,656,538 | 3,656,538 |
| Treasury stock | -38,119 | -31,662 |
| Share premium | 501,992 | 472,955 |
| Reserves | 460,762 | 479,270 |
| Retained earnings | 1,297,620 | 1,510,060 |
| Profit for the year | 509,835 | 157,673 |
| Total Equity | 6,388,628 | 6,244,834 |
| Liabilities | | |
| Medium / Long term debt and borrowings | 3,171,899 | 3,599,255 |
| Employee benefits | 17,087 | 16,920 |
| Provisions for liabilities and charges | 14,754 | 39,386 |
| Hydrological correction account | 169,967 | 364,197 |
| Trade and other payables | 1,516 | 1,084 |
| Total Non-Current Liabilities | 3,375,223 | 4,020,842 |
| Short term debt and borrowings | 3,386,438 | 2,319,370 |
| Trade and other payables | 410,053 | 436,996 |
| Income tax payable | 5,772 | 9,966 |
| Total Current Liabilities | 3,802,263 | 2,766,332 |
| Total Liabilities | 7,177,486 | 6,787,174 |
| Total Equity and Liabilities | 13,566,114 | 13,032,008 |

Company Income Statement
for the years ended 31 December, 2005 and 2004

| | 2005 | 2004 |
|--|-----------------------|-----------------------|
| | (Thousands of Euros) | |
| Revenue | 499,344 | - |
| Cost of consumed electricity | -278,006 | - |
| Cost of raw material and consumables used | -190,162 | - |
| Gross profit | <u>31,176</u> | <u>-</u> |
| Other income | | |
| Services rendered | 61,041 | 33,151 |
| Other income | 36,458 | 12,933 |
| | <u>97,499</u> | <u>46,084</u> |
| Other expenses | | |
| Supplies and services | -97,188 | -85,342 |
| Personnel costs | -6,329 | -4,504 |
| Employee benefits expense | -882 | -1,139 |
| Other expenses | -220,393 | -333,016 |
| | <u>-324,792</u> | <u>-424,001</u> |
| | -196,117 | -377,917 |
| Provisions | -3,850 | -10,300 |
| Net depreciation and amortisation | -4,698 | -4,854 |
| | -204,665 | -393,071 |
| Financial income | 1,556,660 | 862,651 |
| Financial expenses | -871,939 | -433,769 |
| Profit before tax | 480,056 | 35,811 |
| Income tax expense | 29,779 | 121,862 |
| Profit for the year | <u>509,835</u> | <u>157,673</u> |
| Earnings per share (Basic and diluted) - Euros | <u>0.14</u> | <u>0.05</u> |

PROPOSAL FOR THE APPROPRIATION OF PROFITS

In accordance with Article 27 of the articles of association, the Board recommends that the net profits be appropriated as follows:

| Appropriation of Profits (EUR) | |
|---------------------------------------|-----------------------|
| Statutory Reserves | 25.491.729,92 |
| Dividends | 365.653.771,50 |
| Retained Earnings | 118.689.096,92 |
| Net Profit | 509.834.598,34 |

The proposed dividend amounts to EUR 0.10 per share.

Electricity Museum

From 1914, when it was built, until 1930 this room was equipped with 11 coal-fired boilers (16 kg/cm² at 350°C) – a memory easily revived by the sight of the overhead coal bins suspended from the highest point of the building's metal structure.

Low-pressure boiler room



OUTLOOK FOR 2006

The last few years have produced profound changes in the macroeconomic context of the markets in which EDP is active, presenting several simultaneous challenges to the company. To overcome those hurdles, the company had no choice but to adapt, bringing in change at many organisational levels from business strategy to internal structure to the form of its communications with customers.

The fact is that the energy sector in Europe has undergone profound change. The Portuguese and Spanish markets have kept pace with that change, which will continue through 2006.

In Portugal, new rules governing the electricity sector will come into force. Most important amongst these is the decree-law regulating the general principles for the organisation and workings of the electricity sector and the related additional legislation, introducing substantial change in the organisation of the sector and the competition framework for the markets in Portugal. This will demand an agile response from the company in adapting to the new reality. Similarly noteworthy is the decree-law regulating the general principles for the organisation and workings of the Portuguese natural gas system and defining the first steps towards the deregulation of the sector. This will set great challenges for EDP, but also offers great opportunities in one of the main pillars of its corporate strategy.

After the delicate process of regulatory approximation between Portugal and Spain, it is now expected that the MIBEL will come into operation in 2006. This long-awaited event will open the markets of each country to the operators of the other more fully than is currently the case.

One direct consequence of the launch of the MIBEL will be the opening of PPAs, which will allow each of EDP's generating stations to market the energy it produces on the new, organised market.

There is also good reason to expect that 2006 will see the deregulation of electricity supply applying to the entire domestic segment, thus completing the deregulation process which began in 1999. The efficiency indicators the company has achieved, and the experience we have acquired in the meantime, will allow EDP to contemplate this challenge with optimism. Even so, this will be a demanding process for the company, and will affect its every aspect: commercial, technical, systems and even Human Resources.

In Spain, too, we have seen significant changes on the market. During 2005, Prof. Ignacio Pérez Arriaga drafted his White paper on the energy sector, recommending to the Spanish Government a series of measures which, if implemented, would bring about substantial changes in the workings of the Spanish energy market. The White paper is now being examined by the Spanish authorities as part of the review of the legal framework for the sector.

At another level, that of shareholder interests, we have also seen a number of changes on the Spanish market, including changes in the shareholder structure at Unión Fenosa and the takeover bid at Endesa. Regardless of their outcome, these will result in significant changes in the workings and competitive environment of the Iberian energy markets.

We thus face a period of great challenges for EDP, but also of great opportunities for the company to consolidate its strategy and continue to assert itself as one of the leading players on the Iberian energy market.

ACKNOWLEDGMENTS

The Board of Directors would like to express its thanks to the shareholders for their continued confidence in the EDP Group.

The Board would also like to thank the members of the supervising bodies for their support of the company's activities throughout the course of the year.

In the sphere of the energy industry it is perhaps also natural to make special mention of the Group members' close relations with the Energy Services' Regulating Body and the Directorate-General for Geology and Energy.

The gratitude of the Board of Directors also extends to all those entities that co-operated with the EDP Group during 2005, particularly:

- CMVM, Euronext Lisbon and Interbolsa;
- The Statutory Auditor and the External Auditors of the companies of the EDP Group;
- Financial institutions;
- Institutions of a scientific, university and technical nature; and
- 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 would like to reaffirm our commitment to the quest for excellence in the provision of services and to the full satisfaction of their needs;
- Shareholders who have accompanied the evolution of the company more closely, taking part in the General meetings of 31 January and 31 March 2005;

- Our employees, for their contribution to the development of the EDP Group, for their competence and professionalism in performing their duties and for their commitment to EDP Group's dynamic change and growth.

Following the expansion of the Board of Directors to fifteen members, agreed at the General Meeting of 31 January 2005, Manuel Menéndez Menéndez and José Alfredo Parreira Holtreman Roquette were elected.

In 2005, João Eduardo Moura da Silva Freixa stepped down from the Board of Directors and was replaced by Carlos Jorge Ramalho dos Santos Ferreira.

Also in 2005, António Pedro Balançuela Alfaia de Carvalho resigned as Company Secretary and was succeeded by António Manuel Barreto Pita de Abreu.

To these outgoing directors, the Board of Directors would like to express its recognition and gratitude for their contribution to the development of the EDP Group.

The Board of Directors

Francisco de la Fuente Sánchez (Chairman)
João Luís Ramalho de Carvalho Talone
António Afonso de Pinto Galvão Lucas
Arnaldo Pedro Figueirôa Navarro Machado
Carlos Jorge Ramalho dos Santos Ferreira
Jorge Manuel de Oliveira Godinho
José Alfredo Parreira Holtreman Roquette
José Manuel Gonçalves de Moraes Cabral
José Manuel Trindade Neves Adelino
José Pedro da Silva Sucena Paiva
Luís Filipe Rolim de Azevedo Coutinho
Paulo Azevedo Pereira da Silva
Pedro Manuel Bastos Mendes Rezende
Manuel Menéndez Menéndez
Rui Miguel de Oliveira Horta e Costa

Extract from the minutes of meeting 1/2006 of the General Meeting of Shareholders on 30 March 2006

(...)

The duly organised attendance list showed that shareholders owning two billion, one hundred and thirty-four million, two hundred and twenty-nine thousand and seventy shares were present or properly represented, corresponding to 58.37 percent of the share capital, thereby satisfying the conditions for deliberation on the matters on the Agenda.

Point ONE – individual financial statements for 2005

(...) approved with thirteen million, forty-two thousand seven hundred and eighty (99.42 percent) votes in favour (...)

Point TWO – consolidated financial statements for 2005

(...) also approved with thirteen million, forty-three thousand and ninety (99.42 percent) votes in favour (...)

Point THREE – appropriation of profits – Board of Directors' proposal

(...) Net profit for the financial year: EUR 509,834,598.34, legal reserve: EUR 25,491,729.92, dividends: EUR 365,653,771.50 and retained earnings: EUR 118,689,096.92.

(...) approved with fourteen million, eight hundred and twenty-five thousand six hundred and thirty-five (99.99 percent) votes in favour, one thousand seven hundred and eighty-four votes against and two hundred and fifteen abstentions.

Point FOUR – appreciation of management and supervision

(...) a vote of confidence in the Board of Directors and each of its members and in the statutory auditor was passed with thirteen million one hundred and twelve thousand seven hundred and eleven (99.95 percent) votes in favour (...). (...)

Lisbon, 30 March 2006

The Substitute Company Secretary
António José Marrachinho Soares



Annual
Report
2005

Institutional
Report and
Report on Corporate
Governance



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