



Audited Financial Statements

Balance Sheets

December 31, 2006 and 2005

| ASSETS | Note | Parent Company | | Consolidated | |
|---------------------------------------------|------|-------------------------|-------------------------|-------------------------|-------------------------|
| | | 2006 | 2005 | 2006 | 2005 |
| Current | | | | | |
| Cash and cash equivalents | | 187,273 | 259,996 | 596,323 | 471,081 |
| Marketable securities | 5 | | | | 106,644 |
| Accounts receivables | | | | 9,183 | 8,154 |
| Consumers and concessionaires | 6 | | | 976,883 | 962,174 |
| Taxes and social contributions | 9 | 59,620 | 31,588 | 312,083 | 151,828 |
| Deferred income tax and social contribution | 10 | | | 208,150 | 97,705 |
| Dividends | 26 | 135,753 | 463,520 | | |
| Inventories | | | | 9,916 | 10,639 |
| Collaterals and restricted deposits | 12 | 2,080 | 127 | 16,379 | 10,785 |
| Prepaid expenses | 8 | 118 | | 404,747 | 259,472 |
| Accounts receivable from Petrobras | 13 | 25,150 | 24,299 | 25,150 | 24,299 |
| Other credits | 15 | 774 | 496 | 88,852 | 69,439 |
| | | <u>410,768</u> | <u>780,026</u> | <u>2,647,666</u> | <u>2,172,220</u> |
| Non Current | | | | | |
| Long-term assets | | | | | |
| Accounts receivables | | | | 22,817 | 25,673 |
| Consumers and concessionaires | 6 | | | 121,537 | 181,850 |
| Taxes and social contributions | 9 | | | 52,742 | 43,862 |
| Deferred income tax and social contribution | 10 | | | 732,005 | 836,255 |
| Related parties | 11 | 217,423 | 65,763 | 24,325 | 31,761 |
| Advances for future capital increase | 14 | 35,040 | 29,340 | 3,232 | 1,427 |
| Collaterals and restricted deposits | 12 | 2,546 | 2,546 | 239,562 | 181,274 |
| Prepaid expenses | 8 | | | 243,262 | 385,652 |
| Other credits | 15 | | | 9,614 | 12,126 |
| | | <u>255,009</u> | <u>97,649</u> | <u>1,449,096</u> | <u>1,699,880</u> |
| Permanent | | | | | |
| Investments | 16 | 3,363,560 | 2,896,414 | 465,762 | 487,406 |
| Tangible fixed assets | 17 | 1,694 | 1,591 | 4,854,855 | 4,437,056 |
| Intangible fixed assets | 17 | 684 | 981 | 159,674 | 157,865 |
| Deferred charges | | | | 562 | 993 |
| | | <u>3,365,938</u> | <u>2,898,986</u> | <u>5,480,853</u> | <u>5,083,320</u> |
| Total | | <u>4,031,715</u> | <u>3,776,661</u> | <u>9,577,615</u> | <u>8,955,420</u> |

See the accompanying notes to the financial statements.

(amounts in thousands of reais)

| LIABILITIES | Note | Parent Company | | Consolidated | |
|---------------------------------------------|------|-------------------------|-------------------------|-------------------------|-------------------------|
| | | 2006 | 2005 | 2006 | 2005 |
| Current | | | | | |
| Suppliers | 18 | 1,484 | 557 | 500,795 | 478,649 |
| Debt charges | 20 | 1,913 | 2,245 | 31,302 | 39,797 |
| Taxes and social contributions | 9 | 24,724 | 16,771 | 395,237 | 248,924 |
| Deferred income tax and social contribution | 10 | | | 86,400 | 64,369 |
| Dividends | 26 | 147,388 | 134,475 | 163,090 | 151,780 |
| Debentures | 19 | | | 28,189 | 9,885 |
| Loans and financings | 20 | 54,000 | | 760,713 | 913,663 |
| Post-employment benefits | 21 | | | 24,102 | 21,153 |
| Tariff restitution | | | | | 80,452 |
| Estimated personnel liabilities | 22 | 652 | 718 | 66,355 | 43,658 |
| Regulatory and sector charges | 23 | | | 169,978 | 100,147 |
| Provisions for contingencies | 24 | | | 4,189 | 3,704 |
| Other accounts payable | 15 | 7,194 | 10,270 | 79,827 | 79,205 |
| | | <u>237,355</u> | <u>165,036</u> | <u>2,310,177</u> | <u>2,235,386</u> |
| Non current | | | | | |
| Long-term liabilities | | | | | |
| Suppliers | 18 | | | 9,575 | 16,417 |
| Debt charges | 20 | | 72 | 157,525 | 84,856 |
| Taxes and social contributions | 9 | | | 7,462 | 11,673 |
| Deferred income tax and social contribution | 10 | | | 15,744 | 34,376 |
| Debentures | 19 | | | 881,308 | 72,231 |
| Loans and financings | 20 | | 48,602 | 1,299,548 | 1,905,249 |
| Post-employment benefits | 21 | | | 122,425 | 126,846 |
| Related parties | 11 | 1 | 7 | | |
| Advances for future capital increase | 14 | | | 1,656 | 1,612 |
| Provisions for contingencies | 24 | 30,038 | 4,796 | 307,812 | 266,058 |
| Provision for unsecured liabilities | 16.2 | 58,726 | 48,398 | 58,029 | 48,037 |
| Reversal and amortization reserve | | | | 17,248 | 17,248 |
| Other accounts payable | 15 | 3 | | 21,197 | 16,592 |
| | | <u>88,768</u> | <u>101,875</u> | <u>2,899,529</u> | <u>2,601,195</u> |
| Minority interest | | | | | |
| | | | | 662,317 | 609,089 |
| Shareholders' equity | | | | | |
| | 25 | | | | |
| Capital stock | | 3,182,716 | 3,182,716 | 3,182,716 | 3,182,716 |
| Capital reserve | | 35,348 | 35,348 | 35,348 | 35,348 |
| Profit reserve | | 487,528 | 291,686 | 487,528 | 291,686 |
| | | <u>3,705,592</u> | <u>3,509,750</u> | <u>3,705,592</u> | <u>3,509,750</u> |
| Total | | <u>4,031,715</u> | <u>3,776,661</u> | <u>9,577,615</u> | <u>8,955,420</u> |

See the accompanying notes to the financial statements.



Statements of Income

Years ended December 31, 2006 and 2005

| | Note | Parent Company | | Consolidated | |
|----------------------------------------------------------|------|-----------------|-----------------|------------------|------------------|
| | | 2006 | 2005 | 2006 | 2005 |
| Operating Revenue | | | | | |
| Electricity supplied and billed | | | | 5,150,319 | 5,078,407 |
| Electricity supplied to be billed | | | | 252,767 | 178,916 |
| Availability of the distribution and transmission system | | | | 701,870 | 511,877 |
| Other operating revenues | | | | 117,041 | 93,554 |
| | | - | - | 6,221,997 | 5,862,754 |
| Deduction from operating revenue | | | | | |
| Global reversal reserve quota | | | | (40,288) | (42,101) |
| Emergency capacity charge | | | | (2,378) | (104,299) |
| Taxes and contributions on revenue | | | | (1,617,933) | (1,393,128) |
| | | - | - | (1,660,599) | (1,539,528) |
| Net operating revenue | 27 | - | - | 4,561,398 | 4,323,226 |
| Electricity service cost | | | | | |
| Electricity cost | | | | | |
| Electricity purchased for resale | 28 | | | (1,453,716) | (1,610,725) |
| Electricity network use charges | 28 | | | (557,829) | (604,949) |
| | | - | - | (2,011,545) | (2,215,674) |
| Operating cost | | | | | |
| Personnel | | | | (162,148) | (168,422) |
| Materials and third-party services | | | | (183,831) | (124,335) |
| Depreciation and amortization | | | | (245,365) | (197,829) |
| Subsidy - CCC and CDE | | | | (514,582) | (443,852) |
| Inspection fee | | | | (10,327) | (9,240) |
| Taxes | | | | (3,378) | (2,775) |
| Other operating expenses | | | | (64,825) | (52,378) |
| | 28 | - | - | (1,184,456) | (998,831) |
| | | - | - | (3,196,001) | (3,214,505) |
| Service cost rendered to third parties | 28 | | | (4,205) | (6,040) |
| Gross operating profit | | - | - | 1,361,192 | 1,102,681 |
| Operating expenses | | | | | |
| Selling expenses | | | | (140,397) | (94,393) |
| General and administrative expenses | | (23,320) | (32,070) | (285,047) | (244,203) |
| Depreciation and amortization | | (14,484) | (9,941) | (42,085) | (41,995) |
| Other operating expenses | | (7,597) | (11,129) | (107,512) | (49,308) |
| | 28 | (45,401) | (53,140) | (575,041) | (429,899) |
| Service income | | (45,401) | (53,140) | 786,151 | 672,782 |

(Amounts in thousands of reais, except when otherwise indicated)

| | Note | Parent Company | | Consolidated | |
|------------------------------------------------------------------------------|------|------------------|------------------|------------------|------------------|
| | | 2006 | 2005 | 2006 | 2005 |
| Income from equity interest | | <u>437,391</u> | <u>454,621</u> | <u>1,007</u> | <u>(3,713)</u> |
| Financial revenues | | 167,094 | 173,165 | 307,992 | 256,856 |
| Financial expenses | | <u>(182,452)</u> | <u>(115,617)</u> | <u>(685,812)</u> | <u>(536,018)</u> |
| Financial result | 29 | <u>(15,358)</u> | <u>57,548</u> | <u>(377,820)</u> | <u>(279,162)</u> |
| Operating profit | | <u>376,632</u> | <u>459,029</u> | <u>409,338</u> | <u>389,907</u> |
| Non-operating revenues | | 508 | 34,186 | 10,977 | 144,409 |
| Non-operating expenses | | <u>(8,470)</u> | <u>(21,148)</u> | <u>(21,514)</u> | <u>(81,844)</u> |
| Non-operating result | | <u>(7,962)</u> | <u>13,038</u> | <u>(10,537)</u> | <u>62,565</u> |
| Income before income tax and social contribution | | <u>368,670</u> | <u>472,067</u> | <u>398,801</u> | <u>452,472</u> |
| Current income tax and social contribution | 31 | | (296) | (150,035) | (223,684) |
| Deferred income tax and social contribution | 31 | | | 1,527 | 121,074 |
| Net income before reversal of interest on own capital | | <u>368,670</u> | <u>471,771</u> | <u>250,293</u> | <u>349,862</u> |
| Reversal of interest on own capital | | 25,450 | (32,365) | 181,091 | 96,061 |
| Net income for the year before minority interest and founders' shares | | <u>394,120</u> | <u>439,406</u> | <u>431,384</u> | <u>445,923</u> |
| Minority interest | | | | (34,545) | (3,089) |
| Founders' shares | | | | (2,719) | (3,428) |
| Net income for the year | | <u>394,120</u> | <u>439,406</u> | <u>394,120</u> | <u>439,406</u> |
| Net income per thousand shares - R\$ | | <u>2,388.37</u> | <u>2,662.80</u> | | |

See the accompanying notes to the financial statements.



Statements of Changes in Financial Position years ended December 31

| | Parent Company | | Consolidated | |
|----------------------------------------------------------------------------------|------------------------|-------------------------|-------------------------|-------------------------|
| | 2006 | 2005 | 2006 | 2005 |
| Source of funds: | | | | |
| Operations | | | | |
| Net income for the year | 394,120 | 439,406 | 394,120 | 439,406 |
| Minority interest | | | 34,545 | 3,089 |
| Prior year adjustments | (28,364) | (41,390) | (28,364) | (41,390) |
| Expenses (revenues) not affecting net working capital | | | | |
| Consumers and concessionaires | | | (39,610) | (96,653) |
| Account for variation compensation of Installment A costs - monetary restatement | | | (41,527) | (36,843) |
| Suppliers - Free energy | | | 29,840 | 18,634 |
| Depreciation and amortization | 14,484 | 9,941 | 287,450 | 239,824 |
| Residual value of assets and rights of permanent assets written-off | (349) | 331 | 9,712 | 12,500 |
| Deferred income tax and social contribution | | | 13,346 | (102,742) |
| Monetary variations and non-current liabilities interest | | 1,830 | 66,760 | (51,285) |
| Provisions for contingencies | 13,363 | 4,796 | 47,305 | 22,769 |
| Reversal of provisions for contingencies | | | (6,241) | |
| Post-employment benefits - CVM 371 | | | 213 | 264 |
| Capital loss on investment changes | | | 286 | |
| Net result of equity interest accounting | (437,391) | (454,621) | (1,007) | 3,713 |
| Provision for losses on the realization of assets | | | 21,187 | 52,513 |
| Reversal of impairment provision | | | | (89,964) |
| Other | 9,991 | 45,537 | 3,868 | 36,582 |
| | <u>(34,146)</u> | <u>5,830</u> | <u>791,883</u> | <u>410,417</u> |
| Third-parties | | | | |
| Loans and Financings | | 46,844 | 1,131,224 | 529,826 |
| Consumer contributions and donations and subsidies | | | 81,683 | 62,221 |
| Account for variation compensation of Installment A costs, net - appropriation | | | 12,486 | 14,833 |
| Transfer from non-current assets to current assets | | 24,000 | 532,335 | 455,640 |
| Transfer from current liabilities to non-current liabilities | 11,879 | | 145,743 | 84,976 |
| | <u>11,879</u> | <u>70,844</u> | <u>1,903,471</u> | <u>1,147,496</u> |
| Shareholders and related parties | | | | |
| Capital increase | | 1,858,861 | 35,763 | 1,858,861 |
| Minority shareholders | | | (3,454) | |
| Advances for future capital increases | | 8,413 | | 117,636 |
| Dividends from subsidiaries | 157,422 | 524,913 | | 3,510 |
| Reversal of dividends | (188,934) | | | |
| Affiliated, subsidiary and parent companies | (6) | 7 | (176) | (6,635) |
| Goodwill on merger of parent company | | 35,348 | | 187,640 |
| | <u>(31,518)</u> | <u>2,427,542</u> | <u>32,133</u> | <u>2,161,012</u> |
| Total sources | <u>(53,785)</u> | <u>2,504,216</u> | <u>2,727,487</u> | <u>3,718,925</u> |

(Amounts in thousands of reais)

| | Parent Company | | Consolidated | |
|---------------------------------------------------------------------------------------|------------------|------------------|------------------|------------------|
| | 2006 | 2005 | 2006 | 2005 |
| Application of funds | | | | |
| Non-current assets | | | | |
| Collaterals and judicial deposits | | 2,546 | 49,145 | 52,289 |
| Prepaid expenses | | | 176,921 | 67,604 |
| Advances for future capital increases | 5,700 | | 1,761 | 3,461 |
| Deferred income tax and social contribution | | | 1,220 | 117,725 |
| Recoverable income tax and social contribution | | | 15,314 | 11,900 |
| Related parties | 151,660 | 65,762 | | 21,013 |
| Transfer from current assets to non-current assets | | | 27,166 | 83,760 |
| Other credits | | | 8,894 | 16,611 |
| Reversal of provision for share purchase | | | | (103,496) |
| In permanent assets | | | | |
| Reduction in investments | (28,364) | (41,390) | (27,727) | (41,390) |
| Investments | 39,666 | 1,662,771 | 123 | 970,260 |
| Goodwill in share purchase and capital subscription | | 227,007 | | 445,298 |
| Increase (decrease) in fixed assets - deverticalization/ inactivations in progress | | | (796) | 174,385 |
| Tangible and intangible fixed assets | 542 | 573 | 830,037 | 1,150,710 |
| Deferred charges | | 192 | (57) | (7,022) |
| Non-current liabilities | | | | |
| Transfer to current liabilities | 48,674 | | 1,059,713 | 832,043 |
| Proposed dividends | 169,914 | 151,241 | 169,914 | 14,554 |
| Minority proposed dividends | | | 15,204 | 19,520 |
| Total application of funds | 387,792 | 2,068,702 | 2,326,832 | 3,829,225 |
| Increase (reduction) in net working capital | (441,577) | 435,514 | 400,655 | (110,300) |
| Change in working capital | | | | |
| Current assets | | | | |
| At the end of the year | 410,768 | 780,026 | 2,647,666 | 2,172,220 |
| At the beginning of the year | 780,026 | 347,677 | 2,172,220 | 1,903,005 |
| | (369,258) | 432,349 | 475,446 | 269,215 |
| Current liabilities | | | | |
| At the end of the year | 237,355 | 165,036 | 2,310,177 | 2,235,386 |
| At the beginning of the year | 165,036 | 168,201 | 2,235,386 | 1,855,871 |
| | 72,319 | (3,165) | 74,791 | 379,515 |
| Increase (reduction) in net working capital | (441,577) | 435,514 | 400,655 | (110,300) |

See the accompanying notes to the financial statements.



Statements of Changes in Shareholders' Equity

(Amounts in thousands of reais, except when otherwise indicated)

| | Note | Capital stock | Capital reserve | Profit (accumulated reserve | Retained Earnings deficit) | Total |
|--------------------------------------------------------------|-----------|------------------|--------------------|--------------------------------|----------------------------------|------------------|
| Balance as of January 1, 2005 | | 1,323,841 | - | 44,925 | - | 1,368,766 |
| Prior year adjustments | | | | | (41,390) | (41,390) |
| Capital reduction due to partial spin-off | | (1) | | | | (1) |
| Capital increase - corporate restructuring - April 2005 | | 659,743 | | | | 659,743 |
| Capital increase - payment of capital to be paid - July 2005 | | 29,000 | | | | 29,000 |
| Capital increase - public offering of shares - July 2005 | | 1,104,898 | | | | 1,104,898 |
| Capital increase - Green Shoe - August 2005 | | 65,235 | | | | 65,235 |
| Minority shareholders' withdrawal | | | | | (14) | (14) |
| Goodwill in merger of parent company - net | | | 35,348 | | | 35,348 |
| Net income for the year | | | | | 439,406 | 439,406 |
| Profit allocation | | | | | | |
| Legal reserve | | | | 19,900 | (19,900) | - |
| Proposed dividends | | | | | (151,241) | (151,241) |
| Profit retention | | | | 226,861 | (226,861) | - |
| Balance as of December 31, 2005 | | 3,182,716 | 35,348 | 291,686 | - | 3,509,750 |
| Prior year adjustments | | | | | (28,364) | (28,364) |
| Net income for the year | | | | | 394,120 | 394,120 |
| Profit allocation | | | | | | |
| Legal reserve | | | | 18,287 | (18,287) | - |
| Proposed dividends | | | | | (169,914) | (169,914) |
| Profit retention reserve | | | | 177,555 | (177,555) | - |
| Balance as of December 31, 2006 | 25 | 3,182,716 | 35,348 | 487,528 | - | 3,705,592 |

See the accompanying notes to the financial statements



Statements of Value Added for years ended December 31

(Amounts in thousands of reais, except when otherwise indicated)

| | Parent Company | | Consolidated | |
|------------------------------------------------------------|-----------------|-----------------|--------------------|--------------------|
| | 2006 | 2005 | 2006 | 2005 |
| Generation of value added | (7,962) | 13,038 | 6,125,516 | 5,993,313 |
| Operating revenue | | | 6,221,997 | 5,862,753 |
| Allowance for doubtful accounts and net losses | | | (87,471) | (53,079) |
| Deferred tax credits | | | 1,527 | 121,074 |
| Non-operating revenue | (7,962) | 13,038 | (10,537) | 62,565 |
| (-) Inputs acquired from third parties | (18,206) | (25,064) | (2,480,346) | (2,591,561) |
| Costs of purchased energy | | | (1,453,716) | (1,610,725) |
| Electricity network use charges and system service charges | | | (557,829) | (604,949) |
| Materials | (540) | | (36,598) | (36,209) |
| Third-party services | (9,094) | (13,244) | (296,787) | (239,282) |
| Other operating costs | (8,572) | (11,820) | (135,416) | (100,396) |
| Gross value added | (26,168) | (12,026) | 3,645,170 | 3,401,752 |
| Depreciation and amortization | (14,484) | (9,941) | (287,450) | (239,824) |
| Net generated value added | (40,652) | (21,967) | 3,357,720 | 3,161,928 |
| Financial revenues | 35,993 | 56,594 | 321,409 | 269,863 |
| Minority interest | | | (34,545) | (3,089) |
| Equity accounting result | 437,391 | 454,621 | 1,007 | (3,713) |
| Total value added to distribute | 432,732 | 489,248 | 3,645,591 | 3,424,989 |
| Distribution of value added | | | | |
| Payroll | 8,374 | 12,448 | 248,442 | 217,666 |
| Payroll charges (except for INSS) | 1,114 | 1,007 | 44,703 | 14,046 |
| Taxes, fees and contributions | 17,238 | 22,617 | 2,463,779 | 2,308,605 |
| Financial expenses | 11,120 | 12,362 | 470,462 | 404,550 |
| Rents | 766 | 1,408 | 21,366 | 37,288 |
| Founders' shares | | | 2,719 | 3,428 |
| Dividends | 169,914 | 151,241 | 169,914 | 151,241 |
| | 208,526 | 201,083 | 3,421,385 | 3,136,824 |
| Income for the year after dividends | 224,206 | 288,165 | 224,206 | 288,165 |
| | 432,732 | 489,248 | 3,645,591 | 3,424,989 |

See the accompanying notes to the financial statements.



Statements of Cash Flows years ended December 31

| | Parent Company | | Consolidated | |
|---------------------------------------------------------------------|----------------|----------------|------------------|----------------|
| | 2006 | 2005 | 2006 | 2005 |
| Operating activities | | | | |
| Net income for the year | 394,120 | 439,406 | 394,120 | 439,406 |
| Minority interest | | | 34,545 | 3,089 |
| Expenses (revenues) not affecting cash and cash equivalents | | | | |
| Consumers and concessionaires | | | (35,336) | 108,595 |
| Deferred taxes and social contributions, net | | | (1,527) | (94,149) |
| Current taxes and social contributions | | | | (58,154) |
| Recoverable taxes and social contributions | | | (28,536) | |
| Depreciation and amortization | 14,484 | 9,941 | 287,450 | 239,823 |
| Residual value of assets and rights of permanent assets written-off | (349) | 331 | 9,712 | 12,518 |
| Prepaid expenses | | | (59,407) | (57,386) |
| Suppliers | | | 78,812 | (28,379) |
| Loans, financings and debt charges | 9,350 | 29,055 | 370,361 | 318,627 |
| Estimated liabilities - provision | | | 20,352 | |
| Post employment benefits - CVM no. 371 | | | 42 | 1,249 |
| Provisions for contingencies | 13,363 | 4,796 | 41,069 | 26,038 |
| Tariff deferral | | | (104,104) | (169,533) |
| Tariff restitution - adjustment of ratified value | | | | 37,614 |
| Monetary restatement on receivables | (851) | | (851) | |
| Founders' shares | | | 2,719 | 3,428 |
| Equity interest | (437,391) | (454,621) | (1,007) | 3,714 |
| Investment loss | | | 286 | |
| Write-off/provision for losses of permanent assets | | 45,538 | | (51,927) |
| Reversal of accounts payable provision | (2,355) | | (2,355) | |
| Provision for unsecured liabilities | 9,991 | | 9,991 | |
| Regulatory and sector charges | | | 54,782 | 14,032 |
| Other | | | (6,263) | (3,342) |
| | <u>362</u> | <u>74,446</u> | <u>1,064,855</u> | <u>745,263</u> |
| Assets (increase) reduction | | | | |
| Consumers and concessionaires | | | 199,368 | 167,641 |
| Emergency program for reduction of electric power consumption | | | 71 | 9,956 |
| Recoverable taxes and social contributions | (6,363) | (22,330) | (118,930) | (75,791) |
| Inventories | | | 620 | 4,116 |
| Collaterals and restricted deposits | (1,953) | (2,673) | (57,617) | (64,199) |
| Prepaid expenses | (118) | 14 | (2,313) | 147,691 |
| Accounts receivable from subsidiaries | 291 | 141,321 | | |
| Accounts receivable from Petrobras | | 71,701 | | 71,701 |
| Other credits | (569) | 125 | (12,760) | (61,875) |
| | <u>(8,712)</u> | <u>188,158</u> | <u>8,439</u> | <u>199,240</u> |

(Amounts in thousands of reais, except when otherwise indicated)

| | Parent Company | | Consolidated | |
|---------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|-----------------------|----------------------|-----------------------|
| | 2006 | 2005 | 2006 | 2005 |
| Liabilities (increase) reduction | | | | |
| Suppliers | 927 | (3,287) | (30,365) | (23,297) |
| Current taxes and social contributions | (10,867) | 11,999 | 103,098 | 55,567 |
| Deferred taxes and social contributions | | | (2,164) | 14,867 |
| Tariff restitution | | | (75,573) | (26,719) |
| Estimated liabilities | (66) | 7 | 2,162 | 3,311 |
| Provisions for contingencies | 11,879 | | 7,084 | |
| Other liabilities | (721) | (4,432) | (1,497) | (24,010) |
| | <u>1,152</u> | <u>4,287</u> | <u>2,745</u> | <u>(281)</u> |
| Cash generated from (invested in) operating activities | (7,198) | 266,891 | 1,076,039 | 944,222 |
| Investing activities | | | | |
| Additions to investment | (39,666) | (810,596) | (123) | (42,781) |
| Write-offs (additions) to investment - deverticalization | | (113,773) | | 29,411 |
| Reduction (increase) in fixed assets (2006 – reduction in the 26.70 percentage to 23.0576% and 2005 - increase in the 16.33 percentage to 26.70%) | | | 27,727 | (174,385) |
| Additions to tangible and intangible fixed assets | (542) | (573) | (830,037) | (1,150,710) |
| Additions to deferred charges | | (192) | 57 | 7,021 |
| Liabilities connected to concession | | | 60,292 | 62,221 |
| | <u>(40,208)</u> | <u>(925,134)</u> | <u>(742,084)</u> | <u>(1,269,223)</u> |
| Cash invested in investing activities | (40,208) | (925,134) | (742,084) | (1,269,223) |
| Financing activities | | | | |
| Related parties | (10,689) | (65,755) | 12,927 | (127,594) |
| AFAC's | (5,700) | 8,413 | 34,001 | 16,385 |
| Capital increase | | 1,858,876 | | 1,858,876 |
| Goodwill in merger of parent company - net | | 35,348 | | (182,943) |
| Minority shareholders' withdrawal | | (14) | | (14) |
| Incorporation of balances of cash and cash equivalents from Iven S.A. at EDP | | | | 35,348 |
| Dividends (paid) received | (4,572) | (16,766) | (157,903) | (74,649) |
| Loans, financings and debentures - entries | | 130,247 | 2,018,503 | 1,784,389 |
| Loans, financings and debt charges paid | (4,356) | (1,095,285) | (2,283,314) | (2,884,775) |
| Loans and financings - capitalized interest | | | 60,429 | 97,162 |
| | <u>(25,317)</u> | <u>855,064</u> | <u>(315,357)</u> | <u>522,185</u> |
| Cash generated by (invested in) financing activities | (25,317) | 855,064 | (315,357) | 522,185 |
| Increase in cash and cash equivalents | (72,723) | 196,821 | 18,598 | 197,184 |
| Cash and cash equivalents at the end of the year | 187,273 | 259,996 | 596,323 | 577,725 |
| Cash and cash equivalents at the beginning of the year | <u>259,996</u> | <u>63,175</u> | <u>577,725</u> | <u>380,541</u> |
| | <u>(72,723)</u> | <u>196,821</u> | <u>18,598</u> | <u>197,184</u> |

See the accompanying notes to the financial statements.



Notes to the Financial Statements as of December 31, 2006 and 2005

1 - Operating context

EDP - Energias do Brasil S.A., a publicly-held Company established on July 24, 2000, has as corporate purposes to participate in other companies, as shareholder or quotaholder, as well as in businesses and projects in the electricity sector, in Brazil or abroad; manage assets for distribution, generation, transmission and trading in all types and modalities of electricity; study, plan, develop and implement projects for distribution, generation, transmission and trading of all types and modalities of electricity, in its various forms and modalities. The Company may also provide services in businesses of the electricity sector in Brazil and/or abroad.

The electric power generator Enerpeixe S.A., a controlled company in association with Furnas Centrais Elétricas S.A., which has as purpose the exploration of Peixe Angical Hydroelectric Power Plant and the Associated Transmission System, located in the State of Tocantins, started its activities of electricity supply in March 2006, initially through energy purchased from related companies Furnas and Enertrade and, subsequently, through three turbines that started operating in the months of June, July and September 2006, month in which it reached its total installed capacity of 452 MW and the assured energy of 271 MW, through self-generation. Such fact affects the comparison between the 2006 and 2005 financial statements.

2 - Presentation of the financial statements

The financial statements, as of December 31, 2006 and 2005, are presented in amounts in thousands of reais, unless otherwise indicated, and prepared in accordance with accounting practices adopted in Brazil, derived from the Brazilian Corporation Law, the specific legislation issued by the National Electric Energy Agency - ANEEL, and on rules established by the Brazilian Securities Commission - CVM. These practices are consistent with those adopted in the financial statements as of December 31, 2005, published on February 23, 2006.

According to the provisions of CVM Resolution no. 488, of October 3, 2005, the following reclassifications, openings and modifications were made on these statements and notes, aiming to properly comply with such rule:

- Segregation between Current and Non Current in the Balance Sheet;
- Segregation of financial result in Financial Income and Financial Expenses;
- Segregation of fixed assets in tangible and intangible.

To ensure a better comparison of the financial statements of the economic group, the following changes were made to the amounts presented in the 2005 financial statements:

In Current Assets

- Reclassification of the emergency program for reduction of electric power consumption to Other credits.

In Current Liabilities

- Reclassification of the Payroll balances to Other accounts payable;
- Reclassification of the Related parties balances to Suppliers and Debt charges;
- Insertion of caption Regulatory and sectorial charges, corresponding to the amounts payable for Energy efficiency, Research and development, Emergency capacity charges and Emergency electric power acquisition charges, previously recorded under the caption Other accounts payable, and the CCC, CDE and RGR quotas and Inspection fee previously recorded under the caption Regulatory fees.

In Statement of Income

- Reclassification of short-term energy revenue from the caption Electric power supply to Other revenues;
- Inclusion of the caption Availability of the distribution and transmission system, whose balances were previously recorded under the caption Other revenues;
- Inclusion of the caption Founders' shares and the corresponding reclassification of the caption Financial expenses;
- Reclassification of the caption Advances for future capital increases to Minority interest, of the corresponding amount of capital increase of third parties in subsidiaries.

In addition, certain reclassifications were made to the statements of Cash flows and Changes in financial position as of December 31, 2005, to enable the comparison with the values presented as of December 31, 2006.

With the objective of presenting the information provided to the market better, the Company is presenting the following supplementary information:

• Statements of Cash Flows

Statements of Cash Flows prepared in accordance with NPC 20, issued by IBRACON - Brazilian Institute of Independent Auditors.

• Statements of Value Added

Statement of Value Added, in accordance with CVM/SNC/SEP Circular Notice 01/05 and CFC Resolution no. 1010/05, which aim to show the value of the wealth generated by the Company and the distribution among the elements that contributed to its generation.

2.1 - Transition to IFRS

In preparing the consolidated financial statements for the year ended December 31, 2005 and in determining the IFRS transition adjustments, EDP - Energias do Brasil S.A. (or "the Group") has elected to apply certain transition provisions within IFRS 1 – First-time Adoption of International Financial Reporting Standards, namely the exemptions on comparative financial information and on the retrospective application of IFRS.

IFRS 1 grants certain exemptions from the retrospective application of IFRS. From the exemptions allowed, the Group has elected to adopt the following:

(i) Business combinations

The Group has elected not to apply IFRS 3 – Business Combinations retrospectively. Therefore, business combinations that took place prior to January 1, 2005 are accounted for in accordance with the previous accounting policies of the Group. On this basis, the amount of goodwill arising from acquisitions that took place before January 1, 2005, was kept at its book value as previously determined.

(ii) Recognition of deferred actuarial gains and losses

In accordance with IFRS 1, the Group decided to recognize at the date of transition, January 1, 2005, the unrecognized value of the actuarial gains and losses against reserves.

Besides the exemptions referred to above, the Group has adopted retrospectively the remaining IFRS.

An explanation of how the transition to IFRSs has affected the reported financial position and financial performance of the Group is provided in note 38.

3 - Summary of the main accounting practices**3.1 - Financial Statements****a) Cash and cash equivalents**

Represented mainly by balances held on bank accounts and include Interest earning bank deposits, with immediate availability, plus income accrued up to the balance sheet date.

b) Accounts receivables

Recorded at cost and, due to accounting conservatism, the respective contracted payments are only be recorded when they are received. They are represented by Private Contracts of Assignment Credit, corresponding to Municipality Debts (precatórios) received from several Municipalities of Mato Grosso do Sul.

c) Consumers and concessionaires include:

- (i) Amounts billed to final consumers, distributing concessionaires and trading companies, as well as the revenue related to energy that was supplied but not billed (Note 6);

- (ii) Receivables related to energy traded at the Electric Energy Trading Chamber - CCEE (Note 6.1);
- (iii) Receivables related to the Extraordinary Tariff Adjustment - Loss of revenue and Free energy (Note 7.1);
- (iv) Allowance for doubtful accounts - Amounts were accounted for in accordance with the Accounting Instruction 6.3.2 of the Accounting Manual of the National Agency for the Electric Energy - ANEEL, as follows:

| <u>Client Class</u> | <u>Overdue more than</u> |
|---------------------|--------------------------|
| Residential | 90 days |
| Commercial | 180 days |
| Other Classes | 360 days |

d) Inventories

Materials in stock are recorded at their average acquisition cost, which does not exceed market value, being those applicable to operation and maintenance are classified as Current assets and, those allocated to projects classified as Non-current assets, at the caption tangible assets.

e) Prepaid expenses (Note 8)

Relates mainly to:

- (i) CVA - Variation compensation account of items integrating the Installment "A" and corresponding charges. These costs are appropriated to the income statement to the extent the corresponding revenue is billed to the consumers, as determined in the Joint Interministerial Ordinances no. 296 and no. 116, of October 25, 2001 and April 4, 2003, respectively, Law no. 10.438 of April 26, 2002 and Supplementary Resolutions of ANEEL. CVA balances are presented In the Balance Sheets at net value.
- (ii) Other regulatory assets - other exceeding tariff costs, recognized by the regulator in the calculation basis of tariff values and amortized by the billing of energy to consumers in the next tariff cycle.
- (iii) Other - include costs related to the issuance of debentures and other financial operations, whose amortization is recorded on the straight-line method, within the settlement term of the liabilities they originate from.

f) Investments (Note 16)

Equity interest in subsidiaries is valued using the equity method of accounting. Other investments are valued at acquisition cost and/or monetarily adjusted as of December 31, 1995, net of provision for devaluation, when applicable.

g) Tangible and intangible fixed assets (Note 17)

Recorded at acquisition or construction cost, monetarily adjusted as of December 31, 1995, deducted from accumulated depreciation, calculated by the straight-line



Notes to the Financial Statements as of December 31, 2006 and 2005

method, based on the accounting balances recorded in the respective Registration Units - UC, pursuant to the Ordinance DNAEE no. 815, of November 31, 1994, at annual rates shown in the table attached to ANEEL Resolutions no. 2, of December 24, 1997 and no. 44, of March 17, 1999.

Due to the provisions set forth in the Accounting Instructions of the Accounting Manual from ANEEL and CVM Resolution no. 193, of July 11, 1996, financial charges related to financing obtained from third parties, effectively invested in fixed assets in progress, are recorded under this caption as cost of the related works (Note 30). The same procedure was adopted for interest on own capital (when applicable), which financed the work in progress in accordance with the specific ANEEL legislation.

Obligations linked to the concession, shown as reduction to fixed assets, refer, mainly, to resources from consumers allocated to the execution of necessary projects to comply with requests of electric power supply. These obligations are directly linked to the Electric Power Public Energy and Utility Concession, and their eventual liquidation will occur according to determinations of the Granting Authorities

h) Other current and non-current assets

Stated at their cost or realization values, including, when applicable, income earned up to the balance sheet date.

i) Suppliers (Note 18)

Includes mainly the balance payable to electric power suppliers and the balance of Free Energy (spot market) payable to electric power generators and amounts payable to the consortium responsible for the manufacturing and assembly of electrical-mechanical equipment used in Peixe Angical.

j) Loans and financings, Debt Charges and Debentures (Notes 19 and 20)

Adjusted based on monetary and exchange variations, added to the respective charges and, when applicable, added to and/or deducted from gains and losses from hedge operations, incurred up to the balance sheet date.

k) Provisions for contingencies (Note 24)

Recognized in the balance sheet as a result of a past event,

and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recorded considering the best estimates of the risk involved.

l) Other current and non-current liabilities

Stated at the known amounts or estimated, plus, when applicable, to the corresponding charges, monetary and exchange variations incurred up to the balance sheet date.

m) Income tax and social contribution (Notes 9, 10 and 32)

Income tax recorded in income statement is calculated based on the taxable income (adjusted income) to the applicable rates according to the legislation in force - 15% plus a surcharge of 10% on the taxable income in excess of R\$240 per year. Social contribution recorded in the income statement is calculated based on the taxable income before income tax, through the application of the 9% tax rate. Both consider the offsetting of tax loss carryforward and negative basis of social contribution, limited to 30% of the annual taxable income.

The deferred income and social contribution taxes assets were recorded in the caption Deferred income and social contribution taxes, resulting from carryforward tax losses, negative basis of social contribution and temporary differences, taking into account the rates in force of such taxes, according to the provisions of CVM Resolution no. 273, of August 20, 1998 and CVM Instruction no. 371, of June 27, 2002 and consider past profitability and expectations of generation of future taxable income based on a technical viability study.

n) Post-employment benefits (Note 21)

There are three funds sponsored by companies of Energias do Brasil group: Fundação Cesp (sponsored by Bandeirante), Fundação Escelsa de Seguridade Social - ESCELSOS (sponsored by Escelsa and Energest) and Fundação Enersul (sponsored by Enersul and Energest).

Costs, contributions and actuarial liabilities are determined annually, based on the valuation carried out by an independent actuarial company, being the latest of which conducted for the reference date as of December 31, 2006.

(Amounts in thousands of reais, unless when otherwise indicated)

As from December 31, 2001, these amounts have been determined and recorded in accordance with CVM Deliberation no. 371, of December 31, 2000 and NPC 26 of IBRACON.

o) Earnings per share

Calculated considering the total number of shares at balance sheet date.

p) Statement of income

Revenues and expenses are recognized on the accrual basis of accounting. The billing of electric power to all consumers and concessionaires is carried out monthly, according to the reading schedule and supply agreements, respectively.

Supplied and not billed energy, corresponding to the period between the last reading date and the balance sheet date, is estimated and recognized under the caption - Energy supplied to be billed.

q) Accounting estimates

The preparation of the financial statements in accordance with accounting practices adopted in Brazil, derived from the Brazilian Corporation Law, requires that management uses estimates in determining and recording certain transactions affecting assets, liabilities, revenues and expenses.

The settlement of transactions and information, upon their effective realization in subsequent periods, may differ from these estimates, due to the lack of precision inherent to process of their determination. The Company reviews the estimates and assumptions at least quarterly, except regarding the Post-employment benefit plan, as disclosed in note 3.n.

The main estimates related to the financial statements refer to registration of the effects derived from:

- Allowance for doubtful accounts;
- Unbilled supply revenue;
- Transactions carried out within the scope of the Electric Energy Trading Chamber - CCEE;
- Provision for losses - loss of revenue and free energy;

- Regulatory assets and liabilities deriving from the annual adjustment and period revision on tariffs;
- Recovery of deferred income and social contribution tax on tax loss carryforward, negative basis and temporary differences;
- Provisions for contingencies; and
- Post-employment benefit plans.

r) Taxation of operations at the Electric Energy Trading Chamber - CCEE

In accordance with Article 32 of the Provisional Measure no. 66, of August 29, 2002, which became Law no. 10.637, of December 30, 2002 and Normative Instruction no. 199, of September 12, 2002, the electric power distributors, as agents Integrating the Electric Energy Trading Chamber - CCEE, have exercised their option for the special taxation method of PIS and COFINS, on revenues earned in operations carried out within the scope of that Institution.

The main effects relate to the calculation basis on net positive result and the continuation of the application of 0.65% and 3% rate for PIS and COFINS, respectively.

3.2 - Consolidated financial statements

The consolidated financial statements were prepared in accordance with CVM Instruction no. 247, of March 27, 1996, comprising EDP - Energias do Brasil S.A., its subsidiaries (as described in Note 16) and the jointly controlled company Investco S.A. (In the proportion of the equity interest held by the wholly-owned subsidiary EDP Lajeado Energia S.A., at 23.0576%). Accounting criteria adopted in its determination were applied evenly among the group's several companies.

The main consolidation practices adopted were as follows:

- Elimination of the parent company's investment in subsidiaries;
- Elimination of the account balances between the parent company and the subsidiaries included in the consolidation, as well as the accounts held among these subsidiaries; and
- Highlight of the participation of minority shareholders in the balance sheet and in the statement of income.



Notes to the Financial Statements as of December 31, 2006 and 2005

4 - Regulatory assets and liabilities

A summarized table of the regulatory assets and liabilities recorded in the Balance Sheets is presented below:

| | Consolidated | | | |
|---------------------------------------------------------------|-----------------|------------------|----------------|-----------------|
| | Current | | Non Current | |
| | 12/31/2006 | 12/31/2005 | 12/31/2006 | 12/31/2005 |
| Consumers and concessionaires | | | | |
| Extraordinary tariff adjustment – loss of revenue (Note 7.1) | 135,326 | 156,522 | 81,387 | 133,185 |
| (-) Provision for losses – loss of revenue | (62,619) | (17,498) | (81,387) | (70,407) |
| Extraordinary tariff adjustment - free energy (Note 7.1) | 78,355 | 88,080 | 59,690 | 100,161 |
| (-) Provision for losses - free energy | (38,677) | (35,668) | (59,690) | (78,780) |
| PIS and COFINS from generators | 9,003 | 9,610 | | |
| Other regulatory assets | 27,444 | 4,965 | 6,239 | 209 |
| Other credits | | | | |
| Loss of revenue - low income | 18,419 | 10,361 | | |
| PERCEE | 9 | 101 | | |
| Prepaid expenses | | | | |
| PIS and COFINS - rate Increase (Note 8.2) | 29,730 | 32,626 | 19,930 | 86,897 |
| Unbilled supply - tariff deferral (Note 8.3) | 95,467 | 147,888 | | |
| Installment "A" (Note 7.2.1) | 117,893 | | 183,552 | 261,884 |
| CVA - assets (Note 8.1) | 252,525 | 188,788 | 48,623 | 49,099 |
| (-) CVA - liabilities (Note 8.1) | (107,954) | (123,557) | (34,729) | (45,868) |
| Total regulatory assets | 554,921 | 462,218 | 223,615 | 436,380 |
| Suppliers | | | | |
| Free energy (Note 7.1) | (123,342) | (94,035) | (68,830) | (94,483) |
| (-) Provision for losses - transfer of free energy (Note 7.1) | 38,677 | 35,668 | 59,690 | 78,780 |
| PIS and COFINS from generators | | (9,122) | | |
| Tariff restitution (Note 15) | | (75,573) | | |
| Other accounts payable | | | | |
| PIS and COFINS from generators | (7,195) | | | |
| Revenue gains - low income | (4,627) | (3,825) | | |
| Other regulatory liabilities | (19) | | | |
| Total regulatory liabilities | (96,506) | (146,887) | (9,140) | (15,703) |
| Total regulatory assets (-) liabilities | 458,415 | 315,331 | 214,475 | 420,677 |

5 - Marketable Securities

The portfolio is composed as follows:

| | Consolidated | | | |
|-----------------------------|--------------|------------|------------|----------------|
| | Type | Maturity | 12/31/2006 | 12/31/2005 |
| Banco Pactual S.A. | NBC-E | 11/16/2006 | | 50,012 |
| Banco BBA Creditanstalt S.A | NBC-E | 10/12/2006 | | 56,632 |
| | | | - | 106,644 |

(Amounts in thousands of reais, unless when otherwise indicated)

6 - Consumers and Concessionaires

| | Consolidated | | | | | | |
|-----------------------------------------|----------------------|-----------------------|-------------------------------|------------------|---------------------------------|-------------------------|-------------------------|
| | Balances falling due | Overdue up to 90 days | Overdue for more than 90 days | Total | Allowance for doubtful accounts | Net balance on 12/31/06 | Net balance on 12/31/05 |
| Current | | | | | | | |
| Consumers | | | | | | | |
| Billed supply | | | | | | | |
| Residential | 113,287 | 96,000 | 28,086 | 237,373 | (28,406) | 208,967 | 171,491 |
| Industrial | 32,065 | 25,150 | 9,851 | 67,066 | (18,360) | 48,706 | 61,673 |
| Commerce, Services and Other Activities | 46,828 | 33,616 | 38,975 | 119,419 | (29,606) | 89,813 | 73,930 |
| Rural | 8,148 | 8,772 | 4,426 | 21,346 | (1,272) | 20,074 | 16,149 |
| Public power | | | | | | | |
| Federal | 3,463 | 903 | 2,834 | 7,200 | (427) | 6,773 | 5,215 |
| State | 6,965 | 5,127 | 1,281 | 13,373 | (1,324) | 12,049 | 8,304 |
| Municipal | 8,285 | 3,462 | 3,221 | 14,968 | (1,384) | 13,584 | 12,023 |
| Public lighting | 13,268 | 5,069 | 10,044 | 28,381 | (4,109) | 24,272 | 18,123 |
| Public service | 8,021 | 4,926 | 4,637 | 17,584 | (177) | 17,407 | 9,856 |
| Unbilled supply | 254,378 | | | 254,378 | | 254,378 | 222,921 |
| Debt paid in installments | 49,135 | 4,607 | 12,150 | 65,892 | (20,599) | 45,293 | 47,345 |
| Other credits | 12,935 | 1,792 | 316 | 15,043 | (1,579) | 13,464 | 14,749 |
| Regulatory assets | | | | | | | |
| Unbilled supply - tariff deferral | | | | - | | | 10,091 |
| Loss of revenue | 135,326 | | | 135,326 | (62,619) | 72,707 | 139,024 |
| Free energy | 78,355 | | | 78,355 | (38,677) | 39,678 | 52,412 |
| PIS and COFINS from generators | | | | - | | - | 9,610 |
| Other regulatory assets | 27,444 | | | 27,444 | | 27,444 | 4,965 |
| | <u>797,903</u> | <u>189,424</u> | <u>115,821</u> | <u>1,103,148</u> | <u>(208,539)</u> | <u>894,609</u> | <u>877,881</u> |
| Concessionaires | | | | | | | |
| Supply - conventional | 24,632 | 2,892 | 37,264 | 64,788 | (40,156) | 24,632 | 45,409 |
| Short-term energy | 12,859 | | 3,147 | 16,006 | | 16,006 | 7,894 |
| PIS and COFINS from generators | 9,003 | | | 9,003 | | 9,003 | |
| Electric power network use charges | 11,899 | | | 11,899 | | 11,899 | 8,255 |
| Other | 20,232 | | 502 | 20,734 | | 20,734 | 22,735 |
| | <u>78,625</u> | <u>2,892</u> | <u>40,913</u> | <u>122,430</u> | <u>(40,156)</u> | <u>82,274</u> | <u>84,293</u> |
| Total current | <u>876,528</u> | <u>192,316</u> | <u>156,734</u> | <u>1,225,578</u> | <u>(248,695)</u> | <u>976,883</u> | <u>962,174</u> |
| Non current | | | | | | | |
| Consumers | | | | | | | |
| Industrial | 28,938 | | | 28,938 | | 28,938 | 28,325 |
| Commerce, Services and Other Activities | 107 | | | 107 | | 107 | 145 |
| Public Power | | | | | | | |
| Municipal | 12 | | | 12 | | 12 | 12 |
| Debt paid in installments | 45,813 | | | 45,813 | | 45,813 | 29,858 |
| Other credits | 7,247 | | | 7,247 | | 7,247 | 7,247 |
| Regulatory assets | | | | | | | |
| Loss of revenue | 81,387 | | | 81,387 | (81,387) | - | 62,778 |
| Free energy | 59,690 | | | 59,690 | (59,690) | - | 21,381 |
| Other regulatory assets | 1,818 | | 4,421 | 6,239 | | 6,239 | 209 |
| | <u>225,012</u> | <u>-</u> | <u>4,421</u> | <u>229,433</u> | <u>(141,077)</u> | <u>88,356</u> | <u>149,955</u> |
| Concessionaires | | | | | | | |
| Short-term energy | 13,013 | | | 13,013 | | 13,013 | 13,565 |
| Other | 20,168 | | | 20,168 | | 20,168 | 18,330 |
| | <u>33,181</u> | <u>-</u> | <u>-</u> | <u>33,181</u> | <u>-</u> | <u>33,181</u> | <u>31,895</u> |
| Total non current | <u>258,193</u> | <u>-</u> | <u>4,421</u> | <u>262,614</u> | <u>(141,077)</u> | <u>121,537</u> | <u>181,850</u> |



Notes to the Financial Statements as of December 31, 2006 and 2005

The Allowance for doubtful accounts is deemed sufficient to cover possible losses when realizing these assets.

6.1 - Short-term Energy and Auction Supply

| | Consolidated | | |
|-------------------|---------------|--------------|-------------------------|
| | Assets | | Liabilities |
| | Sale | Purchase | System Services charges |
| Balance as of | | | |
| December 31, 2005 | 21,459 | 883 | 2,920 |
| Additions | 88,981 | 17,711 | 19,409 |
| Settlements | (81,421) | (15,058) | (19,183) |
| Balance as of | | | |
| December 31, 2006 | <u>29,019</u> | <u>3,536</u> | <u>3,146</u> |

This refers, mainly, to transactions of energy sale and purchase and system services charges, carried out within the scope of the Electric Energy Trading Chamber - CEEE.

Part of the assets value is subject to changes depending on the decision of ongoing judicial proceedings, filed by companies of the sector, relative to the interpretation of market rules currently in force.

6.2 - Concessionaires - other

The amounts of R\$20,168 (R\$18,330 in 2005) in Non-current assets (Note 6) and of R\$18,953 (R\$14,349 in 2005) in Non-current liabilities (Note 15) refer to receivable and payable amounts, respectively, between the subsidiary Bandeirante Energia S.A. and Companhia Piratininga de Força e Luz - Piratininga, due to the partial spin-off of Bandeirante on October 1, 2001, according to the terms set forth in the spin-off agreement.

There is no disagreement between the parties regarding the currently recorded receivable and payable balances, which shall be opportunistically settled.

6.3 - Suprimento convencional

The Power supply balance includes amounts billed by the subsidiary Enertrade against Ampla Energia e Serviços S.A. - "AMPLA" (formerly known as Companhia de Eletricidade do Rio de Janeiro - CERJ), overdue and due, in the total amount of R\$42,867 (R\$31,211 in 2005), and the amount of R\$40,156 (R\$27,585 in 2005) is under discussion between the parties, due to a difference between the contracted price by AMPLA from Enertrade and the value authorized by ANEEL for transfer of tariffs to AMPLA's final consumers.

During this discussion, Enertrade obtained a preliminary injunction suspending the effects of ANEEL's release that did not recognize the price value contracted by AMPLA and also understands that the contract had already been implicitly approved by ANEEL, pursuant to Article 1, items 3 and 4 of ANEEL Resolution no. 22/1999. In an act of non-compliance with this injunction, AMPLA has been paying the bills issued by Enertrade, partially, corresponding to the portion of the contracted tariff value that, according to ANEEL, would be liable of transfer by AMPLA to its final consumers.

Enertrade's management believes that this discussion, carried out according to the agreement, should end in 2007, as well as that it will have its agreed rights guaranteed.

However, due to accounting conservatism, an allowance for doubtful accounts was recorded in 2006, corresponding to the value under discussion, whose counterentry in the income statement for the year was accounted in the Selling expenses group.

7 - General Agreement for the Electric Power Sector

The General Agreement for the Electric Power Sector, to which the distributors adhered to on December 20, 2001, established conditions to solve contractual and administrative controversies, eliminating the possibility of judicial or extra-judicial litigations on issues relating to the rationing period.

The main topics of the agreement are as follows:

- Declaration of waiver/disclamation;
- Agreement to Purchase of Net Contractual Surplus;
- Free Energy Reimbursement Agreement;
- Addenda to the Initial Agreements; and
- Energy Development Account - CDE.

Based on Provisional Measure no. 14, of December 21, 2001, converted into Law no. 10,438, of April 26, 2002 and other legal rules, it was ascertained the amount of the Extraordinary Tariff Adjustment - RTE, applicable to each electric power distribution concessionaire, was determined, aiming at neutralizing the effects of loss of revenue derived from the Emergency Program for Reducing Electric Power Consumption - PERCEE, which was in force between June 2001 and February 2002.

At the same time, the monthly variations of non-manageable costs (Installment "A") were determined, also connecting the additional cost installments with the energy purchase within the scope of the Electric Energy Trading Chamber - CCEE (Free Energy) to be transferred to the generators.

To reimburse the amount of loss of revenue, Free Energy and Installment "A", in compliance with the provisions

of Provisional Measure no. 14 (which became Law no. 10,438/02), it was granted the 2.9% extraordinary tariff adjustment, applicable to residential consumers (except for low income), rural consumers and Public Lighting and a 7.9% adjustment for the other consumers.

In 2002, funds equivalent to 90% of the ratified amounts of loss of revenue and Installment "A", relative to the credit facility within the scope of PERCEE, were disbursed, through financing agreements with BNDES, entered into on February 13, 2002 (Note 20.5).

ANEEL's Regulatory Resolution no. 1, of January 12, 2004, re-published on June 1, 2004, adjusted to R\$231,666 the amount of Free Energy previously approved to the group's distributors by ANEEL Resolution no. 483, of August 29, 2002 (Note 7.1), amended to 63 months for Bandeirante, 69 months to Escelsa and 73 months to Enersul, the maximum permanence term of RTE in the electric power supply tariffs previously established by ANEEL Resolution no. 484, of August 29, 2002, excluded from this term the amount relative to variations of Installment "A" items verified in 2001 and established that its recovery will be made through mechanism equivalent to the provisions of Article 4 of Law no. 10,438/02 and that, as for the distributors, as electric power distribution public service concessionaires located in the National Interconnected System subject to PERCEE, this recovery will occur immediately after the end of the RTE set forth in Article 4 of Law no. 10,438/02, for the necessary term in order to reach the amount approved by ANEEL Resolution no. 482, of August 29, 2002.



Notes to the Financial Statements as of December 31, 2006 and 2005

7.1 - Breakdown of the RTE approved by ANEEL, representing Loss of revenue and Free energy

The RTE's breakdown is as follows:

| Consolidated | | | | | | |
|----------------------|------------------------------------------------|----------|--------------|-----------|---------------------|----------------|
| Items | Ratification Instrument | Amount | Accumulated | Amount | Balance to amortize | |
| | Number | ratified | compensation | amortized | 12/31/2006 | 12/31/2005 |
| Loss of revenue | Resolution nos. 480/02, 481/02 and 01/04 | 514,868 | 381,875 | (680,030) | 216,713 | 289,707 |
| Provision for losses | | | | | (144,006) | (87,905) |
| | | | | | <u>72,707</u> | <u>201,802</u> |
| Consolidated | | | | | | |
| Items | Ratification Instrument | Amount | Accumulated | Amount | Balance to amortize | |
| | Number | ratified | compensation | amortized | 12/31/2006 | 12/31/2005 |
| Free energy | Resolution nos. 01/04 and 45/04 | 231,666 | 158,858 | (252,479) | 138,045 | 188,241 |
| Provision for losses | | | | | (98,367) | (114,448) |
| | | | | | <u>39,678</u> | <u>73,793</u> |

According to Management estimates, which are periodically reviewed, it is shown that within the maximum established period, there will be insufficiency in the recovery of part of these assets in Bandeirante and Escelsa, reason why the Company felt prudent to record provisions for losses. In the year, for the RTE portion that affects the assets of Bandeirante and Escelsa, whichever the loss of revenue may be, there was a complementary provision in the amount of R\$38,638 and R\$17,463, respectively, in view of ANEEL's determination regarding the redistribution of the amounts collected by RTE between loss of revenue and Free energy recorded as from the beginning of the collection, in 2002, and also due to the updates of the recoverability studies of these assets, whose counterentry in the income statement for the year was recorded in the Financial revenues group.

Management of Bandeirante and Escelsa, however, based on the legislation that created the RTE and, especially, according to the General Electric Power Sector Agreement, are evaluating all alternatives aiming at the full recovery of said credits.

The amounts related to Free Energy refer to the electric power generated and not connected to initial contracts or equivalents.

Monetary restatement

ANEEL Resolution no. 31, of January 24, 2002 and ANEEL Directive Release no. 2,212, of December 20, 2005, determine the remaining balance of the RTE to be paid by the interest rate equivalent to the charged rate, from each distributor, in the financing operations set forth in Article 5 of Provisional Measure no. 14, of December 21, 2001, derived from the financing program supported by the Brazilian Development Bank - BNDES and, should this financial operation does not occur, the Selic rate is to be used.

In the year, the amount of R\$40,142 (R\$80,308 in 2005) for loss of revenue and the amount of R\$41,193 (R\$49,952 in 2005) for Free energy were both recorded as counterentry of the income statement for the year in Financial revenues group. As for Free energy, it was recorded immediately thereafter in the Suppliers Item in counterentry of the income statement for the year in the Financial expenses group, due to the transfer to generators.

(Amounts in thousands of reais, unless when otherwise indicated)

RTE's breakdown in liabilities is as follows:

| Items | Consolidated | | | | | |
|-----------------------------------------------|---------------------------------|-----------------|--------------------------|------------------|---------------------|---------------|
| | Ratification Instrument Number | Amount ratified | Accumulated compensation | Amount amortized | Balance to amortize | |
| | | | | | 12/31/2006 | 12/31/2005 |
| Free energy | Resolution nos. 01/04 and 45/04 | 231,666 | 179,824 | (219,318) | 192,172 | 188,518 |
| (-)-Provision for non-recoverable free energy | | | | | (98,367) | (114,448) |
| | | | | | <u>93,805</u> | <u>74,070</u> |

For the same amount of Free Energy, recorded in 2001, a liability was recorded in Current and Non-current liabilities in the item Electric power suppliers, with the corresponding debt in the result in the item Electric power purchased for resale.

7.2 - Variation of Installment "A" items

Concession agreements for electric power distribution establish, in the composition of tariffs used by concessionaires, amounts for each item of external costs, chargeable to the operating expense, part of the variable called Installment "A", from the formula of the "Tariff Adjustment Index - IRT", as follows:

- Power transfer tariff of Itaipu Binacional;
- Electric power transportation tariff of Itaipu Binacional;
- Collection quota to the Fuel Consumption Account - CCC;
- Tariff of use of transmission facilities, part of the basic network;
- System Service Charges - ESS;
- Energy purchased;
- Global Reversal Reserve Quota - RGR;

- Electric power service inspection fee;
- Connection charges;
- Energy Development Account - CDE;
- Energy Purchase Agreement in the Regulated Environment - CCEAR; and
- Incentive to Alternative Electric Power Sources Program - PROINFA.

With Provisional Measures nos. 2.227 and 14 (which became Law no. 10,438, of April 26, 2001), of September 4, 2001 and December 21, 2001, respectively, and ANEEL Resolution no. 90, of February 18, 2002, an escrow account was created to record the compensation of positive or negative differences between the amounts paid for each item, from January 1, 2001 to October 25, 2001.

The amounts were recorded in Non-current assets in Prepaid expenses, which had counterentries in the income statement in the item Operating expenses, by their respective nature.

7.2.1 - Breakdown of Installment "A" variation of items ratified by ANEEL

| Items | Consolidated | | | | | |
|-----------------|------------------------------------------|-----------------|--------------------------|------------------|---------------------|------------|
| | Ratification Instrument Number | Amount ratified | Accumulated compensation | Amount amortized | Balance to amortize | |
| | | | | | 12/31/2006 | 12/31/2005 |
| Installment "A" | Resolution nos. 480/02, 481/02 and 01/04 | 124,906 | 176,539 | | 301,445 | 261,884 |

Monetary restatement

Amounts ratified to distributors are according to ANEEL Directive Release no. 2,212, of December 20, 2005 and, in the year, the amount of R\$39,558 (R\$35,987 in 2005), recorded as counterentry of income statement for the year in Financial revenues group.



Notes to the Financial Statements as of December 31, 2006 and 2005

8 - Prepaid expenses

| | Consolidated | | | |
|---------------------------------------------------------------------------------|----------------|----------------|----------------|----------------|
| | Current | | Non current | |
| | 12/31/2006 | 12/31/2005 | 12/31/2006 | 12/31/2005 |
| Installment "A" (Note 7.2.1) | 117,893 | | 183,552 | 261,884 |
| CVA - Compensation account of Installment "A" cost variation, net (Note 8.1) | 144,571 | 65,231 | 13,894 | 3,231 |
| PIS/COFINS - rate increase (Note 8.2) | 29,730 | 32,626 | 19,930 | 86,897 |
| Unbilled supply - tariff deferral (Note 8.3) | 95,467 | 147,888 | | |
| Advance of hedge operations coverage (Note 8.4) | 7,659 | 7,575 | 14,205 | 21,447 |
| Other | 9,427 | 6,152 | 11,681 | 12,193 |
| Total | 404,747 | 259,472 | 243,262 | 385,652 |

8.1 - CVA - Compensation account of Installment "A" cost variation

| | Consolidated | | | | | | | |
|----------------------------------|----------------|----------------|---------------|---------------|----------------|----------------|---------------|---------------|
| | Assets | | | | Liabilities | | | |
| | Current | | Non Current | | Current | | Non Current | |
| 12/31/2006 | 12/31/2005 | 12/31/2006 | 12/31/2005 | 12/31/2006 | 12/31/2005 | 12/31/2006 | 12/31/2005 | |
| Bandeirante | | | | | | | | |
| From 10/26/2001 to 09/23/2002 | | 2,586 | | 307 | | 218 | | 26 |
| From 9/24/2002 to 9/23/2003 | 6,679 | 55,390 | | 6,362 | 2,428 | 19,233 | | 2,313 |
| From 9/24/2003 to 9/23/2004 | | 7,201 | | | | 3,407 | | |
| From 9/24/2004 to 9/23/2005 | 209 | 38,044 | | | 246 | 45,086 | | |
| From 9/24/2005 to 9/23/2006 | 55,703 | | | 11,814 | 15,180 | | | 18,538 |
| From 9/24/2006 to 12/31/2006 | 6,145 | | 18,434 | | 3,290 | | 9,870 | |
| Escelsa | | | | | | | | |
| From 8/8/2002 to 8/7/2003 | 12,088 | 17,990 | | | 3,355 | 4,973 | | |
| From 8/8/2003 to 8/7/2004 | | 1,694 | | | | 1,185 | | |
| From 8/8/2004 to 8/7/2005 | 8,577 | 23,979 | | | | 22,276 | | |
| From 8/8/2005 to 8/7/2006 | 123,361 | 16,630 | | 25,659 | 61,051 | 16,600 | | 23,241 |
| From 8/8/2006 to 12/31/2006 | 18,136 | | 25,390 | | 16,882 | | 23,635 | |
| Enersul | | | | | | | | |
| From 9/8/2002 to 3/7/2003 | 4,465 | 12,852 | | | 1,129 | 3,250 | | |
| From 9/8/2003 to 3/7/2004 | | 3,872 | | | | 863 | | |
| From 9/8/2004 to 3/7/2005 | 129 | 5,394 | | | 13 | 1,217 | | |
| From 9/8/2005 to 3/7/2006 | 2,637 | 3,156 | | 4,957 | 708 | 5,249 | | 1,750 |
| From 9/8/2006 to 12/31/2006 | 14,396 | | 4,799 | | 3,672 | | 1,224 | |
| Total | 252,525 | 188,788 | 48,623 | 49,099 | 107,954 | 123,557 | 34,729 | 45,868 |

This refers to variations of Installment "A" items, calculated as determined in Note 7.2.

(Amounts in thousands of reais, unless when otherwise indicated)

Amounts are restated by the SELIC rate variation, and the amount of R\$24,191 (R\$29,249 in 2005) was recorded in the year as counterentry of the Financial result. The amount of R\$106,747 (R\$137,048 in 2005) was amortized in the year.

8.2 - PIS and COFINS - rate increase

Regulatory assets constituted in the distributors in view of the changes introduced by Laws nos. 10,637/02 and 10,833/03, which increased the PIS rate from 0.65% to 1.65% and the COFINS rate from 3% to 7.6%, whose financial effects are transferred to the tariffs.

8.3 - Unbilled supply - tariff deferral

Due to the first periodic tariff review set forth in the concession agreement for electric power distribution of distributor Enersul, on April 8, 2003, ANEEL established, temporarily, the tariff repositioning of the Company resulting in a 42.26% increase, 32.59% of which were applied on electric power supply tariffs as from April 8, 2003, and the difference is to be recovered in four installments of R\$55,253, in the years from 2004 to 2007.

On April 8, 2004, ANEEL changed this percentage, still temporarily, to 43.59% and redistributed the difference in four cumulative installments in the amount of R\$28,389 each, to be added to the revenue in the tariff adjustments from 2004 to 2007.

On April 8, 2005, ANEEL changed this percentage once more, now definitively, to 50.81% redistributing the difference in four cumulative installments in the amount of R\$46,601 each, to be added to the revenue in the tariff adjustments from 2004 to 2007.

The amount relative to said installments is recorded yearly in Current and non-current assets and will be recovered by the inclusion in the electric power accounts in the period between April 8, 2004 and April 7, 2008. The tariff repositioning relative to the first periodic tariff review of Enersul was ratified definitively, as per Resolution 072/ANEEL, of 4/6/05, closing the process of the first periodic tariff review. In the year, the amount of R\$104,101 (R\$169,533 in 2005) was appropriated and the amount of R\$156,525 (R\$98,205 in 2005) was amortized.

8.4 - Advance coverage for hedging operations

This refer to payments of adjustments made to the projected future financial flows, adjusted to present value, of the hedge instruments basically to the total financing amount contracted by the distributor Bandeirante from the Inter-American Development Bank - BID (Note 20), set forth in contract for the reduction of the exposition to credit risk to both parties. The amortization of these amounts to income will occur during the financing settlement period, up to 2012.

9 - Taxes and social contributions

| | Parent Company | | Consolidated | | | |
|------------------------------------------------|----------------|---------------|----------------|----------------|---------------|---------------|
| | Current | | Current | | Non current | |
| | 12/31/06 | 12/31/05 | 12/31/06 | 12/31/05 | 12/31/06 | 12/31/05 |
| Recoverable - Assets | | | | | | |
| Income and social contribution taxes - current | 31,232 | 29,102 | 180,595 | 87,787 | | 1,962 |
| ICMS | | | 31,191 | 33,854 | 52,605 | 41,900 |
| PIS and COFINS | 216 | 211 | 51,815 | 19,013 | 137 | |
| Other | 28,172 | 2,275 | 48,482 | 11,174 | | |
| Total | 59,620 | 31,588 | 312,083 | 151,828 | 52,742 | 43,862 |
| Payable - Liabilities | | | | | | |
| Income tax and social contribution - current | 22,925 | 4,595 | 147,514 | 56,592 | 796 | |
| ICMS | | | 124,469 | 106,363 | 6,666 | 10,609 |
| PIS and COFINS | | 11,871 | 56,503 | 52,837 | | 1,064 |
| Other | 1,799 | 305 | 66,751 | 33,132 | | |
| Total | 24,724 | 16,771 | 395,237 | 248,924 | 7,462 | 11,673 |



Notes to the Financial Statements as of December 31, 2006 and 2005

10 - Deferred income tax and social contribution

10.1 - Assets

The tax credits detailed as follows, levied on tax loss carryforward, negative basis of social contribution and other amounts that constitute temporary differences, which will be used to reduce future tax burden, were recognized based on the profitability history and expectations of generation of taxable income in the next fiscal years, in the subsidiaries Bandeirante, Escelsa, Enersul and Enertrade, within a maximum term of 10 years.

| | Consolidated | | | |
|------------------------------------------------------------------------------|----------------|---------------|----------------|----------------|
| | Current | | Non Current | |
| | 12/31/2006 | 12/31/2005 | 12/31/2006 | 12/31/2005 |
| Income tax on tax losses carryforward | 24,189 | 28,492 | 263,803 | 289,484 |
| Negative bases of social contribution | 9,869 | 10,406 | 98,367 | 109,225 |
| Income and social contribution taxes on other temporary additions | 158,704 | 44,725 | 100,962 | 150,233 |
| Income and social contribution taxes on provision for pension deficit - PSAP | 1,444 | 1,721 | 14,430 | 18,928 |
| Income and social contribution taxes on incorporated tax credit - Goodwill | 13,944 | 12,361 | 254,443 | 268,385 |
| Total | 208,150 | 97,705 | 732,005 | 836,255 |

Based on technical studies of the taxable income projections, calculated in accordance with CVM Instruction no. 371, the recovery of Non-current tax credits are as follows:

| 2008 | 2009 | 2010 | 2011 | 2012 | After 2012 | Non current |
|---------|---------|---------|---------|--------|------------|-------------|
| 171,350 | 136,732 | 142,166 | 112,775 | 76,018 | 92,964 | 732,005 |

In order to comply with CVM Instruction no. 371/02, Management of the subsidiaries prepared, on December 31, 2006, a projection of future taxable income, also taking into account its discounts at present value, showing the realization capacity of such taxable credits in the indicated periods, which were approved by the Boards of Directors. These estimates are periodically reviewed, so that any eventual changes in the recovery perspective of such credits can be recorded in the financial statements in due time.

10.1.1 - Tax credit resulting from the Provision for Pension Deficit - PSAP, refers to the portion of liabilities related to benefits exceeding the assets related to defined benefit pension plans in the subsidiary Bandeirante, whose provision was constituted on December 31, 2001 in counterentry to Shareholders' Equity, deductible at the time of the monthly payments, expected to end in 2017.

10.1.2 - Goodwill fiscal credit derives:

a) in Bandeirante, from the merger, occurred in 2002, of the split portion of the former parent company Enerpaulo - Energia Paulista Ltda., represented by the goodwill paid by Enerpaulo as of the acquisition of shares issued by Bandeirante;

b) in Escelsa, from the merger, occurred in April 2005, of the split portion of parent company EDP - Energias do Brasil S.A., represented by the goodwill paid by the merged companies EDP 2000 Participações Ltda. and EDP Investimentos Ltda. as of the acquisition of shares issued by IVEN, parent company of Escelsa at the time; and

c) in Enersul, from the merger, occurred in April 2005, of the split portion of the former parent company Magistra Participações S.A., represented by the goodwill paid by Magistra as of the acquisition of shares issued by Enersul.

(Amounts in thousands of reais, unless when otherwise indicated)

The amounts were accounted pursuant to CVM Instructions nos. 319/99 and 349/99 and, pursuant to ANEEL's determination will be amortized by in accordance with the expectation of future results and the Company's concession term, resulting in an average annual tax credit realization of R\$6,086 to Bandeirante up to 2027, R\$1,860 to Escelsa between 2007 and 2025 and R\$5,011 to Enersul up to 2027.

10.1.3- The projection of future taxable income shows that subsidiaries have a calculation basis sufficient to recover the full balance of tax credits in the period. However, regarding the credits related to the PSAP and Goodwill, mentioned in Notes 10.1.1 and 10.1.2, such credits will be financially realized

up to 2017 and 2027, respectively, in compliance with the amortization rules of the amounts related to them.

10.2 - Liabilities

| | Consolidated | |
|---------------------|----------------|---------------|
| | 12/31/2006 | 12/31/2005 |
| Income tax | 70,480 | 66,555 |
| Social contribution | 25,372 | 23,959 |
| PIS | 1,125 | 1,470 |
| COFINS | 5,167 | 6,761 |
| | 102,144 | 98,745 |
| Current | 86,400 | 64,369 |
| Non current | 15,744 | 34,376 |
| Total | 102,144 | 98,745 |

11 - Related parties

The main assets and liabilities balances, as well as transactions influencing the income statement for the year, relating to operations with related parties, derive from transactions carried out in usual market conditions for their corresponding operation types.

| | Parent Company | | | | Consolidated | | | | | |
|------------------------|----------------|---------------|-------------|----------|---------------------|---------------|---------------|---------------|---------------------|---------------|
| | Assets | | Liabilities | | Revenues (expenses) | | Assets | | Revenues (expenses) | |
| | 12/31/06 | 12/31/05 | 12/31/06 | 12/31/05 | 2006 | 2005 | 12/31/06 | 12/31/05 | 2006 | 2005 |
| Other credits | | | | | | | | | | |
| Bandeirante | | 290 | | | | 4,110 | | | | |
| Related parties | | | | | | | | | | |
| Bandeirante | 4,711 | | | | 4,711 | | | | | |
| Escelsa | 3,557 | | | 7 | 3,557 | | | | | |
| Enersul | 2,871 | 77 | 1 | | 2,932 | 163 | | | | |
| Energgest | 36,133 | | | | 566 | | | | | |
| CESA | 73,412 | 32,069 | | | 4,819 | | | | | |
| Pantanal | 15,038 | 55 | | | | | | | | |
| Escelsapar | 1,367 | 2,446 | | | 291 | 213 | | | | |
| Enertrade | 56,145 | 1 | | | 947 | | | | | |
| ESC90 | 24,189 | 31,115 | | | 13,533 | 13,937 | 24,325 | 30,511 | 13,533 | 13,937 |
| Other | | | | | | | | 1,250 | | |
| | 217,423 | 65,763 | 1 | 7 | 31,356 | 14,313 | 24,325 | 31,761 | 13,533 | 13,937 |
| Total | 217,423 | 66,053 | 1 | 7 | 31,356 | 18,423 | 24,325 | 31,761 | 13,533 | 13,937 |

The balances with Bandeirante, Escelsa and Enersul refer to personnel, material and services expenses of EDP - Energias do Brasil S.A. shared in 2006, and, balances with other companies refer to financial loans.



Notes to the Financial Statements as of December 31, 2006 and 2005

12 - Collaterals and restricted deposits

| | Parent Company | | | | Consolidated | | | |
|--------------------------------------------------------------------------|----------------|------------|--------------|--------------|---------------|---------------|----------------|----------------|
| | Current | | Non Current | | Current | | Non Current | |
| | 12/31/2006 | 12/31/2005 | 12/31/2006 | 12/31/2005 | 12/31/2006 | 12/31/2005 | 12/31/2006 | 12/31/2005 |
| Judicial deposits (Note 24) | 2,080 | 127 | 2,546 | 2,546 | 4,733 | 174 | 213,530 | 173,396 |
| Collaterals and restricted deposits | | | | | 11,646 | 10,611 | 20,184 | 1,617 |
| Guaranteed securities - Secretariat of the National Treasury | | | | | | | 5,848 | 6,261 |
| Total | 2,080 | 127 | 2,546 | 2,546 | 16,379 | 10,785 | 239,562 | 181,274 |

13 - Accounts receivable from Petrobras

These refer to the sale of 80% of the interest held at Fafen Energia S.A. to Petrobras - Petróleo Brasileiro S.A., on December 27, 2004, in the total amount of R\$96,000 (20% was already held by Petrobras), due in three installments represented by promissory notes, in a "to pay" basis, issued by Petrobras, plus added of accumulated variation of IGP-M as from December 27, 2004 up to each maturity date.

The settlement of the amount was performed partially, upon receipt of the original amounts of R\$48,000 and R\$24,000 settled in January 2005 and December 2005, respectively, while the outstanding balance on December 31, 2006, related to the installment in the original amount of R\$24,000, due on December 27, 2006, was settled on January 19, 2007, all added of the remuneration mentioned in the preceeding paragraph.

14 - Advances for future capital increases

| | Parent Company | | Consolidated | | | |
|-----------------|----------------|---------------|--------------|--------------|--------------|--------------|
| | Assets | | Assets | | Liabilities | |
| | 12/31/2006 | 12/31/2005 | 12/31/2006 | 12/31/2005 | 12/31/2006 | 12/31/2005 |
| Energest | 35,040 | 29,340 | | | | |
| Investco | | | 1,976 | 216 | | |
| Couto Magalhães | | | 1,256 | 1,211 | | |
| Enercoutho | | | | | 1,656 | 1,612 |
| Total | 35,040 | 29,340 | 3,232 | 1,427 | 1,656 | 1,612 |

(Amounts in thousands of reais, unless when otherwise indicated)

15 - Other credits - Assets and Other accounts payable - Liabilities

| | Parent Company | | | | Consolidated | | | |
|-------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | Current | | Non Current | | Current | | Non Current | |
| Other credits - Assets | 12/31/2006 | 12/31/2005 | 12/31/2006 | 12/31/2005 | 12/31/2006 | 12/31/2005 | 12/31/2006 | 12/31/2005 |
| Advance to employees | 142 | 64 | | | 2,338 | 2,478 | | |
| Advance to suppliers | 225 | 135 | | | 7,205 | 6,418 | | |
| Assets allocated to sale | | | | | 51 | 127 | 660 | 919 |
| Bouncing checks | | | | | 448 | 878 | | |
| Credits receivable - customers | | | | | 911 | 1,850 | | |
| Deactivation in progress | | | | | 6,673 | 3,390 | | |
| Expenses to repay | 343 | | | | 7,390 | 1,953 | | 178 |
| Low Income standard | | | | | 972 | 1,249 | | |
| Loss of revenue - low income | | | | | 18,419 | 10,361 | | |
| RGR to offset | | | | | 2,972 | 175 | | |
| Services in progress | | | | | 14,045 | 16,177 | | |
| Services rendered to third-parties | | | | | 18,188 | 14,496 | 8,618 | 10,913 |
| Charges and consignments on payroll | | | | | 2,130 | 2,698 | | |
| PERCEE | | | | | 9 | 101 | | |
| Other | 64 | 297 | | | 7,101 | 7,088 | 336 | 116 |
| Total | 774 | 496 | | | 88,852 | 69,439 | 9,614 | 12,126 |

To be continued



Notes to the Financial Statements as of December 31, 2006 and 2005

Continued

| Other accounts payable - liability | Parent Company | | | | Consolidated | | | |
|-----------------------------------------------------------------------|----------------|---------------|-------------|------------|---------------|---------------|---------------|---------------|
| | Current | | Non Current | | Current | | Non Current | |
| | 12/31/2006 | 12/31/2005 | 12/31/2006 | 12/31/2005 | 12/31/2006 | 12/31/2005 | 12/31/2006 | 12/31/2005 |
| Received advances - | | | | | | | | |
| Assets sale | | | | | 5,008 | 2,689 | | |
| Public lighting contribution | | | | | 15,844 | 14,416 | | |
| Amounts payable to Piratininga | | | | | | | 18,953 | 14,349 |
| Sundry creditors - consumers | | | | | 8,249 | 3,651 | | |
| Payroll | 53 | 4 | | | 6,684 | 3,919 | | |
| Regulatory liabilities (Note 4) | | | | | 11,841 | 3,825 | | |
| Amounts payable - | | | | | | | | |
| Provision Fafen Energia | 5,463 | 7,818 | | | 5,463 | 7,818 | | |
| ICMS credit assignment | | | | | 1,700 | 7,901 | | |
| Interest on compulsory loan | | | | | 3,840 | 5,026 | | |
| Municipalities - acquired securities issued to cover ordered debts | | | | | 825 | 6,004 | | |
| Other | 1,678 | 2,448 | 3 | | 20,373 | 23,956 | 2,244 | 2,243 |
| Total | 7,194 | 10,270 | 3 | | 79,827 | 79,205 | 21,197 | 16,592 |

16 - Investments

16.1 - Movement of investments in 2006

| | Parent Company | | | | | | | |
|-----------------------------------------|----------------|----------------|----------------|--------------|------------|----------------|----------------|----------------|
| | Bandeirante | Escelsa | Energul | TVIX | Escelsapar | EDP Lajeado | Enerpeixe | Energest |
| Balances as of December 31, 2005 | 686,067 | 608,505 | 593,340 | (376) | 376 | 150,358 | 492,324 | 82,120 |
| Write-off/Provision for losses | | | | 376 | (376) | | | |
| Accrued dividends | (51,255) | (45,406) | (28,803) | | | (12,859) | (7,538) | (2,897) |
| Reversal of 2005 dividends | | 81,710 | 107,225 | | | | | |
| Capital increase | | | | | | | 39,544 | |
| Prior years adjustments | (11,824) | (11,198) | (5,342) | | | | | |
| Equity in income | 142,041 | 139,625 | 50,360 | | | 14,665 | 31,738 | 50,555 |
| Balances as of December 31, 2006 | 765,029 | 773,236 | 716,780 | | | 152,164 | 556,068 | 129,778 |

To be continued

(Amounts in thousands of reais, unless when otherwise indicated)

Continued

| | Parent Company | | | | | | Total | |
|--------------------------------------------|----------------|-------------|------------------------------|-------------------------------------------------|-------------------------|-----------------------|--------------|------------------|
| | Enertrade | Investments | Other Goodwill Escelsa | Negative Goodwill maintenance Magistra | Goodwill Bandeirante | Goodwill Enerpeixe | | |
| Balance as of December 31, 2005 | 29,764 | | 36 | (2,388) | 219,546 | 33,162 | 3,580 | 2,896,414 |
| Write-off/Provision for losses | | | (10) | | | | | (10) |
| Other investments | | | 123 | | | | | 123 |
| Accrued dividends | (8,664) | | | | | | | (157,422) |
| Reversal of 2005 dividends | | | | | | | | 188,935 |
| Capital increase | | | | | | | | 39,544 |
| Goodwill amortization | | | | (12,190) | (1,458) | (116) | | (13,764) |
| Prior years adjustments | | | | | | | | (28,364) |
| Equity in income | 9,120 | | | | | | | 438,104 |
| Balance as of December 31, 2006 | 30,220 | | 149 | (2,388) | 207,356 | 31,704 | 3,464 | 3,363,560 |

| | Consolidated | | | | | | Total |
|-----------------------------------------------|-------------------------------------------------------|----------------------|---------------------------------|-------------------------|-----------------------|----------------------|----------------|
| | Provision for dividends maintenance Magistra | Goodwill Investco | Negative Goodwill Escelsa | Goodwill Bandeirante | Goodwill Enerpeixe | Other Investments | |
| Balances as of December 31, 2005 | 219,546 | 225,970 | (2,388) | 33,162 | 3,580 | 7,536 | 487,406 |
| Goodwill amortization | (12,190) | (8,369) | | (1,458) | (116) | | (22,133) |
| Investments write-off with negative equity | | | | | | 366 | 366 |
| Additions | | | | | | 123 | 123 |
| Balances as of December 31, 2006 | 207,356 | 217,601 | (2,388) | 31,704 | 3,464 | 8,025 | 465,762 |

16.2 - Direct interest of investments

Direct interest of EDP - Energias do Brasil S.A.

| Company | Parent Company | | | |
|------------------------------|------------------|------------------|------------|------------|
| | Current | | % interest | |
| | 12/31/2006 | 12/31/2005 | 12/31/2006 | 12/31/2005 |
| Bandeirante | 765,029 | 686,067 | 100 | 100 |
| Energest | 129,778 | 82,120 | 100 | 100 |
| Enertrade | 30,220 | 29,764 | 100 | 100 |
| EDP Lajeado | 152,164 | 150,358 | 59.93 | 59.93 |
| Enerpeixe | 556,068 | 492,324 | 60 | 60 |
| Enercouth * | | | 100 | 100 |
| Escelsa | 773,236 | 608,505 | 100 | 100 |
| Enersul | 716,780 | 593,340 | 100 | 100 |
| Escelsapar** | | 376 | 100 | 100 |
| TV a Cabo Vitória - Tvix S.A | | (376) | | |
| ESC 90*** | | | | |
| Other investments | 149 | 36 | | |
| Goodwill | 240,136 | 253,900 | | |
| Total | 3,363,560 | 2,896,414 | | |

* Enercouth has a provision for negative equity in the amount of R\$364 (R\$361 in 2005).

** Escelsapar has a provision for negative equity in the amount of R\$334.

*** ESC 90 is not consolidated and has a provision for negative equity in the amount of R\$58,028 (R\$48,037 in 2005).



Notes to the Financial Statements as of December 31, 2006 and 2005

| Company | Direct interest of Energest | | | |
|-----------------------------|-----------------------------|---------------|----------------|------------|
| | | | Parent Company | |
| | 12/31/2006 | 12/31/2005 | % interest | |
| | 12/31/2006 | 12/31/2005 | 12/31/2006 | 12/31/2005 |
| Costa Rica* | 9,480 | 9,348 | 51 | 51 |
| Castelo Energética S.A.** | 75,913 | 59,455 | 100 | 100 |
| Pantanal Energética Ltda.** | 12,550 | 4,767 | 100 | 100 |
| Total | 97,943 | 73,570 | | |

* Interest in Costa Rica was transferred to Energest on 7/31/2005.

** Interests transferred to Energest on 9/2/2005.

| Company | Direct interest of EDP Lajeado | | | |
|-----------|--------------------------------|------------|----------------|------------|
| | | | Parent Company | |
| | 12/31/2006 | 12/31/2005 | % interest | |
| | 12/31/2006 | 12/31/2005 | 12/31/2006 | 12/31/2005 |
| Investco* | 205,611 | 197,742 | 23.0576 | 26.7047 |

* Proportionally consolidated interest.

17 - Tangible and intangible fixed assets

| | Parent Company | | | | |
|---------------------------------------------|-------------------------------------|-----------------|--------------------------|--------------|--------------|
| | | 12/31/2006 | | 12/31/2005 | |
| | Average annual depreciation rates % | Historical cost | Accumulated depreciation | Net value | Net value |
| Fixed assets in service - tangible | | | | | |
| Management | | | | | |
| Buildings, civil works and improvements | 9.95 | 8 | | 8 | |
| Machinery and equipment | 17.85 | 606 | (178) | 428 | 306 |
| Vehicles | 18.22 | 1,051 | (623) | 428 | 572 |
| Furniture and fixtures | 9.70 | 1,151 | (326) | 825 | 711 |
| | | 2,816 | (1,127) | 1,689 | 1,589 |
| Fixed assets in service - intangible | | | | | |
| Management | | | | | |
| Software | 20.00 | 1,751 | (1,164) | 587 | 936 |
| | | 1,751 | (1,164) | 587 | 936 |
| Total fixed assets in service | | 4,567 | (2,291) | 2,276 | 2,525 |
| Construction in progress | | | | | |
| Management | | | | | |
| Tangible | | 5 | | 5 | 2 |
| Intangible | | 97 | | 97 | 45 |
| Total construction in progress | | 102 | | 102 | 47 |
| Net total | | 4,669 | (2,291) | 2,378 | 2,572 |
| Tangible fixed assets | | 2,821 | (1,127) | 1,694 | 1,591 |
| Intangible fixed assets | | 1,848 | (1,164) | 684 | 981 |
| | | 4,669 | (2,291) | 2,378 | 2,572 |

(Amounts in thousands of reais, unless when otherwise indicated)

| | Consolidated | | | | |
|---------------------------------------------|-------------------------------------|------------------|--------------------------|------------------|------------------|
| | 12/31/2006 | | | | 12/31/2005 |
| | Average annual depreciation rates % | History cost | Accumulated depreciation | Net value | Net value |
| Fixed assets in service - tangible | | | | | |
| Distribution | | | | | |
| Land | | 47,990 | | 47,990 | 47,409 |
| Buildings, civil works and improvements | 3.87 | 128,323 | (64,683) | 63,640 | 65,573 |
| Machinery and equipment | 4.29 | 4,115,203 | (1,884,562) | 2,230,641 | 2,132,612 |
| Vehicles | 6.31 | 14,639 | (12,471) | 2,168 | 2,807 |
| Furniture and fixtures | 8.19 | 5,069 | (3,619) | 1,450 | 1,861 |
| | | 4,311,224 | (1,965,335) | 2,345,889 | 2,250,262 |
| Generation | | | | | |
| Land | | 39,733 | | 39,733 | 31,731 |
| Reservoirs, dams and mains | 2.01 | 1,001,538 | (59,715) | 941,823 | 195,997 |
| Buildings, civil works and improvements | 0.82 | 403,978 | (51,016) | 352,962 | 108,419 |
| Machinery and equipment | 0.63 | 955,218 | (73,912) | 881,306 | 169,424 |
| Vehicles | 9.97 | 1,120 | (568) | 552 | 603 |
| Furniture and fixtures | 5.64 | 150 | (138) | 12 | 173 |
| | | 2,401,737 | (185,349) | 2,216,388 | 506,347 |
| Transmission | | | | | |
| Buildings, civil works and improvements | 2.43 | 410 | (158) | 252 | 262 |
| Machinery and equipment | 2.69 | 33,754 | (8,515) | 25,239 | 27,558 |
| | | 34,164 | (8,673) | 25,491 | 27,820 |
| Commercialization | | | | | |
| Land | | 44 | | 44 | 44 |
| Buildings, civil works and improvements | 3.89 | 4,097 | (2,097) | 2,000 | 1,653 |
| Machinery and equipment | 6.72 | 6,107 | (3,787) | 2,320 | 2,687 |
| Vehicles | 12.26 | 1,057 | (562) | 495 | 524 |
| Furniture and fixtures | 5.89 | 1,956 | (1,548) | 408 | 450 |
| | | 13,261 | (7,994) | 5,267 | 5,358 |
| Management | | | | | |
| Land | | 1,173 | | 1,173 | 1,178 |
| Buildings, civil works and improvements | 3.96 | 33,837 | (18,371) | 15,466 | 15,301 |
| Machinery and equipment | 7.14 | 160,698 | (95,747) | 64,951 | 65,497 |
| Vehicles | 13.38 | 31,709 | (17,721) | 13,988 | 13,313 |
| Furniture and fixtures | 6.18 | 13,363 | (8,377) | 4,986 | 4,812 |
| | | 240,780 | (140,216) | 100,564 | 100,101 |
| Activities not linked to concession | | | | | |
| Land | | 366 | | 366 | 365 |
| Buildings, civil works and improvements | 3.85 | 1,926 | (1,401) | 525 | 520 |
| Machinery and equipment | 2.45 | 44 | (31) | 13 | 13 |
| | | 2,336 | (1,432) | 904 | 898 |
| Fixed assets in service - intangible | | | | | |
| Distribution | | | | | |
| Software | 19.03 | 33,134 | (15,028) | 18,106 | 20,575 |
| Permanent easement | | 8,862 | | 8,862 | 8,495 |
| Other | | 952 | | 952 | 427 |
| | | 42,948 | (15,028) | 27,920 | 29,497 |

To be continued



Notes to the Financial Statements as of December 31, 2006 and 2005

Continued

| | Consolidated | | | | |
|---------------------------------------------------------|----------------------------------------|--------------------|-----------------------------|------------------|------------------|
| | | 12/31/2006 | | 12/31/2005 | |
| | Average annual depreciation rates % | Historical cost | Accumulated depreciation | Net value | Net value |
| Generation | | | | | |
| Software | 0.20 | 376 | (12) | 364 | |
| Permanent easement | | 684 | | 684 | 208 |
| | | <u>1,060</u> | <u>(12)</u> | <u>1,048</u> | <u>208</u> |
| Transmission | | | | | |
| Permanent easement | | 152 | | 152 | 156 |
| | | <u>152</u> | <u>-</u> | <u>152</u> | <u>156</u> |
| Commercialization | | | | | |
| Software | 19.91 | 57,177 | (31,595) | 25,582 | 36,670 |
| | | <u>57,177</u> | <u>(31,595)</u> | <u>25,582</u> | <u>36,670</u> |
| Management | | | | | |
| Software | 14.21 | 144,977 | (83,854) | 61,123 | 47,950 |
| Other | | 509 | | 509 | 509 |
| | | <u>145,486</u> | <u>(83,854)</u> | <u>61,632</u> | <u>48,459</u> |
| Total fixed assets in service | | <u>7,250,325</u> | <u>(2,439,488)</u> | <u>4,810,837</u> | <u>3,005,776</u> |
| Construction in progress | | | | | |
| Distribution | | | | | |
| Tangible | | 429,847 | | 429,847 | 248,801 |
| Intangible | | 2,868 | | 2,868 | 3,286 |
| Generation | | | | | |
| Tangible | | 219,268 | | 219,268 | 1,720,699 |
| Intangible | | 2,248 | | 2,248 | 6,890 |
| Transmission | | | | | |
| Tangible | | 404 | | 404 | 426 |
| Commercialization | | | | | |
| Tangible | | 2,296 | | 2,296 | 1,284 |
| Intangible | | 313 | | 313 | 18 |
| Management | | | | | |
| Tangible | | 34,095 | | 34,095 | 18,935 |
| Intangible | | 37,910 | | 37,910 | 32,680 |
| Total construction in progress | | <u>729,249</u> | <u>-</u> | <u>729,249</u> | <u>2,033,019</u> |
| Activities not linked to concession | | | | | |
| Goodwill in the merger of parent company | | 908,499 | | 908,499 | 460,584 |
| (-) Provision for dividends maintenance | | (908,499) | | (908,499) | (460,584) |
| Amortization of the provision for dividends maintenance | | 114,509 | | 114,509 | 66,812 |
| (-) Accumulated goodwill amortization | | (114,509) | | (114,509) | (66,812) |
| | | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Obligation linked to concession | | <u>(525,557)</u> | <u>-</u> | <u>(525,557)</u> | <u>(443,874)</u> |
| Net total | | <u>7,454,017</u> | <u>(2,439,488)</u> | <u>5,014,529</u> | <u>4,594,921</u> |
| Tangible fixed assets | | 7,163,855 | (2,308,999) | 4,854,855 | 4,437,056 |
| Intangible fixed assets | | 290,162 | (130,489) | 159,674 | 157,865 |
| Total | | <u>7,454,017</u> | <u>(2,439,488)</u> | <u>5,014,529</u> | <u>4,594,921</u> |

(Amounts in thousands of reais, unless when otherwise indicated)

Movement of tangible and intangible fixed assets in the year is as follows:

| | Parent Company | | | | | Net Book value on 12/31/2006 |
|-----------------------------------------------------|------------------------------|--------------|-------------------------------------|-------------------------------|-------------|------------------------------|
| | Net Book Value on 12/31/2005 | Acquisitions | Transfer to fixed assets in service | Depreciation and amortization | Write-offs | |
| Fixed assets in service - tangible | | | | | | |
| Buildings, civil works and improvements | | | 8 | | | 8 |
| Machinery and equipment | 306 | | 200 | (78) | | 428 |
| Vehicles | 572 | | 61 | (189) | (16) | 428 |
| Furniture and fixtures | 711 | | 218 | (104) | | 825 |
| | 1,589 | | 487 | (371) | (16) | 1,689 |
| Fixed assets in service - intangible | 936 | | | (349) | | 587 |
| Total fixed assets in service | 2,525 | | 487 | (720) | (16) | 2,276 |
| Fixed assets in progress - tangible | 2 | 490 | (487) | | | 5 |
| Fixed assets in progress - intangible | 45 | 52 | | | | 97 |
| Total fixed assets in progress | 47 | 542 | (487) | | | 102 |
| Total fixed assets - tangible and intangible | 2,572 | 542 | - | (720) | (16) | 2,378 |

| | Consolidated | | | | | | |
|-----------------------------------------------------|------------------------------|----------------|-------------------------------------|-------------------------------|-----------------|------------------------------------------|------------------------------|
| | Net Book Value on 12/31/2005 | Acquisitions | Transfer to fixed assets in service | Depreciation and amortization | Write-offs | Percentage change of interest - Investco | Net Book value on 12/31/2006 |
| Fixed assets in service - tangible | | | | | | | |
| Land | 80,727 | | 12,628 | | (7) | (4,042) | 89,306 |
| Reservoirs, dams and mains | 195,998 | | 777,871 | (10,613) | | (21,433) | 941,823 |
| Buildings, civil works and improvements | 191,726 | | 265,836 | (12,136) | (257) | (10,324) | 434,845 |
| Machinery and equipment | 2,397,800 | | 1,030,916 | (198,108) | (10,025) | (16,113) | 3,204,470 |
| Vehicles | 17,247 | | 5,374 | (5,322) | (85) | (11) | 17,203 |
| Furniture and fixtures | 7,294 | | 900 | (991) | (347) | | 6,856 |
| | 2,890,792 | | 2,093,525 | (227,170) | (10,721) | (51,923) | 4,694,503 |
| Fixed assets in service - intangible | 114,989 | | 38,997 | (37,717) | | 64 | 116,333 |
| Total fixed assets in service | 3,005,781 | | 2,132,522 | (264,887) | (10,721) | (51,859) | 4,810,836 |
| Fixed assets in progress - tangible | 1,990,138 | 794,155 | (2,097,159) | | (161) | (1,064) | 685,909 |
| Fixed assets in progress - intangible | 42,876 | 35,825 | (35,363) | | | 3 | 43,341 |
| Total fixed assets in progress | 2,033,014 | 829,980 | (2,132,522) | | (161) | (1,061) | 729,250 |
| Total fixed assets - tangible and intangible | 5,038,795 | 829,980 | - | (264,887) | (10,882) | (52,920) | 5,540,086 |

Obligations linked to the concession are comprised by:

| | Consolidated | |
|-----------------------------|----------------|----------------|
| | 12/31/2006 | 12/31/2005 |
| Consumers' contribution | 309,048 | 248,234 |
| Donations and subsidies | 136,228 | 131,589 |
| Federal government interest | 47,032 | 34,971 |
| State government interest | 33,249 | 29,080 |
| Total | 525,557 | 443,874 |



Notes to the Financial Statements as of December 31, 2006 and 2005

17.1 - Fixed assets related to the concession

According to Articles 63 and 64 of Decree no. 41,019, of February 26, 1957, fixture and equipments used in generation, transmission, distribution, including commercialization, are related to these services, and can not be disposed, granted or given in guarantee without previous and formal authorization from the Regulatory Agency.

ANEEL Resolution no. 20, of February 3, 1999, regulates the separation of fixed assets from the Electricity Public Service concessions, granting previous authorization to separate fixed assets which are not directly related to the concession, when they are available for sale, determining that the

related revenue should be deposited in a specified bank account, to be invested in the concession.

17.2 - Changes in depreciation rates

ANEEL Normative Resolution no. 240, of December 5, 2005, determined that the annual depreciation rates for fixed assets which have similar utilization and characteristics of the distribution and transmission services must be equalized. This Resolution should be applied as from January 1, 2007.

It is expected that the application of this Resolution would incur in a reduction of approximately 5% in the depreciation expenses of the fixed assets in use. The positive effects in profit and loss will impact the tariffs as from the next tariff cycle.

18 - Suppliers

| | Parent Company | | Consolidated | | | |
|-----------------------------------------|----------------|------------|----------------|----------------|--------------|---------------|
| | Current | | Current | | Non Current | |
| | 12/31/2006 | 12/31/2005 | 12/31/2006 | 12/31/2005 | 12/31/2006 | 12/31/2005 |
| Electricity supply | | | 192,348 | 226,210 | | |
| Free energy | | | 84,665 | 58,367 | 9,140 | 15,703 |
| CCEE (purchase of short-term energy) | | | 3,536 | 882 | | |
| PIS and COFINS from generators | | | | 9,122 | | |
| Electricity network utilization charges | | | 60,418 | 52,693 | | |
| System service charges | | | 3,146 | 2,920 | | |
| Material and services | 1,484 | 557 | 156,682 | 128,455 | 435 | 714 |
| Total | 1,484 | 557 | 500,795 | 478,649 | 9,575 | 16,417 |

19 - Debentures

| Issuer | Date | | Issuance characteristics | | | | |
|-------------|-----------|-------------|--------------------------|--------|---------------|---------------|---------|
| | Issuance | Liquidation | Frequency | Series | Amount | | Amount |
| | | | | | of securities | Compensation | |
| Investco | 11/1/2001 | 3/1/2002 | 1 st | Single | 25,000 | 12.80% p.a. | 264,791 |
| Bandeirante | 3/1/2006 | 4/7/2006 | 3 rd | Single | 25,000 | 104.4% of CDI | 250,000 |
| Enersul | 5/2/2006 | 6/2/2006 | 1 st | Single | 33,750 | 104.3% of CDI | 337,500 |
| Escelsa | 6/1/2006 | 7/5/2006 | 1 st | Single | 26,400 | 104.4% of CDI | 264,000 |

19.1 - Issuer - Investco

19.1.1 - Debentures - non convertible

In February 2002, it was registered in the Brazilian Securities and Exchange Commission - CVM, the first issuance of 25,000 debentures non convertible into shares, with a nominal unit value of R\$10,000.00, due in 120 months as from the issuance date (November 1, 2001), actualized as from the issuance date, by the General Market Price Index (IGP-M). Pre-fixed rate remuneration is 12.80% per year, applied to the non-amortized balance of the actualized nominal unit vale.

These debentures have jointly and firm guarantee of the Empresa de Eletricidade Vale Paranapanema S.A. and the EDP - Eletricidade de Portugal. The financial settlement occurred on March 1, 2002, amounting to R\$264,791.

(Amounts in thousands of reais, unless when otherwise indicated)

On December 16, 2002, the 3rd Addendum to the Deed of these debentures was elaborated, which includes the amendment to item 4.5.1 of Clause IV of the Deed and the insertion of sub-item 4.5.2.1 in Clause IV of the Deed. As a result of these amendments, the actualization due on November 1, 2002 was capitalized to the debentures' nominal unit value and is being paid with the expected amortization in the period from November 1, 2003 to November 1, 2011, at a 11.11% rate per year.

The Board of Directors' Meeting held on October 16, 2006 determined the utilization of the General Market Price Index (IGP-M) and the payment of the pre-fixed compensation interest at a 10.50% rate per year, to be effective upon the next remuneration period, as from November 1, 2006.

These financial resources were invested in fixed assets acquisition and working capital maintenance for the conclusion of the Luís Eduardo Magalhães Hydroelectric Power Plant (UHELajeado).

On November 1, 2006, the actualization, compensation interests and amortization of the principal amount were paid, amounting to R\$64,391.

19.2 - Issuers - Bandeirante, Enersul and Escelsa

On January 30, 2006, the Boards of Directors of Bandeirante, Enersul and Escelsa approved the capitalization of long-term loans, represented by the issuance of debentures.

The totality of the debentures was issued as simple, book-entry and registered, in a single series, for public subscription, with no guarantee (unsecured), non-convertible into shares, with no clause stating rollover option.

The nominal unit value is R\$10,000.00, effective for five years, payment of semiannual compensation interest and grace period of three (3) years related to the amortization of the principal amount.

The final settlement dates will occur as follows:

- Bandeirante: on March 1, 2011, with equal and successive amortizations on 3/1/2009, 3/1/2010 and 3/1/2011;
- Enersul: on May 2, 2011, with equal and successive amortizations on 5/2/2009, 5/2/2010 and 5/2/2011; and
- Escelsa: on June 1, 2011, with equal and successive amortizations on 6/1/2009, 6/1/2010 and 6/1/2011.

To the remuneration of the nominal unit value of the debentures, the compensation interests demonstrated in the abovementioned table, will be applied using the accumulated average daily rates of One-day Interbank Deposits (DIs), "over extra group", expressed as a percentage per year, based on 252 working days, calculated and disclosed on a daily basis by the Custody and Settlement Chamber - CETIP (DI Rates), calculated exponentially and accumulatively, pro rata temporis, per past working days.

Remunerations related to the capitalization periods are overdue semiannually, and the first settlement is on 9/1/2006, 11/2/2006 and 12/1/2006, respectively, and the last ones coincident to the final amortization dates.

The contracts have termination clauses for the following assumptions:

- Non compliance, by the Issuer, of any monetary obligation set forth in the Deed, not resolved in one (1) working day as from the date of the default;
- Petition for bankruptcy prepared by third parties against the Issuer and not properly elided by the Issuer within the legal term;
- Petition for self-bankruptcy prepared by the Issuer;
- Liquidation, dissolution or bankruptcy of the Issuer or any of its direct parent company;
- If the Issuer proposes out-of-court recovery plan to any creditor or creditor class, regardless of have been required or have obtained judicial ratification for the referred plan; or if the Issuer files a request for judicial recovery, regardless of the deferral of the recovery processing or its concession by a qualified judge; and
- Loss of electricity distribution concession.

19.3 - Maturity of non-current installments:

| Year | Amount |
|--------------|----------------|
| 2008 | 7,452 |
| 2009 | 291,285 |
| 2010 | 291,285 |
| 2011 | 291,286 |
| Total | 881,308 |

19.4 - Changes in the debentures are demonstrated as follows:

| | Consolidated | |
|--------------------------------------|---------------|----------------|
| | Current | Non Current |
| On 12/31/2005 | 9,885 | 72,231 |
| Additions | | 851,500 |
| Charges and inflation adjustment | 84,918 | 11,007 |
| Amortization | (79,599) | (32,113) |
| Transfer to current | 16,603 | (16,603) |
| Change in the % interest of Investco | (3,618) | (4,714) |
| On 12/31/2006 | 28,189 | 881,308 |



Notes to the Financial Statements as of December 31, 2006 and 2005

20 - Loans, financings and debt charges

20.1 - Loans are comprised by:

| | Parent Company | | | | |
|------------------|----------------|---------------|--------------|-------------|---------------|
| | 12/31/2006 | | 12/31/2005 | | |
| | Charges | Principal | Charges | | Principal |
| | Current | Current | Current | Non current | Non current |
| Foreign currency | | | | | |
| Senior Notes | 1,913 | 41,745 | 2,095 | | 45,702 |
| Swap results | | | | | |
| Senior Notes | | 12,255 | 150 | 72 | 2,900 |
| Total | 1,913 | 54,000 | 2,245 | 72 | 48,602 |

| | Consolidated | | | | | | | |
|-------------------------------------------------------|---------------|--------------|----------------|----------------|---------------|--------------|----------------|----------------|
| | 12/31/2006 | | | | 12/31/2005 | | | |
| | Charges | | Charges | | Charges | | Charges | |
| | Current | Non Current | Current | Non Current | Current | Non Current | Current | Non Current |
| Foreign currency | | | | | | | | |
| Itaú BBA S.A. (a) Bandeirante | | | | | 79 | | 2,809 | |
| BID - Inter-American Development Bank (b) Bandeirante | 2,080 | | 57,401 | 113,348 | 2,538 | | 47,133 | 186,937 |
| Santander (c) Bandeirante | | | | | 1,117 | | 25,772 | |
| BNDES Cesa | 19 | | 715 | 3,275 | 25 | | 781 | 4,360 |
| BNDES Energest | 7 | | 425 | 1,197 | 10 | | 462 | 1,772 |
| Senior Notes (j) Energias | 1,913 | | 41,745 | | 2,095 | | | 45,702 |
| BNDES Enerpeixe | 10,804 | 2,161 | 41,654 | 8,331 | | 7,219 | | 53,434 |
| BNDES Enersul | 7 | | 1,429 | | 16 | | 1,874 | 1,561 |
| European Invest Bank Enersul | 71 | | 6,297 | 3,615 | 107 | | 6,895 | 10,853 |
| STN-DMLP Enersul | 324 | | 1,757 | 20,974 | 318 | | 2,265 | 24,886 |
| Bradesco (d) Enersul | | | | | 15 | | 6,736 | |
| Unibanco (e) Enersul | | | | | 70 | 56 | 1,251 | 14,600 |
| BBA FMO (f) Enersul | | | 1,158 | | 76 | | 1,268 | 1,268 |
| Itaú BBA (g) Enersul | 34 | | | | 399 | | 9,470 | 11,592 |
| Santander (h) Enersul | | | | | 111 | 176 | 10,031 | 9,668 |
| BNDES Escelsa | | | | | 13 | | 2,934 | |
| Senior Notes (i) Escelsa | 11,157 | | 243,416 | | 12,214 | | | 266,493 |
| | 26,416 | 2,161 | 395,997 | 150,740 | 19,203 | 7,451 | 119,681 | 633,126 |

(Amounts in thousands of reais, unless when otherwise indicated)

| | | Consolidated | | | | | | | |
|-----------------------|-------------|--------------|----------------|----------------|------------------|---------------|---------------|----------------|------------------|
| | | 12/31/2006 | | | | 12/31/2006 | | | |
| | | Charges | | Charges | | Charges | | Charges | |
| | | Current | Non Current | Current | Non Current | Current | Non Current | Current | Non Current |
| Local currency | | | | | | | | | |
| Secured accounts | Bandeirante | 50 | | | | 1,783 | | 149,215 | |
| BNDES - CVA | Bandeirante | | | | | 367 | | 43,408 | |
| BNDES - FINAME | Bandeirante | 36 | | 3,297 | 4,624 | 43 | | 4,290 | 5,449 |
| BNDES - RTE | Bandeirante | 510 | | 80,882 | | 386 | | 80,668 | 73,520 |
| Eletróbrás | Bandeirante | 42 | | 1,587 | 6,249 | | | 1,182 | 4,158 |
| Bank Credit | | | | | | | | | |
| Certificate | Bandeirante | 788 | | | 102,000 | | | | |
| Interest on fund | | | | | | | | | |
| reversal | Bandeirante | 73 | | | | 73 | | | |
| BNDES | Energest | 66 | | 4,364 | 12,001 | 82 | | 4,287 | 16,078 |
| BNDES | Cesa | 165 | | 6,736 | 30,315 | 191 | | 6,618 | 36,400 |
| Eletróbrás | Costa Rica | 87 | | 572 | 2,965 | 66 | | 526 | 3,399 |
| BNDES | Pantanal | | | | | 4 | | 392 | 458 |
| Other - FCO | Pantanal | | | | | 4 | | 54 | 370 |
| BNDES | Enerpeixe | | 155,364 | | 649,711 | | 77,333 | | 624,058 |
| Eletróbrás | Enersul | 90 | | 5,040 | 47,347 | 94 | | 4,162 | 45,708 |
| BNDES | Enersul | 303 | | 33,619 | 34,992 | 206 | | 24,474 | 24,330 |
| Safrá | Enersul | | | | | 48 | | 19,828 | |
| BNDES - RTE | Enersul | 324 | | 20,868 | 27,151 | 192 | | 12,053 | 55,846 |
| BNDES - CVA | Enersul | | | | | 10 | | 1,144 | |
| Itaú BBA | Enersul | | | | | 5,746 | | 18,000 | 92,000 |
| Fundação Enersul | Enersul | 61 | | 6,624 | 3,864 | 95 | | 5,306 | 9,805 |
| Secured accounts | Enersul | | | | | 131 | | 14,760 | |
| Banco do | | | | | | | | | |
| Brasil - FCO | Enersul | 212 | | 3,280 | 19,405 | 242 | | 3,280 | 22,685 |
| Santander CDI | Enersul | | | | | 3,344 | | 76,085 | |
| Alfa Compror | Enersul | 295 | | 3,000 | | 1,273 | | 53,899 | |
| Bank Credit | | | | | | | | | |
| Certificate | Enersul | 408 | | | 46,400 | | | | |
| BNDES | Escelsa | 93 | | 4,342 | 11,939 | 104 | | 24,946 | |
| BNDES - CVA | Escelsa | | | | | 163 | | 19,267 | |
| BNDES - RTE | Escelsa | | | 83,582 | | 305 | | 33,448 | 71,172 |
| Secured accounts | Escelsa | | | | | | | 131,811 | |
| Eletróbrás | Escelsa | | | 5,304 | 37,467 | | | 4,704 | 23,404 |
| Banco Fibra | Investco | | | | | 12 | | 3,192 | |
| Banco da | | | | | | | | | |
| Amazônia | Investco | 1,043 | | 3,381 | 10,729 | 1,252 | | 3,915 | 17,091 |
| BNDES | Investco | 240 | | 7,969 | 52,418 | 319 | | 8,316 | 68,034 |
| | | 4,886 | 155,364 | 274,447 | 1,099,577 | 16,535 | 77,333 | 753,230 | 1,193,965 |

To be continued



Notes to the Financial Statements as of December 31, 2006 and 2005

Continued

| | | Consolidated | | | | | | | |
|-------------------------------------------|-------------|---------------|----------------|----------------|------------------|---------------|---------------|----------------|------------------|
| | | 12/31/2006 | | | | 12/31/2006 | | | |
| | | Charges | | Charges | | Charges | | Charges | |
| | | Current | Non Current | Current | Non Current | Current | Non Current | Current | Non Current |
| Swap results | | | | | | | | | |
| Itaú BBA S.A. (a) | Bandeirante | | | | | | | 1,757 | |
| BID - Inter-American Development Bank (b) | Bandeirante | | 33,144 | 49,231 | | | | 25,843 | 59,988 |
| Santander (c) | Bandeirante | | | | | | | 9,565 | |
| Senior Notes (j) | Energias | | 12,255 | | 150 | 72 | | | 2,900 |
| Bradesco (d) | Enersul | | | | | | | (204) | |
| Unibanco (e) | Enersul | | | | | | | 877 | 1,096 |
| BBA FMO (f) | Enersul | | 1,232 | | | | | 1,145 | 817 |
| Itaú BBA S.A. (g) | Enersul | | | | | | | 1,591 | 489 |
| Santander (h) | Enersul | | | | | | | 178 | 724 |
| HSBC (i) | Escelsa | | 3,738 | | 3,909 | | | | |
| Citibank (i) | Escelsa | | 1,247 | | | | | | |
| Banif (i) | Escelsa | | 512 | | | | | | |
| Merrill Lynch (i) | Escelsa | | 402 | | | | | | 1,110 |
| Santander (i) | Escelsa | | 13,884 | | | | | | 4,130 |
| Pactual (i) | Escelsa | | 13,965 | | | | | | 4,116 |
| Itaú BBA S.A. (i) | Escelsa | | 9,890 | | | | | | 2,788 |
| | | - | - | 90,269 | 49,231 | 4,059 | 72 | 40,752 | 78,158 |
| Total | | 31,302 | 157,525 | 760,713 | 1,299,548 | 39,797 | 84,856 | 913,663 | 1,905,249 |

20.2 - Additional information on the debt service of EDP Energias do Brasil S.A.

Senior Notes - Remaining balance from Escelsa's debt assumption occurred on July 7, 2005, amounting to US\$19,525,000 as at December 31, 2006, with a 10% interest rate per year. The Company acquired a swap contract which is used to hedge against the foreign currency exposure from such loan. This contract swapping US Dollar exchange variation against 103.85% of CDI (Interbank Deposit Certificate) for the total principal amount and for 50% of the interest. The settlement dates for interest are semiannually, for which the next due date will be at January 13, 2007. Regarding the principal amount, the settlement date is unique and will be at July 13, 2007.

20.3 - Additional information on the debt service of Bandeirante IDB - Inter-American Development Bank

- External loan contract with a participation of a Brazilian, Portuguese and Spanish consortium of banks, contracted on March 5, 2004, amounting to US\$100 million, granted during 2004, with grace period of 2 years to start paying the principal, with a settlement date up to 8 years, being:

- Tranche "A" - US\$38.9 million: settlement dates are on a quarterly basis, comprehending the period from May 15, 2006 to February 15, 2012. The interest expenses are calculated based on the Libor plus 4.375% per year, with a settlement date also on a quarterly basis, starting on May 15, 2004; and
- Tranche "B" - US\$61.1 million: settlement dates are on a quarterly basis, comprehending the period from May 15, 2006 to February 15, 2009. The interest expenses are calculated based on the Libor plus 4% per year, with a settlement date also on a quarterly basis, starting on May 15, 2004.

This loan is related to investment projects and is guaranteed by the Company's receivables from the electricity supply, with establishment of "Covenants" (total debt in relation to total debt plus shareholders' equity, total debt in relation to EBITDA and index of debt service coverage, among other non-financial), fully complied with up to date. An eventual non-compliance could result, partially or fully, in an anticipation of the settlement date. For this loan, exchange swap operations were contracted to hedge against the foreign currency exposure.

(Amounts in thousands of reais, unless when otherwise indicated)

Secured bank accounts - These refer to loans contracted with several local financial institutions to cover the operating cash flow, with an average interest rate of 104% of CDI, guaranteed by promissory notes.

BNDES - RTE - Extraordinary Tariff Adjustment - contracted on February 13, 2002, in compliance with the Electric Power Sector General Agreement and Law no. 10,438/02. In 2002, financial resources amounting to R\$306,105 were granted, equivalent to 90% of the Loss of revenue amount and Compensation Account of the Variation of items from the installment "A", comprehending the period from January 1, 2001 to October 25, 2001 (Note 7). Over the principal amount, there is an interest rate of 1% per year, above the average annual adjusted SELIC rate. The credit portion in an original amount of R\$250,736 and corresponding interest have been amortized in a monthly basis, since March 2002, in 55 monthly and successively installments, with the final settlement date on September 15, 2006. The credit portion in the original amount of R\$55,369 should be amortized in 9 monthly and successively installments, with the first settlement date on October 15, 2006 and the last one on June 15, 2007 and, during the grace period, interest expenses were integrated to the principal amount. Both debts have a guarantee in bank account equivalent to 3.77% of the Company's monthly revenues.

Eletrobrás

- (i) Luz no Campo ("Light in the Countryside") Program - contracted on June 1, 2000. Financial resources amounted to R\$2,986 (R\$1,635 on 8/10/2000 and R\$1,351 on 12/6/2004). Over the outstanding balance there is 5% interest per year and management fee of 1% per year, both due on a monthly basis, starting on September 30, 2002. The outstanding amount will be paid in 60 monthly installments, equal and successive, with the first one due date on 9/30/2002 and the last one on 8/30/2007. This loan is guaranteed by promissory notes related to the own revenues.
- (ii) Reluz Program - contracted on December 19, 2002. Financial resource amounted to R\$511 as at December 5, 2003. Over the outstanding balance there is 5% interest per year and management fee of 1.5% per year, both due on a monthly basis, starting on July 30, 2005. The outstanding balance will be paid in 36 monthly installments, equal and successive, with the first one due date on 7/30/2005 and the last one on 6/30/2006. This loan is guaranteed by promissory notes related to the own revenues.

- (iii) Luz para Todos ("Light for All") Program - contracted on May 8, 2004. Credit line, amounting to R\$11,523 as a loan and amounting to R\$1,773 as an economic subsidy. Financial resources granted, amounting to R\$7,080 as a loan, and amounting to R\$1,089 as an economic subsidy. Over the outstanding balance there is 5% interest per year and management fee of 1% per year, both due on a monthly basis, starting on July 30, 2004. The outstanding balance will be paid in 120 monthly statements, equal and successive, with the first due date on August 30, 2006 and the last one on July 30, 2016. Over the non-granted balance there is a credit reserve commission of 1% per year, maturing on the 30th of each month, up to the closing of the credit. This loan is guaranteed by promissory notes related to the own revenues.

Credit Bank Certificates - Agreements entered into on December 5, 2006, in the total amount of R\$102,000, being R\$51,000 with Banco do Brasil S.A. and R\$51,000 with Banco Santander Banespa S.A. The loan bears interest of 105% of CDI variation, daily capitalized. Principal due in 5 annual installments, with the first due on December 5, 2009 and the last due on December 5, 2013 and semiannual interest due as from June 5, 2007 to December 5, 2013. This operation establishes "Covenant" of the gross debt/EBITDA ratio in an index not exceeding 3.5. Agreement conditions are identical for both financial institutions.

20.4 - Additional information on the debt service of Escelsa

Senior notes - These refer to the residual balance of the fund raising through securities called "Senior Notes" (Notes), in the total original amount equivalent to US\$113.852.000 with single maturity in July 2007 and interest of 10% p.a. payable semiannually on January 15 and July 1 of each year. On May 21, 1998, the registration of such securities was obtained at SEC - Securities and Exchange Commission, in the United States of America, pursuant to the "Securities ACT of 1933". For these securities, swap operations were contracted, shown in the previous table, in addition to investments in exchange securities, aiming at the reduction of the debt's net exposure, as mentioned in Note 31.5. On July 7, 2005, as part of the corporate restructuring process of Energias do Brasil group, R\$794,127 (US\$332.256.620) of the debt was transferred to the parent company EDP - Energias do Brasil S.A.

BNDES (Domestic currency) - Agreement entered into in August 2006, with resources onlending through Banco ALFA, allocated to the investment program in substations and electric power transmission and distribution. In 2006, resources in the amount of R\$17,320 were received.



Notes to the Financial Statements as of December 31, 2006 and 2005

The principal amount bears interest of 4.8% per year + TJLP (long-term interest rate), payable monthly as from October 15, 2006, jointly with principal installments and final maturity on September 15, 2010. The guarantee provided is a part of the monthly sales resulting from electric power services, corresponding to the minimum amount of 130% of the principal installments and debt accessories.

BNDES - Extraordinary Tariff Adjustment - Agreement signed in February 2002, in compliance with the General Electric Power Sector Agreement and Law no. 10,438/02. In 2002, resources in the amount of R\$166,226 were received, equivalent to 90% of the Loss of revenue amount and Compensation Account for Variation of Installment "A" Items from January 1, 2001 to October 25, 2001 (Note 7). The principal amount bears interest of 1% per year, above the average annual adjusted SELIC rate. The credit portion in the original amount of R\$131,861 and corresponding interest are being amortized monthly as from March 2002, in 59 monthly and successive installments with final maturity on January 15, 2007. The credit portion in the original amount of R\$ 34,365 shall be amortized in 11 monthly and successive installments, with the first one due on February 15, 2007 and the last one on December 15, 2007 and, during the grace period, interest will be paid up to the principal of the loan. Both are guaranteed through restriction of the amount equivalent to 5.75% of the Company's monthly sales result.

Eletrobrás

- (i) Luz para Todos ("Light for All") Program - 1st Phase - Program established by Decree no. 4,873, of November 11, 2003, coordinated by the Ministry of Mines and Energy and operated by Eletrobrás. Agreement entered into on May 21, 2004. In 2004, resources were released in the amount of R\$10,720, in 2005, R\$7,147 and, in 2006, R\$4,788, totaling R\$22,655. The principal amount bears interest of 5% per year and management fee of 1% per year, paid monthly as from October 30, 2004. The principal are payable monthly as from August 30, 2006 to July 30, 2016, guaranteed by restriction of own revenue and Promissory Notes.
- (ii) Luz para Todos ("Light for All") Program - 2nd Phase - Program established by Decree no. 4,873, of November 11, 2003, coordinated by the Ministry of Mines and Energy and operated by Eletrobrás. Agreement entered into on November 20, 2005. In 2006, resources were released in the amount of R\$17,413. The Principal amount bears interest of 5% per year and management fee of 1% per year, paid monthly as from April 30, 2006. The principal are payable monthly as from May 30, 2008 to April 30,

2018, guaranteed by restriction of own revenue and Promissory Notes.

- (iii) Reluz Program - Various agreements entered into with Eletrobrás, corresponding to the Financing Program to Projects of Energy Preservation and Efficiency, to the cities of Vila Velha, Ibirapu and Aracruz, in the contracted amount of R\$17,023. The agreements bear interest of 5% and management fee of 1% per year over the outstanding balance, incorporated monthly during the grace period. The principal are payable monthly as from the end of the grace period. Guaranteed by restriction of own revenue and Promissory Notes.

20.5 - Additional information on Enersul's debt service

BNDES (Foreign Currency) - contracted in February 2003, to finance constructions, amounting to R\$6,663, with financial resources from BNDES, through Banco ALFA as the leader bank, with a participation of Itaú BBA, to be amortized in 36 monthly installments and a 4% interest rate per year, indexed to the Basket of Currency (UMBDES + Variable Interest Rate + Income Tax), with the settlement date in October 2007. This loan is guaranteed by Receivables and Promissory Notes.

European Invest Bank - N° IE0.63/01 - contracted in April 2000. This loan corresponds to a credit line of US\$15,000,000, which was obtained through the Itaú BBA, to finance constructions and will be amortized in 11 monthly installments, with quarterly Libor + 5% interest rate per year, actualized by the exchange rate, with the settlement date in June 2008. This loan is guaranteed by Promissory Note and Surety of the Parent Company. **N° OB1.63/01** - contracted in February 2001. This loan corresponds to a credit line of US\$1,200,000, obtained through the Itaú BBA, to finance constructions and will be amortized in 11 monthly installments, with quarterly Libor + 4% interest rate per year, actualized by the exchange rate, with the settlement date in March 2009. This loan is guaranteed by Promissory Note and Surety of the Parent Company.

National Treasury Secretariat - STN - Medium and Long Term Debt ("DMPL") - contracted in March 1997, in the amount of US\$14,615,864, relates to external liabilities deriving from medium and long-term loan agreements with external creditors, not deposited in the Central Bank of Brazil, according to Resolutions nos. 1,541/88 and 1,564/89, of the National Monetary Council and its rulings, including the installments maturing after December 1993, subjected to be exchanged for Brazilian Federal Bonds, according to Resolutions nos. 98/92, 90/93 and 132/93, actualized by the exchange rate variation informed by SISBACEN PTAX-800, option 1, variable interest by semiannual Libor plus 7/8 and 13/16 of 1% per year and fixed rates of 6% to 8% per year plus 0.2% commission per year, with semiannual

(Amounts in thousands of reais, unless when otherwise indicated)

amortizations, with the settlement date on April 2024. This loan is guaranteed by Surety of the State Government, Own Revenue and Guarantee of a portion of the debt.

BBA - FMO - (Netherlands Development Finance Company) - contracted in October 2001, it corresponds to a credit line of US\$6.500.000 obtained through the Itaú BBA, to finance constructions and will be amortized in 11 semiannual installments, with an 8.5% interest rate per year, actualized by the exchange rate. For this loan, a swap operation was contracted, to protect against financial risks arising from assets and liabilities variations, with 0.95% interest rate per year plus CDI, with a settlement date in September 2007. This loan is guaranteed by Promissory Notes and Surety of the Parent Company.

Eletrobrás

- (i) IRDs (Instrument of Debt Recognition) – financial resources from Federal Government, which corresponds to the financing of the Federal Electrification Fund to the Concessionaire, with amortization in 80 equal quarterly installments and a 8% interest rate per year, with the settlement date in May 2022.
- (ii) Luz no Campo ("Light in the Country") Program - ECF-1975/00 - amounting to R\$25,608, designated to finance the Rural Electrification Program that is part of the Luz no Campo Program Phase 1, with a 6% interest rate per year, to be amortized in 120 installments, with the settlement date on July 30, 2012. ECF-2162/02 – amounting to R\$1,500, relates to Phase 2 of this program, with a 6% interest rate per year, to be amortized in 120 installments, with the settlement date on June 30, 2015.
- (iii) Luz para Todos ("Light for All") Program - ECPS-024-B/2005 - amounting to R\$18,103, with a remaining balance of R\$12,840 yet to be granted. It is designated to finance the National Rural Electrification Program, which is part of the Nationalization Program "Luz para Todos" - MME - equivalent to 39.67% of the total constructions costs, to be amortized in 120 monthly installments, equal and successive, and a 6% interest rate per year, with the settlement date on June 30, 2016, guaranteed by Revenue and Promissory Note. ECFS-097-A/06 Addendum – amounting to R\$41,714, with a balance of R\$12,514 already granted. It is designated to finance the 2nd Tranche of the Luz para Todos Program - equivalent to 45.3% of the total constructions costs, to be amortized in 120 monthly installments, equal and successive, with a 6% interest rate per year, with a settlement date on November 30, 2017; ECF-2480 - amounting to R\$893, with a balance of R\$89 already granted with the implementation of the of the Luz para Todos Program, through the adaptation of the 138 kV Substation of Fazenda Itamarati, to supply

Assentamento Itamarati (Itamarati Settlement). It will be amortized in 60 monthly installments, equal and successive, with a 7% interest rate per year, with a settlement date on November 30, 2012. All ECFs loans are guaranteed by Revenue and Promissory Note.

BNDES - Agreement no. 10/658260-5 - contracted in July 1999, in the amount of R\$73,300, to finance constructions, with financial resources from BNDES (Finem/Finame), obtained through the Banco UNIBANCO as the leader bank, with participation of the Banco Itaú BBA and the Banco ALFA. It will be amortized in 78 monthly installments and a 3.85% interest rate per year, indexed by TJLP (long-term interest rate), with the settlement date in February 2008, guaranteed by Receivables. Agreement no. 1001325 - contracted in February 2003, to finance constructions, in the amount of R\$27,084 with financial resources from BNDES (Finem/Finame), obtained through the Banco Alfa as the leader bank, and participation of the Itaú BBA. It will be amortized in 36 monthly installments and a 4.00% interest rate per year, indexed by TJLP, with the settlement date in September 2007, guaranteed by Receivables and Promissory Note. Agreement no. 1003035 - contracted in March 2006, in the amount of R\$29,184, to finance constructions, with financial resources from BNDES (Finem/Finame) obtained through the Banco ALFA. It will be amortized in 48 monthly installments and a 4.65% interest rate per year, indexed by TJLP, with the settlement date in November 2010, guaranteed by Receivables. Agreement no. 1003207 - contracted in August 2006, to finance constructions, in the amount of R\$17,130 with financial resources from BNDES (Finem/Finame) obtained through the Banco ALFA. It will be amortized in 48 monthly installments and a 4.80% interest rate per year, indexed by TJLP, with the settlement date in October 2010, guaranteed by Receivables and Promissory Note.

BNDES - Extraordinary Tariff Adjustment - contracted in February 2002, in compliance with the General Electric Power Sector Agreement and Law no. 10,438/02. In 2002, financial resources, amounting to R\$100,767, were granted, which are equivalent to 90% of the Loss of revenue amount and Compensation Account for Variation of Items "A" Installment from January 2001 to October 25, 2001 (Note 7). Over the principal amount, there is a 1% interest rate per year, above the adjusted annual average SELIC rate. The credit portion at the original amount of R\$78,065 and corresponding interest were amortized on a monthly basis, starting in March 2002, and the balance was paid in advance in October 2006. The credit portion in the original amount of R\$22,682 was extended to 25 monthly and successive installments, the first one maturing on December 15, 2006 and the last one on December 15, 2008, in conjunction with the loan interest. Guaranteed by a bank account with 3.63% of the Company's monthly revenues.



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Fundação Enersul - Instrument of Rollover and Scheduling of the consolidated debt up to February 1997, amended on December 8, 2006, which outstanding balance was rescheduled for amortization in 19 installments as from January 18, 2007, ending on July 18, 2008, actualized by the Constant Amortization System - SAC, in compliance with all clauses and conditions of the initial agreement and guaranteed by Promissory Note.

Banco do Brasil - FCO - contracted in November 2001, to finance constructions with financial resources amounting to R\$30,000 from the FCO - Mid-West Constitutional Fund, obtained through the Banco do Brasil, to be amortized in 108 monthly installments, equal and successive, with a 11.1989% interest rate per year, ending in November 2013, guaranteed by Surety of the Parent Company and Banking Intervention.

Banco ALFA - concession of loans - **COMPROR** - In the amount of R\$25,000, with interest rate of 104.4% of the CDI, and 90 days for final settlement.

Credit Bank Certificates - contracted on December 5, 2006, in the total amount of R\$46,400, from which R\$23,200 was obtained with Banco do Brasil S.A. and R\$23,200 with Banco Santander Banespa S.A. Over the loan amount there will be interest rate equivalent to 105% of the CDI variation, capitalized on a daily basis. The principal will be paid in 5 annual installments, with the first one due on December 7, 2009 and the last one on December 5, 2013. Interests will be paid semiannually due from June 5, 2007 to December 5, 2013. The transaction establishes "Covenant" of the gross debt/EBITDA ratio not exceeding 3.5, which has been attended to date. Agreement conditions are the same for both financial institutions.

20.6 - Additional information on Enerpeixe's debt service

This loan was obtained with BNDES' financial resources, amounting to R\$670,000. The loan's approval is according to BNDES' Board of Executive Officers' Decision, number 691/2003, dated November 10, 2003, and was contracted on May 21, 2004, with R\$335,000 directly obtained and R\$335,000 through financial agents, as follows:

| Subcredit | Direct Installment | | Indirect Installment | | | | Total | Total |
|-----------|--------------------|----------------|----------------------|---------------|---------------|----------------|----------------|-------|
| | BNDES | Itaú BBA | Banco do Brasil | Bradesco | Unibanco | Total | | |
| "A" | 26,184 | 7,855 | 6,546 | 6,546 | 5,237 | 26,184 | 52,368 | |
| "B" | 235,671 | 70,701 | 58,917 | 58,917 | 47,134 | 235,669 | 471,340 | |
| "C" | 7,314 | 2,195 | 1,829 | 1,829 | 1,463 | 7,316 | 14,630 | |
| "D" | 65,831 | 19,749 | 16,458 | 16,458 | 13,166 | 65,831 | 131,662 | |
| | 335,000 | 100,500 | 83,750 | 83,750 | 67,000 | 335,000 | 670,000 | |

The major loan's conditions are:

- (i) Grace period to February 2007;
- (ii) Amortization:
 - 107 monthly and successive installments, the first one due on March 15, 2007 and the last one on January 15, 2016;
- (iii) Charges:
 - For the sub-credits "A" and "C", variable rate adjusted on a quarterly basis based on the average cost of all rates and expenses incurred by BNDES in obtaining financial resources in foreign currency, plus 4.5% per year, during the period when the guarantee granted by the indirect parent company EDP - Energias do Brasil S.A. is effective;
 - For sub-credits "B" and "D", TJLP (long-term interest rate) index, plus 4.5% per year, during the period when the guarantee granted by EDP - Energias do Brasil S.A. is effective; and
 - The abovementioned spreads become 6% per year, to be effective when the guarantee granted by EDP -

Energias de Portugal S.A. is replaced by the guarantee to be granted by the direct parent company EDP - Energias do Brasil S.A. This rate may be reduced to 5% per year, in case EDP - Energias do Brasil S.A. presents a minimum capitalization index of 38% and Enerpeixe presents debt service coverage index of 1.3.

(iv) Guarantees and obligations:

- Share escrow corresponding to 60% of the beneficiary's capital, held by Energias do Brasil S.A.;
- Lien of rights emerging from the concession, including, among others, the beneficiary's credit rights, resulting from the sale of energy produced by UHE Peixe Angical to the companies Bandeirante Energia S.A., Espírito

(Amounts in thousands of reais, unless when otherwise indicated)

Santo Centrais Elétricas S.A. - ESCELSA, Empresa Energética de Mato Grosso do Sul S.A. - ENERSUL and Centrais Elétricas Mato-grossenses S.A. - CEMAT and the guarantees included in the Agreement of Purchase and Sale of Energy - CCVEs;

- To maintain in a financial reserve account the amount equivalent to, at least, three months of the amortization, interest and charges portion, as well as three months of payment of the O&M Agreement (Operation and Maintenance), during the amortization phase; and
- Letter of guarantee from EDP Energias do Brasil S.A., ruled by Portuguese laws, which will be replaced by the guarantee from EDP Energias do Brasil, upon compliance with contractual obligations.

20.7 - Additional information on Investco's debt service

BNDES - Financing Agreement related to the obtaining of a Credit Line with BNDES, with intervention of Investco's Shareholders and its controlling shareholders, on September 21, 2000, in the total amount of R\$180,000, with a 4% interest rate per year above TJLP, to be paid on a quarterly basis, due on January 15, April 15, July 15 and October 15 of each year, in the period between October 15, 2000 and October 15, 2002. After this period, to be paid on a monthly basis, starting on November 15, 2002. The principal amount has been amortized in 120 installments, monthly and successively, calculated according to the Increasing Amortization System (Price Table), as from November 15, 2002.

Credit Agreement related to the concession of the loan obtained with BNDES through Banco Itaú, Bradeso, BBA Creditanstalt and Banco ABC, with intervention of Investco's shareholders and its controlling shareholders, on September 21, 2000, in the amount of R\$120,000, with a 4% interest rate per year above TJLP, to be paid on a quarterly basis during the grace period and on a monthly basis during the amortization period. The principal installments, with grace period of 24 months, have been amortized in 120 installments, monthly and successively, since November 15, 2002. Part of Investco S.A.'s common shares were given as guarantee, as well as promissory notes and assignment of contractual rights.

BASA - Agreements with Banco da Amazônia S.A., contracted on September 1999, with intervention, as guarantors, of EEPV, CEMAT, CEB, CPEE, CELPA, CELTINS and Energest, amortized on a monthly basis, with the last settlement date on October 10, 2009, amounting to R\$50,000, with a 14% interest rate per year to be paid on a monthly basis. During the grace period, 50% of the interest

expenses is to be paid and the remaining 50% to be included in the outstanding balance, to be paid with the amortization installments of the principal amount. Revenues of subsidiaries of Rede Empresas de Energia Elétrica S.A. (parent company of Rede Lajeado Energia S.A) were given as guarantee to this loan, as well as the chattel mortgage of machinery and equipment.

Financing Agreement contracted on December 28, 2000 with BASA, with intervention, as mortgagor, of CELPA, CELTINS and Agro Pastoral Lajeado Ltda. ("Agro Pastoral") and, as guarantors, Investco's Shareholders, with settlement date on January 10, 2011, in the total amount of R\$44,300, to be amortized in 84 months, which includes 36 months of grace period, with the first installment of the principal amount due on February 10, 2004 and the last one due on January 10, 2011, with a 14% interest rate per year, to be paid on a monthly basis. During the grace period, 50% of the interest expenses is to be paid, and the remaining 50% to be included in the outstanding balance, to be paid with the amortization installments of the principal amount. Revenues and mortgage of three small hydroelectric power plants - PCH, owned by subsidiaries of Rede de Empresas de Energia Elétrica S.A., were given as guarantee for this loan.

The amounts are consolidated at EDP Lajeado proportionally to its participation of 23.0576% (26.7047% in 2005).

20.8 - Additional information on the Cesa - Castelo Energética S.A.'s debt services

BNDES - contracted in February 2002, it relates to the implementation of three Small Hydroelectric Power Plants - PCHs - "Viçosa" and "São João", in the State of Espírito Santo, and "Paraíso" in the State of Mato Grosso do Sul. Financial resources, amounting to R\$39,280, were obtained in 2002, and amounting to R\$17,565 in 2004. Over the principal amount, there is a 4.5% interest rate per year + TJLP, to be paid on a monthly basis, with the installments of the principal amount, with the settlement date on July 15, 2012. The agreed guarantees are: (i) corresponding receivables resulting from authorizations granted by ANEEL, either from authorization extinction, energy purchase and sale or right to generate electricity by its PCHs; and (ii) pledging of registered common shares, which are comprised by the ENERGEST S.A.'s total interest in the Company.

20.9 - Additional information on Energest's debt service

BNDES - contracted in October 2001. Financial resources, amounting to R\$24,102, were obtained through the Banco Itaú (leader bank), Banco Alfa and Banco Sudameris, designated to finance the installation of the 4th generating unit at UHE Mascarenhas. Over the principal amount, there is



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a 3.5% interest rate per year + TJLP (domestic currency) and 3.5% interest rate per year + UMBNDES (foreign currency), to be paid on a monthly basis, with the installments of the principal amount, with the settlement date on October 15, 2010. The agreed guarantee is the corresponding

revenues from electricity services rendered, in the amount corresponding to, at least, 1.4 (one whole and four tenths) times applied to the amount of the highest installment due by the beneficiary.

20.10 - Additional information on Costa Rica's debt service

Eletrobrás-Financing ECF-1568/97 - contracted by Enersul, on November 4, 1997, in the amount of R\$5,375, to finance the construction of Costa Rica Hydroelectric Power Plant, with financial resources from Eletrobrás Investment Fund - FINEL, with a 6.5% interest rate per year, with the settlement date on May 31, 2014, to be amortized in 180 monthly installments, equal and successive, guaranteed by revenue and promissory note. Agreement transferred to Costa Rica Energética, through the "Private Agreement of Promise of Debtor Release".

20.11 - Maturity of the Current and Non-Current installments (principal + charges)

| Maturity | Parent Company | | Consolidated | | Total |
|--------------|----------------|------------------|----------------|--|------------------|
| | Currency | | Currency | | |
| | Foreign | Domestic | Foreign | | |
| Current | | | | | |
| 2007 | 55,913 | 279,333 | 512,682 | | 792,015 |
| Non current | | | | | |
| 2008 | | 166,443 | 101,636 | | 268,079 |
| 2009 | | 179,182 | 38,664 | | 217,846 |
| 2010 | | 173,453 | 21,833 | | 195,286 |
| 2011 | | 154,365 | 20,283 | | 174,648 |
| 2012 | | 148,672 | 5,818 | | 154,490 |
| 2013 | | 121,211 | 648 | | 121,859 |
| 2014 | | 97,550 | 324 | | 97,874 |
| After 2014 | | 214,065 | 12,926 | | 226,991 |
| | - | 1,254,941 | 202,132 | | 1,457,073 |
| Total | 55,913 | 1,534,274 | 714,814 | | 2,249,088 |

21 - Post-employment benefits

| Company/Benefit | Consolidated | | | |
|--------------------------------|---------------|---------------|----------------|----------------|
| | Current | | Non Current | |
| | 12/31/2006 | 12/31/2005 | 12/31/2006 | 12/31/2005 |
| Bandeirante | | | | |
| BSPS - Reserves to amortize | 13,669 | 13,148 | 84,346 | 88,157 |
| Charitable Programs | 5,004 | 4,436 | | |
| Escelsa | | | | |
| Retirement Incentive Aid - AIA | | | 6,150 | 7,896 |
| Health Care and Life Insurance | 5,399 | 3,447 | 30,871 | 29,907 |
| Energset | | | | |
| Retirement Incentive Aid - AIA | | | 221 | 215 |
| Health Care and Life Insurance | 30 | 122 | 837 | 671 |
| Total | 24,102 | 21,153 | 122,425 | 126,846 |

(Amounts in thousands of reais, unless when otherwise indicated)

As per the CVM Resolution no. 371, dated on December 13, 2000, as from January 1, 2002, registered Companies must account for any liabilities related to post-employment benefits, based on the Accounting Pronouncement - NPC 26, of IBRACON.

To attend this requirement, the Companies which grant post-employment benefits, (e.g. Bandeirante, Escelsa, Enersul and Energest) contracted independent actuaries to conduct the actuarial appraisal of these benefits, according to the Projected Unit Credit Method. The main assumptions used in the actuarial appraisal of the benefits are summarized as follows:

| Economic | 2006 | 2005 |
|-----------------------------------------------------|-------------------------------|-------------------------------|
| Discount rate | 10.75% p.a. | 10.75% p.a. |
| Expected return rate on assets | between 12.0% and 12.45% p.a. | between 12.0% and 12.45% p.a. |
| Future compensation growth | 5.55% p.a. | 5.55% p.a. |
| Growth of social security benefits and benefit plan | 4.5% p.a. | 4.5% p.a. |
| Growth of medical costs | from 10.0 to 5.5% p.a. | from 10.0 to 5.5% p.a. |
| Inflation | 4.5% p.a. | 4.5% p.a. |
| Capacity factor - Wages and benefits | 100% | 100% |

Demographic

| | | |
|--------------------------|----------------------|--------------------|
| Mortality table | RP 2000 Generational | G A M - 83 |
| Disabled mortality table | RP 2000 Disability | RP 2000 Disability |
| Disability table | T A S A 27 | T A S A 27 |
| Turnover table | (1) | (1) |

(1) T-1 Service Table, except for Enersul that is null and for Bandeirante that is null as from the 3rd year of affiliation to the benefit plan.

21.1 - Bandeirante

The Company is the sponsor of FUNDAÇÃO CESP, a non-profit, multi-sponsored and closed private pension plan entity, which is responsible for managing a group of pension benefit plans in favor of employees and former employees of the Company, through the Paid-off Complementary Benefit Plan - BSPS and the Mixed Benefit Plan, with the following main characteristics:

- (i) Paid-off Complementary Proportional Benefit Plan - BSPS - This corresponds to the employees' proportional benefits, calculated based on the years of service up to March 1998. The amount of R\$98,015, determined on December 31, 2006, according to CVM Resolution no. 371, of December 13, 2000, corresponds to the portion of benefits exceeding the assets of the plan. This deficit have been financially settled in 240 months, as from September 1997, based on a percentage applied in payroll, which could be semiannually reviewed to ensure the deficit settlement in the abovementioned period.

This plan was effective until March 31, 1998, and is a Defined Benefit Plan, which grants Paid-off Complementary Proportional Benefit (BSPS), as lifetime income convertible into pension, to the participants who joined the plan until March 31, 1998, in an defined amount proportionally to the past years of service accumulated until the referred date, upon compliance of the regulatory requirements of the granting. The Company is fully responsible for covering the actuarial insufficiencies of this plan.

- (ii) Mixed Benefit Plans - BD and CD
 BD Plan - Effective after March 31, 1998 - Defined Benefit Plan that grants lifetime income convertible into pension, proportionally to the past years of service accumulated after March 31, 1998, based on 70% of the actual monthly average wage, related to the last 36 months of the employee's activity. In case of death during the employee's activity or pled for disability, the benefits comprise all the years of service (including the accumulated until March 31, 1998) and, therefore, do



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not include only the years of service accumulated after March 31, 1998. The Company and the participants are equally responsible for covering the actuarial insufficiencies of this plan.

- CD Plan - Implemented in conjunction with the BD Plan, effective after March 31, 1998. It is a pension plan that, until the concession of the lifetime income, convertible (or not) into pension, is a Defined Contribution Plan, not generating any actuarial responsibility to the Company. Only after the granting of lifetime income, convertible (or not) into pension, the Pension Plan starts to be a Defined Benefit Plan and, therefore, starts to create actuarial responsibility to the Company.

The breakdown of the number of participants in the Plan is as follows:

| | <u>2006</u> |
|-------------------------|---------------------|
| Active participants | 1,151 |
| Assisted Participants | |
| With deferred benefits | 175 |
| Retirees and pensioners | 341 |
| | <u>516</u> |
| Total | <u>1,667</u> |

As sponsor, Bandeirante has contributed with R\$17,326 (R\$16,819 in 2005), expecting to pay installments of the adjusted reserves agreement related to the paid-off Plan (BSPS), and to monthly fund the current plans.

The actuarial appraisal has shown that in the Defined Benefit Plans, the present value of actuarial liabilities, net of the fair value of the assets, and of the unrecognized actuarial losses, is in deficit, as demonstrated below:

| | <u>12/31/2006</u> | <u>12/31/2005</u> |
|-------------------------------------------------------------------|------------------------|-------------------------|
| Present value of total actuarial liabilities or partially covered | (391,882) | (348,630) |
| Fair value of assets | <u>224,990</u> | <u>184,479</u> |
| | (166,892) | (164,151) |
| Unrecognized actuarial losses value | <u>68,877</u> | <u>62,846</u> |
| Deficit | <u>(98,015)</u> | <u>(101,305)</u> |

The net expense with the Retirement and Complementary Pension Plans of Bandeirante - PSAP/Bandeirante, to be recognized in the 2007 profit and loss, will be as follows:

| | <u>2007</u> |
|-----------------------------------------------|----------------------|
| Cost of current service | 1,350 |
| Interests cost | 41,579 |
| Expected earnings from assets | (28,047) |
| Amortization of unrecognized actuarial losses | 1,559 |
| Employees' expected contributions | <u>(2,772)</u> |
| Total | <u>13,669</u> |

In 2006, the amount of R\$3,290 was recorded as a credit to the income (R\$3,715 in 2005), and the corresponding debit was accounted for in Non-current Liabilities, considering an indication of a reduction in the actuarial liabilities as per the actuarial appraisal, with a net impact in the profit and loss, related to expense, amounting to R\$9,858.

21.2 - Escelsa

The Company has the following liabilities with post-employment benefits:

- Sponsor of the retirement and complementary pension plans - Plans I and II;
- Other post-employment benefits comprised by Medical Assistance, Life Insurance and Retirement Incentive Aid - AIA.

21.2.1 - Retirement plans

The Company is the sponsor of FUNDAÇÃO ESCELSA DE SEGURIDADE SOCIAL - ESCELSOS, a non-profit closed private pension entity, which is responsible for managing a group of pension benefit plans in favor of employees and former employees of the Company, through two benefit plans: Benefit Plan I, "defined benefit", and Benefit Plan II, "defined contribution", which is converted into a defined benefit when the conversion into lifetime income. The breakdown of the number of participants by type of plan is demonstrated below:

| | <u>Plan I</u> | <u>Plan II</u> | <u>Total</u> |
|-----------------------|-------------------|---------------------|---------------------|
| Active participants | <u>3</u> | <u>1,103</u> | <u>1,106</u> |
| Assisted participants | | | |
| Retirees | 607 | 273 | 880 |
| Pensioners | 126 | 13 | 139 |
| | <u>733</u> | <u>286</u> | <u>1,019</u> |
| Total | <u>736</u> | <u>1,389</u> | <u>2,125</u> |

(Amounts in thousands of reais, unless when otherwise indicated)

As sponsor, Escelsa contributed with a monthly installment proportional to the contribution made by the participants of Fundação Escelsos, in compliance with the provisions of each benefit plan. During the year, Escelsa has contributed with R\$3,063 (R\$3,105 in 2005).

The actuarial appraisal showed that, in the Pension Plans I and II, the fair value of assets is superior to the present value of actuarial liabilities, as follows:

| | <u>12/31/2006</u> | <u>12/31/2005</u> |
|-------------------------------------------------------------------|----------------------|----------------------|
| Present value of actuarial liabilities fully or partially secured | (119,591) | (113,167) |
| Fair value of assets | <u>198,889</u> | <u>178,395</u> |
| | 79,298 | 65,228 |
| Unrecognized actuarial gains | <u>(20,555)</u> | <u>(17,447)</u> |
| Surplus | <u>58,743</u> | <u>47,781</u> |

The surplus in the defined benefit pension plans reduces the risk of an eventual actuarial liability for the Company.

The Company's Management has not recorded this asset, considering the fact that the effective reduction of the Sponsor's contribution is not ensured, and that a future reimbursed is not guaranteed.

21.2.2 - Other post-employment benefits

According to the same actuarial appraisal, the following liabilities were measured in relation to other post-employment benefits:

- Health Care and Life Insurance - Coverage for medical and dental expenses, medicine, life insurance and, in proved cases, for special dependents, corresponding to 50% of the Company's minimum salary;
- Retirement Incentive Aid - AIA - Benefit to employees hired until December 31, 1981, to be paid when the employee's contract is terminated, regardless of the reason for the termination. AIA ensures payment in the form of benefit, which amount was calculated for each employee, based on the period of contribution to the INSS (Brazilian Social Security Institute) until October 31, 1996, the employee's remuneration and the INSS benefit on October 31, 1996.

The actuarial appraisal as of December 31, 2006 showed that in the Health Care, Life Insurance and AIA plans, the present value of actuarial liabilities, net of unrecognized losses, amounts to R\$42,420, which was recorded in Current and Non-Current Liabilities, as follows:

| | <u>12/31/2006</u> | <u>12/31/2005</u> |
|-------------------------------------------------------------------|------------------------|------------------------|
| Present value of actuarial liabilities fully or partially secured | (66,826) | (58,834) |
| Fair value of assets | <u>24,406</u> | <u>17,584</u> |
| Total | <u>(42,420)</u> | <u>(41,250)</u> |
| Current | 5,399 | 3,447 |
| Non Current | <u>37,021</u> | <u>37,803</u> |
| Total | <u>42,420</u> | <u>41,250</u> |

The amount of actuarial losses exceeding 10% the present value of actuarial liabilities has been amortized annually, based on the average of the estimated remaining period of work for the employees participating in the Plan.

The net expenses with these benefits, to be recognized in 2007 profit and loss, will be as follows:

| | |
|-------------------------------|---------------------|
| Cost of current service | 777 |
| Interest costs | 6,758 |
| Actuarial losses amortization | <u>1,485</u> |
| Total | <u>9,020</u> |

21.3 - Enersul

The Company is the sponsor of FUNDAÇÃO ENERSUL, a non-profit closed private pension entity, which is responsible for managing a group of pension benefit plans in favor of employees and former employees of the Company, through two benefit plans: the Initial Benefit Plan, "defined benefit", and the Benefit Plan II, "defined contribution", which is converted into defined benefit when the conversion into lifetime income.

The breakdown of the number of participants for each type of plan is demonstrated below:

| | <u>Initial Plan</u> | <u>Plan II</u> | <u>Total</u> |
|-----------------------|---------------------|-------------------|---------------------|
| Active Participants | <u> </u> | 719 | 719 |
| Assisted Participants | | | |
| Retirees | 248 | 22 | 270 |
| Pensioners | <u>77</u> | <u>5</u> | <u>82</u> |
| | 325 | 27 | 352 |
| Total | <u>325</u> | <u>746</u> | <u>1,071</u> |

As sponsor, Enersul contributed with a monthly installment proportional to the contribution made by the participants of Fundação Enersul, in compliance with the provisions of each benefit plan. During the year, Enersul has contributed with R\$1,910 (R\$1,680 in 2005).



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As per the CVM Resolution no. 371, dated on December 13, 2000, as from January 1, 2002, registered companies must account for liabilities from post-employment benefits, based on the NPC Announcement no. 26, of IBRACON. To comply with this requirement, Enersul contracted independent actuaries to conduct an actuarial appraisal of such benefits, according to the Projected Unit Criterion Method.

The actuarial appraisal as of December 31, 2006 showed that, in pension plans I and II, the fair value of assets is superior to the present value of actuarial liabilities, as follows:

| | <u>12/31/2006</u> | <u>12/31/2005</u> |
|-------------------------------------------------------------------|----------------------|----------------------|
| Present value of actuarial liabilities fully or partially secured | (67,088) | (63,297) |
| Fair value of assets | <u>139,059</u> | <u>119,697</u> |
| | 71,971 | 56,400 |
| Unrecognized actuarial gains | <u>(31,733)</u> | <u>(26,918)</u> |
| Surplus | <u>40,238</u> | <u>29,482</u> |

The surplus in the defined benefit pension plans reduces the risk of an eventual actuarial liability for the Company. The Company's Management has not recorded this asset, considering the fact that a reduction in the Sponsor's contribution is not ensured, and that the future reimburse is not guaranteed.

21.4 - Energest

The Company has the following liabilities with post-employment benefits:

- (i) Sponsor of the retirement and pension complementation plans - Plan II;
- (ii) Other post-employment benefits comprised of Health Care, Life Insurance and Retirement Incentive Aid - AIA.

21.4.1 - Retirement plan

The Company is the sponsor of FUNDAÇÃO ESCELSA DE SEGURIDADE SOCIAL - ESCELSOS and FUNDAÇÃO ENERSUL, a non-profit closed private pension entities, which is responsible for managing a group of pension benefit plans in favor of employees and former employees of the Company, through two benefit plans: Benefit Plan I, "defined benefit", and Benefit Plan II, "defined contribution", which is converted into defined benefit upon the conversion into lifetime income.

The breakdown of the number of participants for each kind of plan is demonstrated below:

| | <u>Total</u> |
|-----------------------|------------------|
| Active participants | 61 |
| Assisted participants | <u> </u> |
| Total | <u>61</u> |

As sponsor, Energest contributed with a monthly installment proportional to the contribution made by the participants of Fundação ESCELSOS and Fundação Enersul, in compliance with the provisions of each benefit plan. During the year, Energest has contributed with R\$193 (R\$71 in 2005).

The actuarial appraisal showed that, in both entities, the fair value of assets is superior to the present value of actuarial liabilities, as follows:

| | <u>12/31/2006</u> | <u>12/31/2005</u> |
|-------------------------------------------------------------------|-------------------|-------------------|
| Present value of actuarial liabilities fully or partially secured | (114) | (660) |
| Fair value of assets | <u>463</u> | <u>959</u> |
| | 349 | 299 |
| Actuarial gains | <u>(157)</u> | <u>(44)</u> |
| Surplus | <u>192</u> | <u>255</u> |

The surplus in the defined benefit pension plans reduces the risk of an eventual actuarial liability for the Company. The Company's Management has not recorded this asset, considering the fact that the effective reduction of the Sponsor's contribution is not ensured, and that a future reimbursed is not guaranteed.

21.4.2 - Other post-employment benefits

According to the same actuarial appraisal, the following liabilities were measured with other post-employment benefits:

- Health Care and Life Insurance - Coverage for medical and dental expenses, medicine, life insurance and, in proved cases, for special dependents, corresponding to 50% of the Company's minimum salary;
- Retirement Incentive Aid - AIA - Benefit to employees hired until December 31, 1981, to be paid when the employee's contract is terminated, regardless of the reason for the termination. AIA ensures payment in the form of benefit, which amount was calculated for each employee, based on the period of contribution to the INSS (Brazilian Social Security Institute) until October 31, 1996, the employee's remuneration and the INSS benefit on October 31, 1996.

(Amounts in thousands of reais, unless when otherwise indicated)

The actuarial appraisal as of December 31, 2006 showed that in the Health Care, Life Insurance and AIA plans, the present value of actuarial liabilities, net of unrecognized losses, amounts to R\$1,088, recorded in Current and Non-Current Liabilities, as follows:

| | <u>12/31/2006</u> | <u>12/31/2005</u> |
|--------------------------------------------------------|-----------------------|-----------------------|
| Present value of actuarial liabilities fully unsecured | (1,658) | (1,237) |
| Net value of unrecognized actuarial losses | <u>570</u> | <u>229</u> |
| Total | <u>(1,088)</u> | <u>(1,008)</u> |
| Current | 30 | 122 |
| Non Current | <u>1,058</u> | <u>886</u> |
| Total | <u>1,088</u> | <u>1,008</u> |

The amount of actuarial losses exceeding 10% the present value of actuarial liabilities has been amortized annually, based on the average of the estimated remaining period of work for the employees participating in the Plan.

The net expenses with these benefits, to be recognized in 2007 profit and loss, will be as follows:

| | |
|-------------------------------|------------------|
| Cost of current service | 31 |
| Interest costs | 124 |
| Actuarial losses amortization | 12 |
| Benefits paid by the company | <u>(87)</u> |
| Total | <u>80</u> |

22 - Estimated personnel liabilities

INSS and FGTS
Payroll
Total

| <u>Parent Company</u> | | <u>Consolidated</u> | |
|-----------------------|-------------------|----------------------|----------------------|
| <u>Current</u> | | <u>Current</u> | |
| <u>12/31/2006</u> | <u>12/31/2005</u> | <u>12/31/2006</u> | <u>12/31/2005</u> |
| 190 | 188 | 5,496 | 6,659 |
| <u>462</u> | <u>530</u> | <u>60,859</u> | <u>36,999</u> |
| <u>652</u> | <u>718</u> | <u>66,355</u> | <u>43,658</u> |

Payroll includes, mainly, provision for vacation, 13th salary and corresponding social charges, the provision for profit sharing of the year, in addition to effects of the Voluntary Dismissal Program - PDV, concluded on May 31, 2006.

PDV sets scaled dismissals between 2006 and 2007, based on the implementation of other efficiency programs in force in progress in the company. The number of employees adhering to PDV reached 651 employees, 397 of which withdrew up to December 31, 2006.

The impact of PDV dismissals in 2006 is R\$51,674, mainly related to provisions for future costs, in the amount of R\$21,056.

23 - Regulatory and sector charges

Liabilities payable, derived from charges set forth by the electricity sector legislation, are the following:

| | <u>Consolidated</u> | |
|-------------------------------------------------------|-----------------------|-----------------------|
| | <u>12/31/2006</u> | <u>12/31/2005</u> |
| Global reversal reserve quota - RGR | 3,637 | 3,399 |
| Fuel consumption account account - CCC | 38,665 | 1,169 |
| Energy development account - CDE | 15,518 | 12,668 |
| Financial compensation for the use of water resources | 3,658 | 1,523 |
| Tariff charges (ECE/ EAEEE) | 14,456 | 26,020 |
| Research and Development | 46,292 | |
| Energy efficiency program | 46,947 | 54,784 |
| Inspection fee - ANEEL | <u>805</u> | <u>584</u> |
| Total | <u>169,978</u> | <u>100,147</u> |



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24 - Provisions for contingencies - Current and Non Current

The company and its subsidiaries are parties in court suits and administrative proceedings in several courts and governmental bodies, derived from the normal course of operations, involving taxes, labor, civil and other matters.

Managements of the Company and its subsidiaries, based on information from its legal advisors and on the analysis of the pendent lawsuits, accrued an amount deemed sufficient to cover losses estimated as probable for the ongoing suits, as follows:

| | Parent Company | | | | | | |
|--------------|----------------|-----------|------------|----------|---------------|------------------|--------------|
| | Liabilities | | | | Assets | | |
| | Balance as | Additions | Write-offs | | Balance as | Judicial deposit | |
| | at 12/31/2005 | | Payments | Reversal | at 12/31/2006 | 12/31/2006 | 12/31/2005 |
| Taxes | 4,796 | 25,242 | | | 30,038 | 2,546 | 2,546 |
| Other | | | | | | 2,080 | 127 |
| Total | 4,796 | 25,242 | | | 30,038 | 4,626 | 2,673 |
| Current | | | | | | 2,080 | 127 |
| Non current | 4,796 | | | | 30,038 | 2,546 | 2,546 |
| Total | 4,796 | | | | 30,038 | 4,626 | 2,673 |

| | Consolidated | | | | | | |
|--------------|----------------|-----------|------------|----------|----------------|------------------|----------------|
| | Liabilities | | | | Assets | | |
| | Balance as | Additions | Write-offs | | Balance as | Judicial deposit | |
| | at 12/31/2005 | | Payments | Reversal | at 12/31/2006 | 12/31/2006 | 12/31/2005 |
| Labor | 34,020 | 14,689 | (7,319) | (1,460) | 39,931 | 35,421 | 33,358 |
| Civil | 70,834 | 9,811 | (3,862) | (4,051) | 72,732 | 9,096 | 7,552 |
| Tax | 164,858 | 63,580 | | (29,100) | 199,338 | 171,666 | 132,533 |
| Other | 50 | | | (50) | | 2,080 | 127 |
| Total | 269,762 | 88,080 | (11,181) | (34,661) | 312,001 | 218,263 | 173,570 |
| Current | 3,704 | | | | 4,189 | 4,733 | 174 |
| Non Current | 266,058 | | | | 307,812 | 213,530 | 173,396 |
| Total | 269,762 | | | | 312,001 | 218,263 | 173,570 |

24.1 - Labor

24.1.1 - Bandeirante

Lawsuits filed corresponding to periods after January 1, 1998, as per the partial spin-off agreement of Eletropaulo - Eletricidade de São Paulo S.A. Subsequently, pursuant to the Partial Spin-off Agreement of Bandeirante, occurred on October 1, 2001, each concessionaire (Bandeirante and Piratininga) is responsible for the liabilities related to the employees allocated in the respective regions of each Company, while corporate suits will be dealt with in the proportional percentage of the parent companies (Bandeirante and Piratininga) determined in the respective

spin-off agreement. The balance includes several suits questioning, among others, overtime payments, hazardous work and reinstatement premium. The balance as of December 31, 2006 is R\$7,813 (R\$5,962 in 2005).

24.1.2 - Escelsa, Enersul, Energest and Cesa

Several lawsuits questioning, among others, overtime payments, hazardous work and reinstatement premium. The balance as of December 31, 2006 is R\$31,833 (R\$27,588 in 2005).

(Amounts in thousands of reais, unless when otherwise indicated)

24.2 - Civil

24.2.1 - Bandeirante, Escelsa and Enersul

Refers mainly to requests for reimbursement of amounts paid as tariff increase, by industrial consumers due to the application of DNAEE Ordinances no. 38, of February 27, 1986 and no. 45, of March 4, 1986 - Plano Cruzado, which were effective from March to November of that year. The original amounts are restated based on the method used within the scope of the Judicial Power. They also include litigations related to material and moral damage. The balance as of December 31, 2006 is R\$67,025 (R\$65,362 in 2005).

24.2.2 - Enertrade

Lawsuit filed by Enertrade, questioning the constitutionality of payments related to Energy Development Account - CDE. The balance as of December 31, 2006 is R\$3,589 (R\$3,589 in 2005).

24.3 - Fiscal

24.3.1 - Bandeirante

(i) COFINS - The Company is judicially questioning changes in legislation related to COFINS resulting from Law no. 9,718, enacted on November 27, 1998. On July 1, 1999, it obtained a preliminary injunction allowing the collection of this tax up to December, 1999, in accordance with the former legislation, that is, 2% on revenues, with retroactive effects back to February 1, 1999. The balance related to the additional 1%, as of December 31, 2006 amounts to R\$50,713 (R\$50,025 in 2005). For this lawsuit, the Company has deposit in court the amount of R\$14,520.

As for the broadening of the basis for calculation of COFINS, in which the Company was successful in a lawsuit made final and unappealable on May 25, 2006, the request for credit habilitation was filed in the Internal Revenue Service and the company is waiting its ratification to recognize this right. In view of the favorable judgment, the Company proceeded with the reversal of the provision recorded in the amount of R\$2,816, as well as recorded credits related to payments between January 2000 and January 2004, in the amount of R\$28,536, with R\$16,400 corresponding to historical amounts and R\$12,136 corresponding to interest (SELIC rate), both accounted for as Current assets within Taxes and social contributions and as income in Financial result.

- (ii) Income tax - Contention related to the nondeductibility of the Social Contribution on Net Income in the determination of the Income Tax payable for 2001 and 2002. The balance as of December 31, 2006 is R\$7,750 (R\$7,104 in 2005).
- (iii) ICMS - Preliminary injunction - Inside calculation basis - This refers to the notice by the State of São Paulo Treasury, which pleads the complementary payment corresponding to the difference in the ICMS determination method, due to the repealing of an injunction obtained by the predecessor Eletropaulo Eletricidade de São Paulo S.A., to some cities within Bandeirante's concession area, for the period between January and September 2001. The balance as of December 31, 2006 is R\$20,012.

24.3.2 - Escelsa

- (i) Notices issued by INSS requiring the payment of contributions related to continuous service providers, compared to employment related agreements. The balance as of December 31, 2006 is R\$16,150 (R\$16,150 in 2005).
- (ii) Judicial dispute made by the Company regarding the constitutionality of the application of Work Accidents Insurance - SAT. The balance as of December 31, 2006 is R\$7,066 (R\$7,066 in 2005).
- (iii) Tax assessment notice requiring the payment of the Social contribution on net income (CSLL) difference, for not including in its calculation basis, relative to the income determined in 1995 and in the months from January to April 1996, the expense related to charges of depreciation, amortization or cost of assets written-off, corresponding to the difference, in 1990, between the Consumer Price Index (IPC) and the National Treasury Bond (BNTF). The balance as of December 31, 2006 is R\$8,323 (R\$8,323 in 2005).

Due to the final and unappealable result favorable to the Company, related to the contention lawsuit of the broadening of the PIS and COFINS base over other revenues, the Company performed the reversal of the corresponding provisions in the amount of R\$17,940 in November 2006. The Company also adopted, in view of the favorable judgment, the procedure of restating the corresponding judicial deposits, thus recognizing the effects of the restatement in the amount of R\$15,651 in the income for the year.



Notes to the Financial Statements as of December 31, 2006 and 2005

24.3.3 - Enersul

Enersul has judicially questioned the unconstitutionality of the PIS collection on revenues, by virtue of the provisions in paragraph 3 of Article 155 of the Federal Constitution. The balance as of December 31, 2006 is R\$46,130 (R\$48,086 in 2005).

Due to the final and unappealable result favorable to the Company, related to the contention lawsuit of the broadening of the PIS and COFINS base on other revenues, the Company performed the reversal of the corresponding provisions in the amount of R\$6,838 in November 2006. The Company also adopted, in view of the favorable judgment, the procedure of restating the corresponding judicial deposits, thus recognizing the effects of the restatement in the amount of R\$5,514 in the income for the year.

24.3.4 - EDP - Energias do Brasil

The Company judicially questioned the PIS and COFINS collection on income from Interest on own capital - JCP, corresponding to the years of 2005 and 2006, obtaining a preliminary injunction suspending its payment. The balance as of December 31, 2006 is R\$25,242.

24.4 - Risk of possible loss

Additionally, there are ongoing labor, civil and tax proceedings, whose loss has been deemed as possible, which are periodically reassessed, not requiring the constitution of provision in the financial statements, as follows:

| | <u>Consolidated</u> | |
|--------------|----------------------|----------------------|
| | <u>12/31/2006</u> | <u>12/31/2005</u> |
| Labor | 16,670 | 11,409 |
| Civil | 6,340 | 12,761 |
| Tax | <u>59,232</u> | <u>54,723</u> |
| Total | <u>82,242</u> | <u>78,893</u> |

Among the main claims with risk of loss deemed possible, we highlight the following:

24.4.1 - Bandeirante

Tax assessment notice drawn up by the Internal Revenue Service, as a result of the auditing process in DCTF - Statement of federal tax debts and credits, due to a presumed lack of payment of income tax and corresponding default additions, corresponding to the 2nd, 3rd and 4th quarters of 1998, in the amount of R\$11,704.

24.4.2 - Escelsa

- Income tax - The Federal Revenue requires the payment of income tax relative to the income determined between December 1995 and April 1996, derived from the Tax assessment notice FM 00505, questioning the adequacy the Company's procedure to reduce the calculation basis for income tax with the charges of depreciation, amortization or cost of assets written-off, corresponding to the monetary restatement difference, in 1990, between the IPC and the BNTF. The amount estimated for this risk is R\$15,955.
- INSS - INSS inspection drawn up collection notices of the social security tax arguing the existence of employment bond between self-employed workers and also other corporate taxpayers and Escelsa. These notices amount to R\$7,409.
- Municipal taxes - various municipalities - Claim of ISSQN collection, in the period between January 1991 and August 1995, presumably over services of re-issuance of bills, warnings and others. They also include the payment requirement on the land used by the system of electric posts in electric power networks and public lighting. These proceedings total R\$4,580.

24.4.3 - Enersul

- PASEP and COFINS - Lawsuit filed by the Federal Government claiming PASEP and COFINS debts offset by the Company with credits from Finsocial, during January to April 1994 and December 1993 to January 1994, respectively, under the argument that the compensation would only be admitted with the same tax, with estimated risk of R\$4,700.
- FINSOCIAL - Lawsuit filed by the Federal Government claiming Finsocial differences, based on the understanding that the Company should have applied the progressive rate and therefore superior as compared to the 0.5% percentage, used for the payments made between the period from August 1991 to January 1992, whose value is estimated at R\$3,000.

24.4.4 - EDP - Energias do Brasil

The main claim refers to the lawsuit filed by the Company aiming to remove the CPMF charges on the symbolic exchange operations, made during the corporate restructuring occurred in 2005, in the amount of R\$2,660.

(Amounts in thousands of reais, unless when otherwise indicated)

25 - Shareholders' equity

25.1 - Capital stock

The composition of the capital as of December 31, 2006, September 30, 2006 and December 31, 2005 are as follows:

| Shareholder | 12/31/2006 | | 09/30/2006 | | 12/31/2005 | | Controlling Shareholder |
|------------------------------------------------------------------------|--------------------|----------------|--------------------|----------------|--------------------|----------------|-------------------------|
| | Amount of shares | % interest | Amount of shares | % interest | Amount of shares | % interest | |
| Energias de Portugal Investments and Services, Sociedad Limitada * (1) | 38,234,188 | 23.17% | 38,234,188 | 23.17% | 38,234,188 | 23.17% | Yes |
| Balwerk - Consult. Econômica e Particip., Soc. Unipessoal Ltda. * (1) | 23,545,820 | 14.27% | 23,545,820 | 14.27% | 23,545,820 | 14.27% | Yes |
| EDP - Energias de Portugal, S.A. * (1) | 39,739,013 | 24.08% | 20,130,902 | 12.20% | 20,130,902 | 12.20% | Yes |
| Electricidade de Portugal Internacional, SGPS, S.A. | - | 0.00% | 19,621,852 | 11.89% | 19,621,852 | 11.89% | Yes |
| Herald Securities Inc. * | 1,383,094 | 0.84% | 1,383,094 | 0.84% | 1,383,094 | 0.84% | Yes |
| Other** | 62,114,489 | 37.64% | 62,100,748 | 37.63% | 62,100,748 | 37.63% | |
| | 165,016,604 | 100.00% | 165,016,604 | 100.00% | 165,016,604 | 100.00% | |

(1) shareholder with more than 5% of voting shares.

* Foreign owned company.

** There are 62,114,409 outstanding shares from the total of 165,016,604, that is, around 37.64% of all shares.

There are 58 shares held by management, with 19 held by the Board of Directors and 39 by Officers.

Since the Initial Public Offering on 07/13/2005, the Fiscal Council has not been instated, scenario that has been maintained up to the moment.

The creation of the Audit Committee was approved through the Company's Board of Directors' Meeting, held on 09/14/2005, and its first meeting was held on 10/25/2005.

Calculation of outstanding shares:

| | 12/31/2006 | | 09/30/2006 | | 12/31/2005 | |
|-----------------------------------------------|--------------------|---------------|--------------------|---------------|--------------------|---------------|
| | Amount of Shares | % interest | Amount of Shares | % interest | Amount of Shares | % interest |
| Amount of shares - controlling shareholders | 102,902,115 | 62.36% | 102,915,856 | 62.36% | 102,915,856 | 62.37% |
| Amount of shares - reciprocal interest | | | | | 24,913 | |
| Amount of shares - treasury shares | 22 | | 22 | | 22 | |
| Amount of shares - board members and officers | 58 | | 58 | | 153 | |
| Total non-outstanding shares | 102,902,195 | | 102,915,936 | | 102,940,944 | |
| Total shares | 165,016,604 | | 165,016,604 | | 165,016,604 | |
| Total outstanding shares | 62,114,409 | 37.64% | 62,100,668 | 37.63% | 62,075,660 | 37.62% |



Notes to the Financial Statements as of December 31, 2006 and 2005

25.2 - Allocation of net income

Pursuant to the dividends distribution policy adopted by the Company, the Board of Directors will recommend to the General Shareholders' Meeting the dividends distribution, in each year, in the minimum amount equivalent to 40% of the adjusted net income, calculated pursuant to Articles 189 and subsequent of the Brazilian Corporation Law. The portion may be reduced, should it be required by legal or regulatory resolution or, also, when advisable in view of the financial condition and/or future perspectives of the Company. To the distribution of dividends, the amount of interest on own capital (JSCP) paid or credited, individually to shareholders, as own capital compensation, may be imputed, integrating the amount of dividends distributed by the Company, for all legal purposes and pursuant to Law no. 9,249, of December 26, 1995 and further regulation.

| | Parent Company | |
|-----------------------------------------------|----------------|------------|
| | 12/31/2006 | 12/31/2005 |
| Net income for the year | 394,120 | 439,406 |
| Deferred income | (28,364) | (41,390) |
| Other | | (14) |
| | 365,756 | 398,002 |
| Legal Reserve - 5% | (18,287) | (19,900) |
| Adjusted net income | 347,469 | 378,102 |
| Dividends | | |
| Dividends - from adjusted net income | 169,914 | 151,241 |
| Interim Dividends - JSCP | 169,914 | 96,061 |
| Dividends payable | | 55,180 |
| Allocation to reserve for profit retention | 177,555 | 226,861 |
| Dividends per thousand shares - in reais | 1,029,68 | 916,52 |

On December 21, 2006, the Company's Board of Directors approved the credit of interest on own capital in the gross amount of R\$169,914, imputed to dividends to be distributed by the Company on a date to be resolved for the payment of dividends, which were accounted for as Financial expenses, as required by tax legislation. For the purposes of these financial statements, these interests were reclassified to Shareholders' equity pursuant to CVM Resolution no. 207/96.

25.3 - Reserve for profit retention

The reserve for profit retention has been constituted pursuant to Article 196 of Law 6,404/76, to enable the Company's Investment Programs, set forth in the capital budgets submitted to Annual General Meetings.

25.4 - Prior year adjustment

In compliance with Regulatory Resolution no. 219, of April 11, 2006, which approved the Manual of the Technological Research and Development Program of the Electricity Sector - P&D, the subsidiaries Bandeirante, Escelsa and Enersul recognized in Shareholders' equity, as of June 30, 2006, the adjustment in the amount of R\$28,364, having as counterentries: (i) R\$14,566 in Special obligations linked to electric energy utility concession, in the group Fixed assets as described in note 3.1.h, corresponding to the amounts applied up to December 31, 2005 in investments connected to the program, and (ii) R\$13,794 in Current liabilities, in the item Regulatory and sector charges, for the amounts not invested up to December 31, 2005, determined as from the beginning of the program.

(Amounts in thousands of reais, unless when otherwise indicated)

26 - Dividends - Assets and Liabilities

| | Parent Company | | | | Consolidated | |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | Assets | | Liabilities | | Liabilities | |
| | 12/31/2006 | 12/31/2005 | 12/31/2006 | 12/31/2005 | 12/31/2006 | 12/31/2005 |
| Escelsa | 38,595 | 131,710 | | | 51 | 58 |
| Energest | 2,896 | 35,036 | | | | |
| Cesa | | 38,073 | | | | |
| Pantanal | | 14,760 | | | | |
| Enersul | 24,483 | 141,225 | | | 21 | 21 |
| Enertrade | 8,325 | 66,697 | | | | |
| Bandeirante | 43,567 | 25,835 | | | 777 | 777 |
| Enerpeixe | 6,434 | | | | | |
| EDP Lajeado | 11,453 | 10,184 | | | | |
| Eletrobrás | | | | | 10,377 | 16,261 |
| Furnas | | | | | 4,288 | |
| Shareholders - EDP Energias | | | 147,388 | 134,475 | 147,388 | 134,475 |
| EDP Produção | | | | | 188 | 188 |
| Total | 135,753 | 463,520 | 147,388 | 134,475 | 163,090 | 151,780 |

27 - Net operating revenue

| | Consolidated | | | | | |
|------------------------------------------------------|--------------------|------------------|-------------------|-------------------|------------------|------------------|
| | No. of consumers * | | MWh * | | Thousands of R\$ | |
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Electricity supply | | | | | | |
| Residential | 2,638,467 | 2,523,718 | 4,836,662 | 4,553,289 | 1,990,232 | 1,827,939 |
| Industrial | 23,240 | 23,087 | 4,488,404 | 6,111,792 | 1,203,239 | 1,448,372 |
| Commerce, services and other activities | 231,753 | 227,539 | 2,956,541 | 2,758,353 | 1,122,101 | 1,004,259 |
| Rural | 193,105 | 172,807 | 834,252 | 757,140 | 193,828 | 163,986 |
| Public power | 21,586 | 20,432 | 560,710 | 515,726 | 217,352 | 187,678 |
| Public lighting | 2,438 | 1,873 | 679,396 | 676,606 | 150,396 | 144,803 |
| Public service | 2,536 | 2,474 | 497,447 | 489,951 | 123,704 | 114,424 |
| Own consumption | 365 | 424 | 20,868 | 21,800 | | |
| Total billed supply | 3,113,490 | 2,972,354 | 14,874,280 | 15,884,657 | 5,000,852 | 4,891,461 |
| (-) Extraordinary tariff adjustment (net of ICMS) | | | | | | |
| Residential | | | | | (40,146) | (39,424) |
| Industrial | | | | | (73,079) | (85,092) |
| Commerce, services and other activities | | | | | (62,843) | (58,904) |
| Rural | | | | | (4,895) | (4,135) |
| Public power | | | | | (13,237) | (11,654) |
| Public lighting | | | | | (3,365) | (3,276) |
| Public service | | | | | (6,957) | (6,703) |
| | | | | | (204,522) | (209,188) |
| (-) ICMS | | | | | | |
| Residential | | | | | (418,310) | (381,795) |
| Industrial | | | | | (236,848) | (291,031) |
| Commerce, services and other activities | | | | | (224,020) | (198,867) |
| Rural | | | | | (19,073) | (16,181) |
| Public power | | | | | (32,964) | (28,013) |
| Public lighting | | | | | (29,572) | (28,136) |
| Public service | | | | | (25,287) | (22,935) |
| | | | | | (986,074) | (966,958) |
| Total billed supply net of RTE and ICMS | | | | | 3,810,256 | 3,715,315 |



Notes to the Financial Statements as of December 31, 2006 and 2005

| | Consolidated | | | | | |
|---------------------------------------------------|--------------------|------------------|-------------------|-------------------|------------------|------------------|
| | No. of consumers * | | MWh * | | Thousands of R\$ | |
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Commercialization billed supply (net of ICMS) | | | | | 236,957 | 115,691 |
| Unbilled supply | | | | | 29,317 | (16,591) |
| Unbilled supply - tax deferral | | | | | (52,421) | 71,328 |
| Tariff restitution | | | | | 80,452 | 21,653 |
| PIS and COFINS from generators | | | | | (16,604) | 9,610 |
| Other regulatory revenues | | | | | 4,735 | 7,202 |
| Revenue reduction - low income | | | | | 41,549 | 37,195 |
| Tariff adjustment | | | | | (6,610) | |
| Conventional supply | 2 | 3 | 336,378 | 302,317 | 36,690 | 30,790 |
| Commercialization supply | | | | | 127,200 | 110,642 |
| Other supply | | | | | 80,516 | 37,484 |
| ECE and EAEEE | | | | | 3,038 | 128,828 |
| (-) ICMS on ECE and EAEEE | | | | | (601) | (24,528) |
| | | | | | 4,374,474 | 4,244,619 |
| Distribution and transmission system availability | | | | | | |
| Electric power network availability | 112 | 101 | 8,737,522 | 6,874,271 | 701,230 | 511,347 |
| (-) ICMS on electric power network availability | | | | | (139,247) | (95,004) |
| Connection charge | | | | | 640 | 530 |
| | | | | | 562,623 | 416,873 |
| Other operating revenues | | | | | | |
| Short-term energy | | | | | 78,565 | 30,242 |
| Charged services and other | | | | | 46,837 | 63,312 |
| | | | | | 125,402 | 93,554 |
| | | | | | 5,062,499 | 4,755,046 |
| (-) Deduction from revenue | | | | | | |
| RGR | | | | | (40,288) | (42,101) |
| PIS/COFINS | | | | | (457,966) | (284,644) |
| ECE and EAEEE - transfer to CBEE | | | | | (2,378) | (104,299) |
| ISS | | | | | (469) | (776) |
| | | | | | (501,101) | (431,820) |
| Total | 3,113,604 | 2,972,458 | 23,948,180 | 23,061,245 | 4,561,398 | 4,323,226 |

* Not audited.

(Amounts in thousands of reais, unless when otherwise indicated)

28 - Operating expenses

| | Parent Company | | | |
|-------------------------------|--------------------|--------------|---------------|---------------|
| | 2006 | | | 2005 |
| | Operating expenses | | | Total |
| | G&A | Other | Total | Total |
| Manageable | | | | |
| Personnel and management | 11,754 | | 11,754 | 16,175 |
| Material | 541 | | 541 | |
| Third-party services | 9,094 | | 9,094 | 13,244 |
| Depreciation and amortization | 14,484 | | 14,484 | 9,941 |
| Rent and leasing | 766 | | 766 | 1,408 |
| Other | 1,165 | 7,597 | 8,762 | 12,372 |
| Total | 37,804 | 7,597 | 45,401 | 53,140 |

| | Consolidated | | | | | | |
|------------------------------------------------|------------------|----------------|-------------------------|---------|--------|-------|------------------|
| | 2006 | | | | | | 2005 |
| | Service cost | | Operating expenses | | | | Total |
| | With Electricity | Operating | Rendered to third-party | Selling | G&A | Other | Total |
| Non manageable | | | | | | | |
| Electricity purchased for resale | | | | | | | |
| Initial agreements | | | | | | | 379,923 |
| Itaipu | 539,388 | | | | | | 539,388 |
| Auction | 566,178 | | | | | | 566,178 |
| PROINFA | 23,832 | | | | | | 23,832 |
| Short-term energy - CCEE | 29,832 | | | | | | 29,832 |
| Other suppliers | 442,382 | | | | | | 442,382 |
| Net effect of CVA | (147,896) | | | | | | (147,896) |
| | 1,453,716 | - | - | - | - | - | 1,453,716 |
| Electricity network utilization charges | | | | | | | |
| Use and connection charge | 506,128 | | | | | | 506,128 |
| System service charge | 11,044 | | | | | | 11,044 |
| Net effect of CVA | 40,657 | | | | | | 40,657 |
| | 557,829 | - | - | - | - | - | 557,829 |
| CCC/CDE quota | | | | | | | |
| CCC | | 304,019 | | | | | 304,019 |
| CDE | | 186,212 | | | | | 186,212 |
| Net effect of CVA | | 24,351 | | | | | 24,351 |
| | - | 514,582 | - | - | - | - | 514,582 |
| Inspection fee | | 10,327 | | | | | 10,327 |
| Financial compensations | | 14,183 | | | | | 14,183 |
| Energy efficiency and | | | | | | | |
| Research and development | | | | | 62,052 | | 62,052 |
| | 2,011,545 | 539,092 | - | - | - | - | 2,612,689 |
| | | | | | | | 2,690,531 |



Notes to the Financial Statements as of December 31, 2006 and 2005

| | Consolidated | | | | | | | 2005 |
|----------------------------------------------------|------------------|------------------|-------------------------|----------------|----------------|----------------|------------------|------------------|
| | 2006 | | | | | | | |
| | Service cost | | Operating expenses | | | | | |
| | With Electricity | Operating | Rendered to third-party | Selling | G&A | Other | Total | |
| Manageable | | | | | | | | |
| Personnel, Management and Private pension entities | | 162,148 | 582 | | 176,348 | | 339,078 | 267,968 |
| Material | | 30,787 | 2,281 | | 3,530 | | 36,598 | 36,209 |
| Third-party services | | 153,043 | 1,185 | 51,508 | 91,051 | | 296,787 | 239,282 |
| Depreciation and amortization | | 245,365 | | | 42,085 | | 287,450 | 239,824 |
| Provision for doubtful accounts/net losses | | | | 87,471 | | | 87,471 | 53,079 |
| Provision for contingencies | | 36 | | | 39 | 19,344 | 19,419 | 16,366 |
| Rent and leasing | | 15,027 | | | 6,339 | | 21,366 | 37,288 |
| Other | | 38,958 | 157 | 1,418 | 7,740 | 26,116 | 74,389 | 69,897 |
| | | <u>645,364</u> | <u>4,205</u> | <u>140,397</u> | <u>327,132</u> | <u>45,460</u> | <u>1,162,558</u> | <u>959,913</u> |
| Total | 2,011,545 | 1,184,456 | 4,205 | 140,397 | 327,132 | 107,512 | 3,775,247 | 3,650,444 |

29 - Financial result

| | Parent Company | | Consolidated | |
|----------------------------------------------------------------|------------------|------------------|------------------|------------------|
| | 2006 | 2005 | 2006 | 2005 |
| Financial income | | | | |
| Revenue from financial investments | 21,981 | 30,698 | 49,693 | 65,534 |
| Monetary variation and moratory addition from sold energy | | | 77,885 | 73,647 |
| Swap and hedge operations | (8,513) | | 31,280 | 13,833 |
| Monetary restatements from regulatory assets | | | 85,856 | 84,782 |
| PIS and COFINS on financial revenues | (13,363) | (11,855) | (13,417) | (13,007) |
| Monetary variations - domestic currency | 852 | 23,883 | 5,941 | 15,894 |
| Monetary variations - foreign currency | | | (316) | (456) |
| Gain in sale of exchange securities | | | 8,841 | |
| SELIC on taxes and social contributions to offset | 2,804 | 1,786 | 3,964 | 4,232 |
| Obtained discounts | 2 | | 6,159 | 3,579 |
| Interest on own capital | 144,464 | 128,426 | | |
| SELIC on COFINS (base broadening) | | | 33,301 | |
| Other financial revenues | 18,867 | 227 | 18,805 | 8,818 |
| | <u>167,094</u> | <u>173,165</u> | <u>307,992</u> | <u>256,856</u> |
| Financial expenses | | | | |
| Monetary variation and moratory addition from purchased energy | | | (1,366) | (211) |
| Debt charges | (4,265) | (35,329) | (316,429) | (357,126) |
| Monetary variations - domestic currency | 4,048 | (76) | (5,318) | (22,229) |
| Monetary variations - foreign currency | (1) | 66,794 | 51,555 | 215,203 |
| Charges on fiscal contingencies | (231) | | (27,553) | (8,035) |
| Interest and fine on ICMS | | | (5) | |
| COFINS reversal (base broadening) | | | 43,992 | |
| Swap and hedge operations | (959) | (15,065) | (142,029) | (168,174) |
| Monetary restatements of regulatory liabilities | | | (50,028) | (11,746) |
| CPMF | (1,418) | (7,194) | (34,259) | (35,407) |
| Provision for securities depreciation | | | | (10,607) |
| Interest on own capital | (169,914) | (96,061) | (181,091) | (96,061) |
| Other financial expenses | (9,712) | (28,686) | (23,281) | (41,625) |
| | <u>(182,452)</u> | <u>(115,617)</u> | <u>(685,812)</u> | <u>(536,018)</u> |
| Total | (15,358) | 57,548 | (377,820) | (279,162) |

(Amounts in thousands of reais, unless when otherwise indicated)

30 - Financial charges and capitalized monetary variations

Pursuant to Accounting Instruction no. 10, item 4, of the Accounting Manual of the Electric Power Public Service and CVM Resolution no. 193, of July 11, 1996, the following amounts were transferred to Fixed assets:

| | Consolidated | |
|------------------------------------------------------------------------|-----------------|-----------------|
| | 2006 | 2005 |
| Debt charges accounted for in the income statement | 373,565 | 436,412 |
| Transfer to construction in progress | (57,136) | (79,286) |
| Net effect in the income statement | 316,429 | 357,126 |
| Monetary and exchange variations accounted for in the income statement | 56,940 | 227,489 |
| Transfer to construction in progress | (5,385) | (12,286) |
| Net effect in the income statement | 51,555 | 215,203 |
| Swap operations accounted for in the income statement | 110,749 | 154,733 |
| Transfer to construction in progress | | (392) |
| Net effect in the income statement | 110,749 | 154,341 |
| Total capitalized | (62,521) | (91,964) |

31 - Income tax and social contribution

| | Parent Company | | | | Consolidated | | | |
|-----------------------------------------------|----------------|--------------|---------------------|-----------|------------------|-----------------|---------------------|-----------------|
| | Income Tax | | Social Contribution | | Income Tax | | Social Contribution | |
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Net income before income tax and soc. cont. | 368,670 | 472,067 | 368,670 | 472,067 | 398,801 | 452,472 | 398,801 | 452,472 |
| Additions | 68,611 | 78,813 | 66,918 | 77,129 | 908,046 | 1,791,191 | 901,938 | 1,772,582 |
| Exclusions | (437,392) | (549,600) | (437,392) | (549,600) | (734,938) | (1,438,034) | (707,944) | (1,386,097) |
| | (111) | 1,280 | (1,804) | (404) | 571,909 | 805,629 | 592,795 | 838,957 |
| 30% compensation (up to loss limit) | | | | | (130,064) | (213,816) | (136,409) | (224,211) |
| | (111) | 1,280 | (1,804) | (404) | 441,845 | 591,813 | 456,386 | 614,746 |
| Nominal income tax and social cont. rates | 25% | 25% | 9% | 9% | 25% | 25% | 9% | 9% |
| Income tax and social contribution provision | | (320) | | | (110,461) | (147,953) | (41,075) | (55,327) |
| Tax incentives | | | | | 2,120 | 1,847 | | |
| Tax deferral on RTE | | | | | | (12,365) | | (4,398) |
| Other | | 24 | | | (639) | (4,008) | 20 | (1,480) |
| Income tax and social contribution - current | - | (296) | - | - | (108,980) | (162,479) | (41,055) | (61,205) |
| Income tax and social contribution - deferred | | | | | 3,218 | 82,588 | (1,691) | 38,486 |
| Total | - | (296) | - | - | (105,762) | (79,891) | (42,746) | (22,719) |

32 - Management compensation

The global and annual compensation of the members of the Board of Directors, Board of Executive Officers and functional committees of EDP - Energias do Brasil S.A. was approved at the Annual and Extraordinary General Meeting held on March 28, 2006, up to R\$5,500, for the period between April 2006 and March 2007.



Notes to the Financial Statements as of December 31, 2006 and 2005

33 - Insurance

The Company and its subsidiaries signed insurance contracts with coverages determined by specialists' orientation, taking into account the nature and the risk level, for amounts deemed sufficient to cover possible substantial losses on their assets and liabilities. The adopted risk assumptions, given their nature, are not part of the scope of a financial statement audit, and as a result, were not examined by our independent auditors. The main insurance coverages are:

| | <u>Consolidated</u> <u>12/31/2006</u> |
|-------------------------------------------|------------------------------------------|
| Substations | 673,530 |
| Power Plants (including material damages) | 882,957 |
| Stockrooms | 35,798 |
| Buildings and contents (own) | 44,589 |
| Buildings and contents (third party) | 8,688 |
| Operating risk | 58,912 |
| Transports (materials) | 9,600 |
| Civil liability | 43,956 |
| Transportation (vehicles) | 27,069 |
| Personal accidents | 138,804 |

34 - Financial instruments

34.1 - General considerations

The utilization of instruments and operations involving interest rates, as a Management guideline, aims to protect the Company from foreign currencies exchange variations as compared to the Brazilian Real, in its operations on the related assets and liabilities.

Management understands that, in the financial investments of its cash and cash equivalents, risks are minimum, since there is no concentration and operations are performed through banks with renowned solidity.

34.2 - Market value of financial instruments

The market values of the main financial instruments are close to their book values, especially loans and financings and hedge operations (Note 20).

The market values, when applicable, were calculated as per the present value of such financial instruments, taking into account interest rates performed by the market for risk operations and similar operations.

34.3 - Credit risk

Another financial instrument that may expose, especially, the subsidiaries Bandeirante, Escelsa and Enersul, to credit risk, is represented by accounts receivable, which, however, is diminished by the sale to a scattered client base. In addition, CCEE amounts also represent risk, within the context described in Note 6.1, and related to the amounts under discussion with Ampla, as mentioned in Note 6.3.

34.4 - Hedge operations

Aiming to eliminate the exposure of all its dollar-denominated debts to exchange rate fluctuations, companies of the EDP - Energias do Brasil group have, as of December 31, 2006, hedge operations presented in Note 20.

35 - Universalization of the Electric Power Public Service

Through Law 10,438, of April 26, 2002, the Federal Government established the National Program for the Universalization of the access to Electric Power to all consumers of up to 50 kW without charges.

As to anticipate the service to the lower income portion of the population in the rural area, the Federal Government established through Decree no. 4,873, of November 11, 2003, the "Light for All" Program, aiming to enable the access to the electric power public service up to 2008.

To guarantee the program operation, Instruments of Commitment were entered into between the Ministry of Mines and Energy, the state government and the distributors Bandeirante, Escelsa and Enersul, with intervention of Eletrobrás and ANEEL, to enable the service to:

- At Bandeirante, initially 6,217 residences in the rural area under the company's concession, up to the end of 2006, with financing of 65% of RGR resources (financing), 10% of resources from economic subsidy (CDE), 15% from

(Amounts in thousands of reais, unless when otherwise indicated)

executing agent and 10% from the state government. The total investment including the executing agent participation up to December 31, 2006 was R\$17,632 to serve 6,351 new clients.

- At Escelsa, 22,984 residences with effective service to 35,855 new residences in the rural area and 101,792 in the urban area within the company's concession area, and investments of R\$115,046 and R\$11,262, respectively, totaling R\$126,308, 65% of which financed with RGR resources, 10% with resources from CDE economic subsidy (lost fund), 15% from executing agent and 10% from the state government.
- At Enersul, 19,326 residences with effective service of 19,347 new residences in the rural area and 78,636 in the urban area with the company's concession area, and investments of R\$171,046 and R\$10,600, respectively, totaling R\$181,646, 35% of which were financed with RGR resources, 40% from CDE economic subsidy resources (lost fund), 15% from the executing agent and 10% from the state government.

36 - 2006 tariff adjustments

36.1 - Bandeirante

The public meeting of ANEEL's board of executive officers, held on October 19, 2006, resolved on the tariff adjustment index - IRT of Bandeirante, of, on average, 13.44% for the period between October 23, 2006 and October 22, 2007, comprising all consumption classes.

The IRT granted comprises ANEEL's decision regarding the reconsideration request made by Bandeirante relative to Resolution no. 226, of October 18, 2005, which ratified the definite result of the first periodic tariff revision of Bandeirante and, therefore, its effects over 2005 IRT, increasing, on a provisory basis, the amount of Bandeirante's Regulatory Compensation Base - BRR from R\$998 million to R\$1,026 billion, as of September 30, 2003, whose accounting recognition positively impacted the income statement for the year by R\$23,518. Although said BRR is definitively ratified, ANEEL was granted the possibility to resolve on the remaining part of the reconsideration request of the BRR, not contemplated by the decision made last October, whose possible effects, if carried out by the regulator, will be fully recognized in the next tariff event in 2007.

Taking into account the joint effects of the BRR revision and the financial adjustments already included in Bandeirante's tariffs, connected to the recovery related to past periods, the effective average tariff adjustment in the electric power bills was 15.41%, which were applied differently for different groups of clients due to the tariff realignment policy promoted by the Federal Government, that is, progressive elimination of double benefits in the consumer classes, corresponding to average indexes of 13.18% for low income consumers of low tension and 17.81% for high tension consumers.

36.2 - Escelsa

ANEEL, at the public meeting held on August 3, 2006, approved the report that authorizes the average tariff adjustment of Escelsa, in 16.67% for the period between August/06 and July/07, comprising all consumption classes.

Taking into account the financial adjustments already included in Escelsa's tariffs, associated to recoveries related to past periods, whose accounting recognition positively impacted the income statement for the year by approximately R\$27,600, the effective average tariff adjustment in the electricity bills was 11.4%, applied differently for different groups of clients due to the tariff realignment policy promoted by the Federal Government for the progressive elimination of double benefits in the consumer classes.

Thus, ANEEL informed that high tension consumers (mainly large commercial and industrial consumers) had adjustment indexes of, on average, 15.28%, higher than low tension consumers of, on average, 8.29%.

For the tariff adjustment process, ANEEL takes into account the cost variation that the companies experience throughout the twelve previous months. The calculation formula includes manageable costs, on which is applied an inflation rate (IGP-M) adjusted by Factor X, and non-manageable costs, such as energy purchased from generators, Fuel consumption account (CCC), Global reversal reserve (RGR), Inspection fee and transmission charges, in addition to financial adjustments recognized by ANEEL in the Installment A Items Variation Account (CVA) and other instruments.



Notes to the Financial Statements as of December 31, 2006 and 2005

(Amounts in thousands of reais, unless when otherwise indicated)

36.3 - Enersul

Through Ratifying Resolution no. 311, of April 6, 2006, ANEEL established the annual tariff adjustment for Enersul in, on average, 16.75%, and 11.46% related to the average annual adjustment and 5.29% related to the external financial elements of the annual adjustment, comprising all consumption classes.

Taking into account the financial adjustments already included in Enersul's tariffs, connected to the recovery of past periods' tariff differences, the average tariff adjustment in electricity bills was 10.33%.

The tariff adjustment rate index was applied differently for different groups of clients due to the Federal Government's tariff realignment policy, that is, the progressive elimination of double benefits in the consumer classes. This policy was determined by the Granting Power and is forecasted to be implemented between 2003 and 2007. Thus, ANEEL informed that high tension consumers (mainly large commercial and industrial consumers) had adjustments of, on average, 13.25%, higher than low tension consumer of, on average, 9.30%.

37 - Periodic tariff revision - material fact

ANEEL Normative Resolution no. 234, of October 31, 2006, established new general concepts and guidelines to be complied with by concessionaires of the electric power public service due to periodic tariff revisions, set forth in the legislation.

As a consequence, the main changes introduced were:

- Shielding of the Regulatory Compensation Base - BRR approved in the previous cycle (previous BRR);
- Purge of write-offs and considerations of additions and accumulated depreciation effects occurred between the reference dates of the 1st and 2nd cycles for Bandeirante and Enersul and between the 3rd and 4th cycles for Escelsa;
- Restatement of the remaining values of the previous BRR by the IGP-M.

Attention should be given to the treatment established for the balance of the Special obligations linked to electric energy utility concession (Note 17), that will start being amortized in the same depreciation rates of other assets in service, upon the use of an average rate, as from the next periodic tariff revision, so that such depreciation may offset the depreciation effects of assets related to it, incorporated to Fixed Assets in Service, and will not be taken into account in the tariff formation as from the next revision cycle, as it did in the past.

The compensation rate for compensation assets, defined based on the weighted average capital cost (WACC), was reviewed, reducing from 11.26% to 9.98%, in actual terms, already net of inflation and taxes.

The Companies are currently assessing in details the impacts of this resolution in its businesses, reason why, at this moment, they have not carried out the estimate of the effects on forthcoming financial statements.

Independent Auditors' Report

To
The Board of Directors and Shareholders
EDP - Energias do Brasil S.A.
São Paulo - SP

1. We have examined the accompanying balance sheets of EDP - Energias do Brasil S.A. and the consolidated balance sheets of the Company and its subsidiaries as of December 31, 2006 and 2005 and the related statements of income, changes in shareholders' equity and changes in financial position for the years then ended, which are the responsibility of its management. Our responsibility is to express an opinion on these financial statements. The financial statements of the indirect joint controlled company, Investco S.A. as of and for the year ended December 31, 2006 and 2005 were examined by other auditors, whose report has been furnished to us and, and our opinion, insofar as it relates to the amounts of investment and the result of the indirect joint controlled company, as well as the proportionate assets and liabilities included in the consolidated financial statements, is based solely on the examination conducted by the independent auditors of Investco S.A.

2. Our examinations were conducted in accordance with auditing standards generally accepted in Brazil and included: (a) planning of the audit work, considering the materiality of the balances, the volume of transactions and the accounting systems and internal accounting controls of the Company and its subsidiaries; (b) verification, on a test basis, of the evidence and records which support the amounts and accounting information disclosed; and (c) evaluation of the most significant accounting policies and estimates adopted by Company management and its subsidiaries, as well as the presentation of the financial statements taken as a whole.

3. In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of EDP - Energias do Brasil S.A. and the consolidated financial position of the Company and its subsidiaries as of December 31, 2006 and 2005, and the results of its operations, changes in its shareholders' equity and changes in its financial position for the years then ended, in conformity with accounting practices adopted in Brazil.

4. Our examinations were performed with the objective of expressing an opinion on the financial statements taken as a whole. The statements of cash flows and added value for the years ended December 31, 2006 and 2005 are supplementary to the aforementioned financial statements, which are not required under accounting practices adopted in Brazil and have been included to provide additional analysis. This supplementary information was subject to the same audit procedures as applied to the aforementioned financial statements and, in our opinion, are fairly presented, in all material respects, in relation to the financial statements taken as a whole.

February 16, 2007



Auditores Independentes
CRC 2SP014428/0-6

José Luiz Ribeiro de Carvalho
Accountant CRC 1SP141128/O-2



Créditos

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100% reciclado pós-consumo

Capa: 270g/m²

Miolo do Relatório Anual: 118g/m²

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Luva: 270g/m²

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900 Exemplares

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